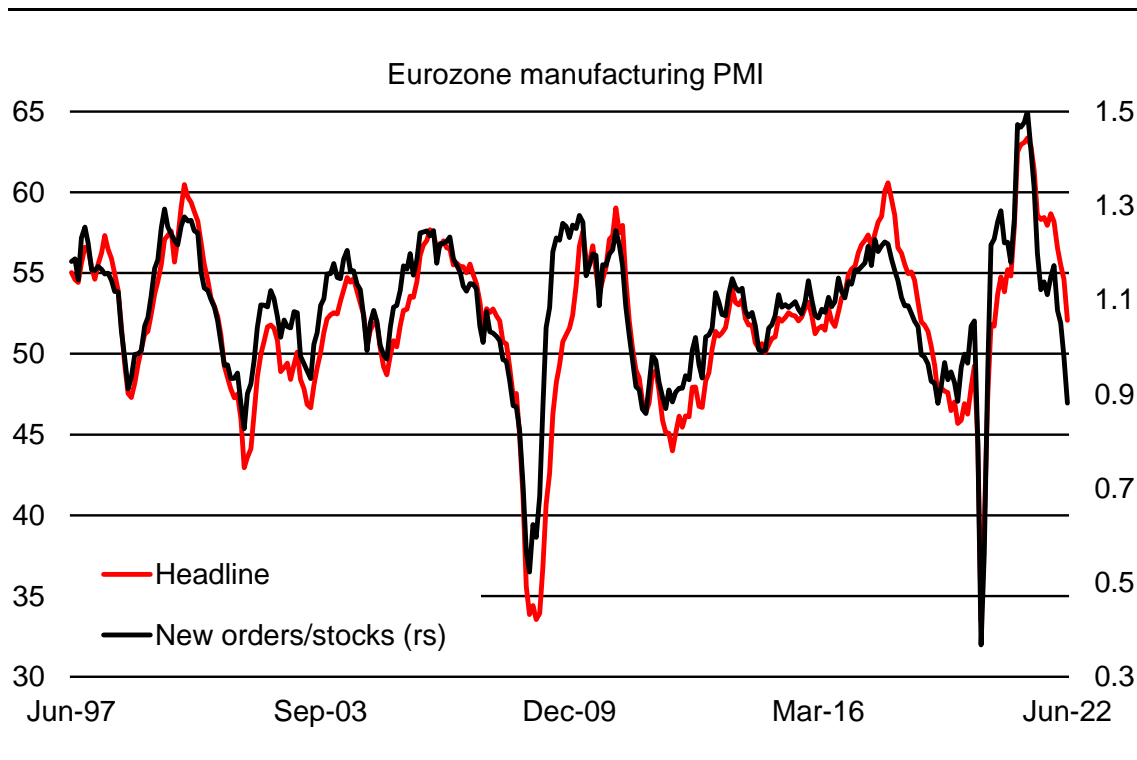


Eurozone manufacturing faces challenging times



Source: S&P Global, UniCredit Research

- Ahead of next week's flash PMI release for July, our *Chart of the Week* suggests that the eurozone manufacturing sector is facing challenging times. The new orders-to-inventory ratio, which tends to lead developments in the headline manufacturing PMI, has declined steeply suggesting that the decline in the headline manufacturing PMI should accelerate in the coming months. Since the start of the series in 1997, current levels of the new orders-to-inventory ratio have always seen the headline PMI drop to below 50.
- Several headwinds are weighing on the outlook for manufacturing. On top of high input prices (particularly for energy) and supply-chain bottlenecks, it is likely that household expenditure-switching away from goods towards services and slower global growth will continue in the coming months. High economic uncertainty is also weighing on durable goods consumption.
- The manufacturing sector entering recession would leave services activity as the main driver of growth. This increases downside risks to the outlook in 2H22 when the boost from tourism-related spending is likely to fade.

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This report was completed and first published on 15 July 2022 at 16:46.

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