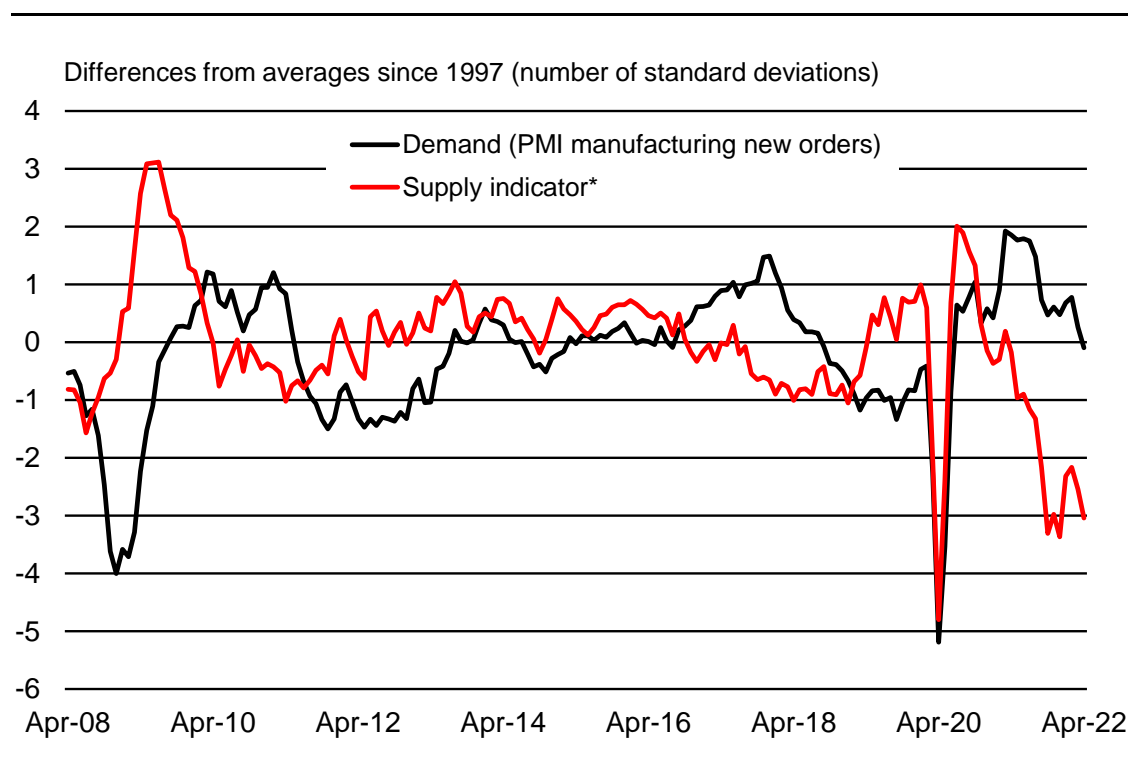


Eurozone manufacturers face softer demand and intensifying supply constraints



Note: * The “supply indicator” is the first principal component of PMI indices for suppliers’ delivery times, stocks of purchases, stocks of final goods, input prices and backlogs of work. Before principal components are estimated, each sub-index is regressed on PMI new orders to purge the sub-index of demand influences. See Bank of England *Monetary Policy Report*, November 2021, page 19, chart 2.3. A lower number indicates tighter supply constraints.

Source: S&P Global, UniCredit Research

- Our *Chart of the Week* shows that, for the eurozone manufacturing sector, both demand and supply are now weakening. In particular, the Russia-Ukraine crisis has now reversed some modest improvement in supply bottlenecks that occurred around the turn of the year.
- The softening of demand for manufacturers likely in part reflects expenditure-switching towards services, as evident in the improvement in the services PMI (see [Data Comment – Eurozone PMIs: resilience, but largely due to reopening](#)), as well as the impact of sharply higher prices and the associated squeeze in real incomes.
- This has worsened the trade-off that the ECB faces between weakening demand and well above target inflation, at a time of rising inflation expectations.

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