22 October 2021
Snap

Eurozone PMI drops sharply thanks to waning rebound and shortages

Shortages contribute to slowing growth momentum, while price pressures mount. While a lot of this has been priced in, reports of even higher inflationary pressures do put 'team temporary' at the ECB further on the back foot

The eurozone PMI dropped from 56.2 to 54.3 in October, the lowest reading in six months. That momentum would be dropping over the course of the year as reopening effects fade, was widely expected. However, the pace of the October decline does give a rather unsettling feeling that shortages in the economy are starting to bite more seriously than had initially expected.

Mind you, with both manufacturing and services PMIs well above 50, the eurozone economy is still on a path of recovery. However, in manufacturing, growth has been weakening on the back of input shortages and supply chain hiccups. This results in weaker growth, but new orders do still continue to increase – although not as fast as in previous months. In services, the weakening of the PMI was smaller and new orders are still edging higher, still reflecting some rebound effects from reopening.

The main concern that the PMI flags, is the unabating price pressures that continue to work their way through to the consumer. The survey indicates a record high of businesses increasing their consumer prices, which adds to concerns about how temporary inflation will actually be. Similarly, job market developments continue to be very favourable, which adds to expectations of a rebound in wage growth. To which extent that will happen is the trillion euro question. For the ECB this means more fodder for the hawks though, which are looking to end net asset purchases sooner rather than later.

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