

Eurozone PMI upbeat ahead of virus resurgence, with more inflation warnings

The eurozone economy still showed decent growth at the start of the fourth quarter despite growing economic headwinds. More importantly, price pressures continued to mount according to the survey, adding to our view that the ECB is set to move towards starting tapering



Shoppers in Paris

The better than expected PMI shows that the eurozone economy has continued on its path of quick recovery at the beginning of the fourth quarter. Of course the growth pace is slowing, but nevertheless it is encouraging that the mounting headwinds of supply chain problems and rising prices have not kept the economy from maintaining a decent growth pace. With the survey conducted before the resurgence of the coronavirus became particularly troubling, it mainly paints a picture of a healthy economy before new virus related restrictions will curb the growth rate.

The PMI shows a service sector picking up the growth pace with the best services PMI reading in three months. This momentum will no doubt be hurt by new restrictive measures once they come in place to curb the virus though. The manufacturing sector also saw output growth, but continued to be troubled by auto sector contraction on the back of chip shortages.

Most important though is that inflation warning signs continue to mount. Both manufacturing and service sectors indicate record high pricing through of higher costs to the consumer, which means that core inflation continues to face upward pressures in the months ahead. Despite Covid uncertainty for this winter, the benign economic situation at this point and continued price pressures do signal a likely move towards the exit for the ECB in December. This morning's comments from ECB board member Schnabel – read all about them and our ECB take [here](#) – confirm that view for us.

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