

## Eurozone strong growth story jeopardised by supply bottlenecks

Supply constraints are increasingly weighing on confidence, with the flash composite PMI falling to a five month low. Growth is still strong, though 4Q is likely to see some weakening. Meanwhile, inflationary pressures have not yet abated



### Slowing growth, higher prices

The flash composite PMI fell to 56.1 in September from 59 in August, clearly undershooting the consensus expectation (58.5). The weaker confidence was across the board: in manufacturing the PMI declined to 58.7 after 61.4 in August, while in the services sector the flash PMI came out at 56.3 (59 in August).

Manufacturing continues to be hurt by low supplies of raw materials and key components, poor freight availability and some port closures in Europe and Asia. Although services also face some supply constraints, the problems are less pressing than in manufacturing. But the pandemic was mentioned as one of the factors limiting services exports. Employment growth fell to a four month low, yet remained among the highest seen over the past two decades as companies are increasing capacity.

On the back of the continuing supply chain problems and high commodity prices, input costs rose at the sharpest rate since September 2000 across manufacturing and services. With strong demand, higher costs were passed on to customers. Selling price inflation rose in September to the third-highest rate seen over the past two decades.

## Recovery still on track

To be sure, although growth could be stronger if not for these supply issues, the expansion is still quite robust. We are still looking at 2% GDP growth in the third quarter. The fourth quarter might be a bit weaker, as higher energy prices and continuing supply problems will start to weigh. The inflows of new orders in September already rose at the slowest pace since April. But some of the input shortages are likely to dissipate in the course of 2022. We believe that the broader vaccination rollout in Asia will eventually reduce the Covid 19-induced delays in transport, which should normalise supply chains. With the slowdown in China, the upward price trend in a number of commodities has also been stopped for now and the natural gas market should normalise in the first half of next year. That should stop the upward inflation trend. So, all in all the overall outlook remains okay-ish, though some weakening in the growth pace seems likely.

### Author

#### Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.