

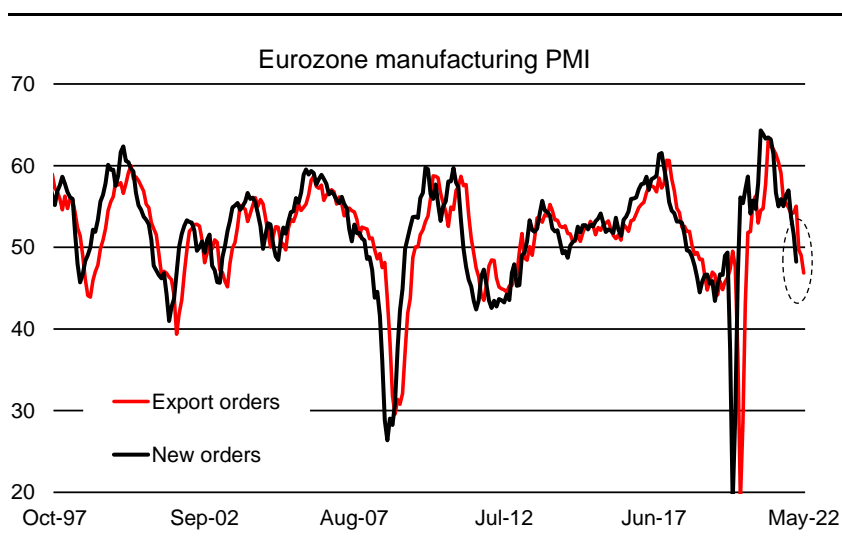
## Eurozone PMIs: services support economic expansion

- In May, the eurozone composite PMI declined from 55.8 to 54.9, broadly in line with expectations (UniCredit: 55.0; consensus: 55.1). Both the manufacturing and the services indices declined moderately, although the headline index for manufacturing probably overstates the resilience of the sector whereas services activity continues to benefit from the reopening of the economy. At face value, the PMIs point to ongoing expansion and a low risk of recession.
- In manufacturing, the slowdown was associated with persistent headwinds from geopolitical uncertainty, supply chain disruptions, soaring inflation, and expenditure-switching away from goods. The production index managed to hold in expansion territory, while the new orders index declined below 50 for the first time since the first pandemic wave, with export orders slipping further into contraction territory. This has led the inventories index to rise to the highest level in two years. Conversely, in services, weaker activity seems to have mainly reflected some easing from the previous high reached in the aftermath of the reopening of the economy. There have reportedly been some divergences between services sectors based on their degree of direct exposure to consumers: demand remained strong in consumer-facing sectors while it slowed in financial and industrial services, the latter being affected by the recent slowdown in manufacturing.
- Pipeline pressures showed the first, tentative signs of peaking, especially in the manufacturing sector. However, both input and output price increases remain very close to record-high levels. In the manufacturing sector, there was also some tentative evidence of an improvement in supply-chain bottlenecks, as the suppliers' delivery times index rose moderately, while remaining far from pre-pandemic levels.
- The bright spot of the report was employment, which accelerated further across sectors. In services, new hiring even accelerated to the fastest pace since 2007. Despite uncertain growth prospects, firms are reported to seek to boost operating capacity.

In greater details.

In manufacturing, new orders fell below 50 for the first time since the first pandemic wave.

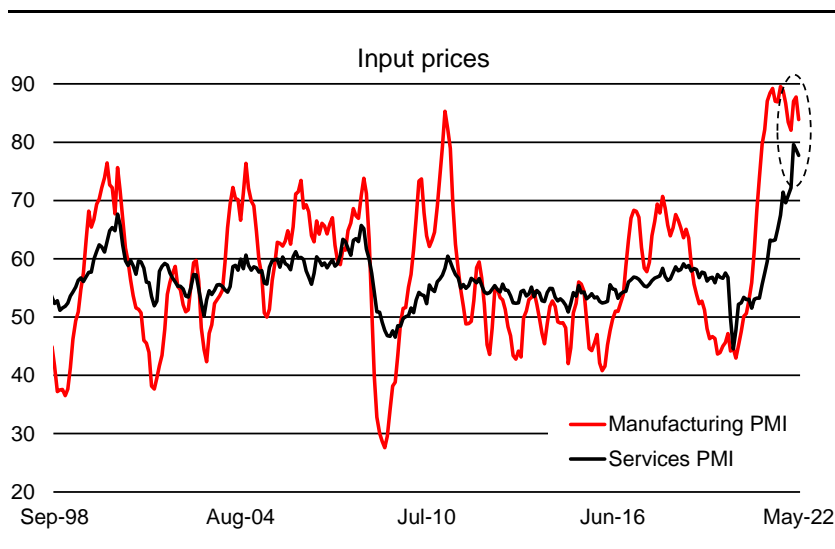
**CHART 1: MANUFACTURING NEW ORDERS FELL BELOW 50**



Source: Markit IHS, UniCredit Research

In May, input prices eased from previous record highs both in manufacturing and services.

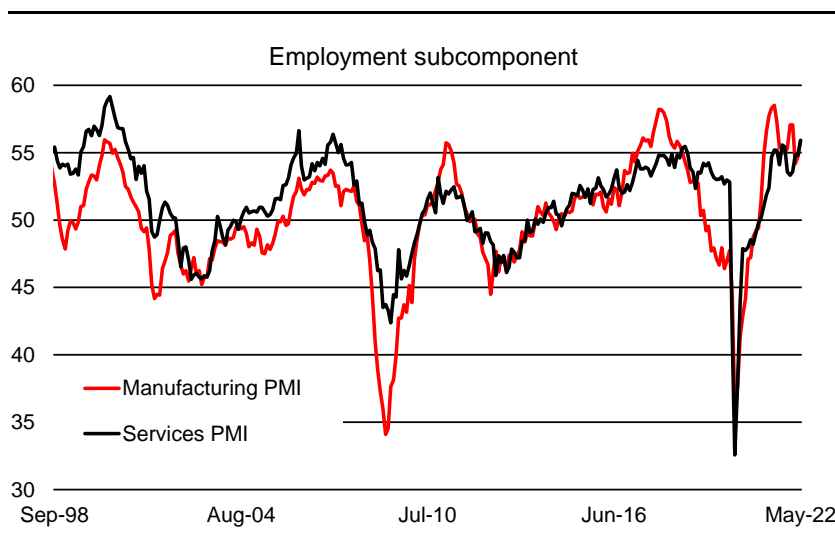
**CHART 2: INPUT PRICES EASED ACROSS SECTORS**



Source: Markit IHS, UniCredit Research

Employment accelerated further across sectors. In services, the employment index rose from 54.8 to 55.9, the highest level since July 2007.

**CHART 3: BOTH SECTORS CONTINUED TO REPORT SOLID HIRING**



Source: Markit IHS, UniCredit Research

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This report was completed and first published on 24 May 2022 at 12:46.

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