Second significant drop in Eurozone PMI in a row

While the PMI continues to indicate strong economic growth, a moderation in GDP growth over the coming quarters becomes more realistic

Even though the decline in the composite PMI from 57.1 to 55.3 seems quite dramatic, the immediate impact on the economy remains limited. Any reading above 50 signals expansion, meaning that today's data indicates a slowing of momentum, but still corresponds to healthy growth rates. Businesses continue to hire at a fast pace and the outlook for growth in the year ahead is still strongly positive. The decline was mainly caused by businesses experiencing somewhat weaker demand growth and new orders in manufacturing softened again.

The slower growth in orders will probably not impact the manufacturing sector a lot in Q1 given the large backlogs of work but could impact industrial production in Q2 and Q3. Export orders weakened quite markedly as well, a first sign that the stronger euro and global political uncertainty are dampening some of the Eurozone growth potential.

Price pressures continued to increase this month, with businesses indicating that input prices had risen strongly and that these costs continue to be passed onto the consumer. Signs of continued hiring put extra strain on the labour market, which is showing increased signs of labour shortages.

While wage pressures remain subdued for now, the employment outlook continues to contribute to an improving wage growth outlook. While the overall PMI figure may show some loss of momentum, the underlying figures on price pressures should be encouraging for the ECB that core inflation should be cautiously trending up over the course of the year.

Author

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

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