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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.

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