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Middle East conflict weighs more heavily on eurozone PMI in May

The May PMI reading signals rising recession risks in the eurozone if the Middle East conflict persists

The PMI fell from 48.8 in April to 47.5 in May, the lowest reading since 2023. Growth concerns come on top of inflation worries as the PMI flags increasing risks of a technical recession in the eurozone if the Middle East conflict persists.

While the markets' focus is still mainly on the inflationary impact of the war, today's eurozone PMI confirms that the growth impact is not to be overlooked. The survey indicates weakening output and falls in new orders and jobs. So an all-round bleak report for the eurozone economy in the middle of the second quarter.

Businesses are suffering from sharp input cost increases combined with uncertainty and low confidence among corporates and consumers. This results in declining new orders in both services and manufacturing.

But because demand is weakening, it looks like businesses are going to struggle more to pass on their higher input costs to the consumer. The selling prices reported by the survey grew only marginally faster than last month. This makes this a different crisis from 2022 as it is set to dampen consumer price increases somewhat but also brings more growth concerns as corporate margins come under pressure.

As the Middle East conflict remains unresolved right now, the negative impact of the energy shock on the eurozone economy is clearly increasing. That makes this time different from the previous energy shock. Without ample government support in place and without the vibrant reopening of the service sector as lockdowns ended, like in 2022, the negative impact on growth could be more pronounced.

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