

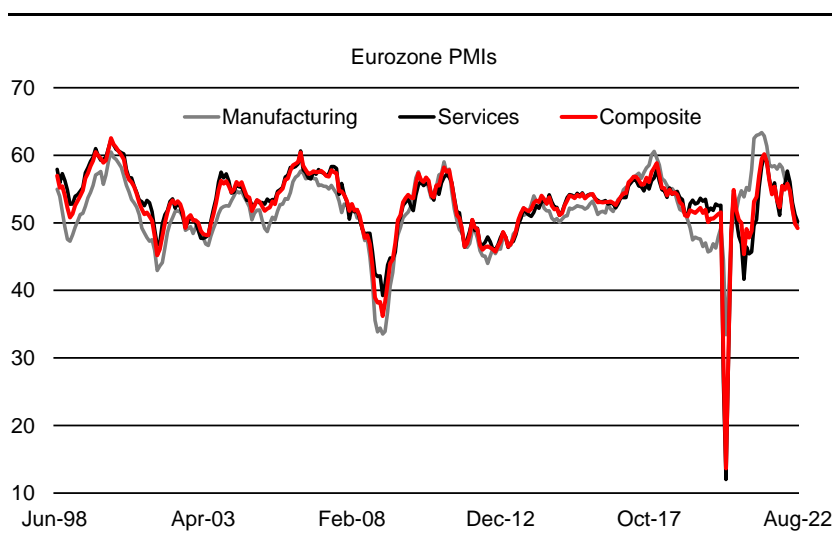
Eurozone PMIs signal contraction but no collapse

- Eurozone PMIs for August indicate rising likelihood of economic contraction in the third quarter but not a collapse. The composite PMI slipped further into contraction territory, to 49.2 from 49.9, its lowest reading since early 2021 (UniCredit and consensus: 49.0). The manufacturing sector remains a weak spot, although there are signs that the downturn in output and new orders might be approaching its trough. The index for services activity lost further momentum and now points to stagnation, with firms reporting that erosion of purchasing power caused the post-pandemic recovery in demand to stall. At a country level, France joined Germany in recording a composite PMI below 50. The press release signals that outside of these two countries, output increased marginally.
- Pressure on the manufacturing sector remains intact, as both new orders and output indices remained well below the 50 threshold. Ongoing weakness in demand helped reduce stress on supply chains and led to the largest build-up of inventories of finished products since the survey began in 1997. However, after a big slide, the new orders-to-inventory ratio stopped declining. If confirmed, this would suggest that downward pressure on activity might start easing in the coming months. Yet, a recovery does not seem to be in the cards, given the intensifying squeeze of real incomes, expenditure switching from goods to services and lingering uncertainty with regard to energy supply.
- Prices pressure moderated further, both in manufacturing and in services. However, the pace of reduction is still slow, as both input and output price indices remain high and significantly above pre-pandemic levels.
- Employment growth softened further but confirmed its resilience amid a marked slowdown in economic activity. Together with indicators of vacancies and labor shortages, this points to a labor market that remains tight. This will be a key factor for the ECB to consider when it makes its September rate decision. A 50bp hike remains the most likely scenario.

In greater detail:

The composite PMI declined to 49.2 from 49.9, with the headlines for the manufacturing and services sectors down to 49.7 and 50.2 respectively.

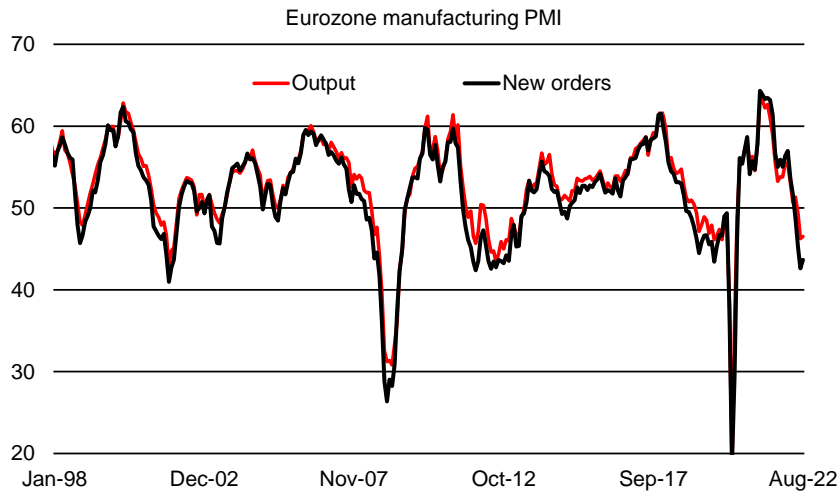
CHART 1: COMPOSITE PMI FALLS FURTHER BELOW 50



Source: IHS Markit, UniCredit Research

In the manufacturing sector, output and new orders indices continue to point to a severe contraction: the output index broadly stabilized (46.5 from 46.3), while the new orders index rose to 43.7 from 42.6.

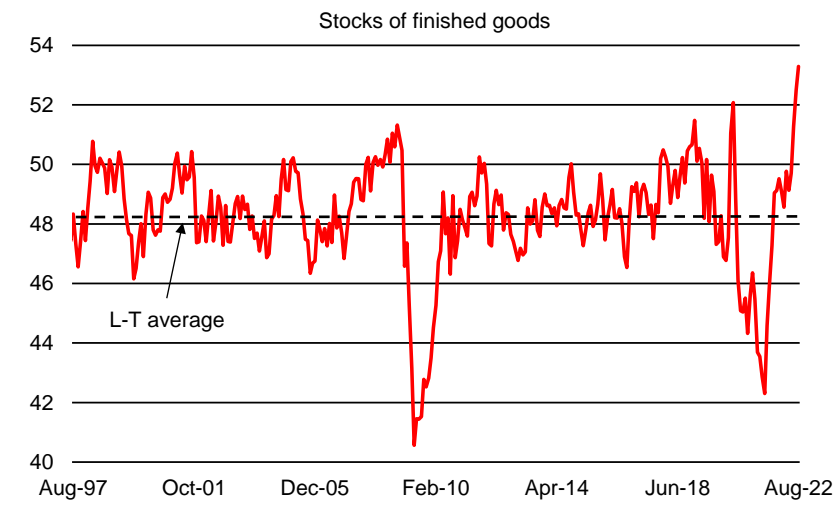
CHART 2: THE MANUFACTURING SECTOR REMAINS IN A DOWNTURN



Source: IHS Markit, UniCredit Research

In August, manufacturers reported the largest build-up in inventories of finished goods since the time series began in 1997.

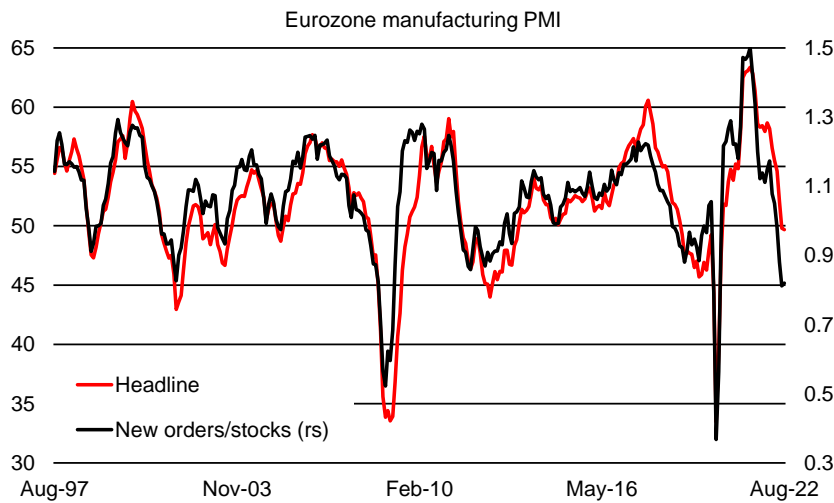
CHART 3: INVENTORIES SOAR



Source: IHS Markit, UniCredit Research

However, the new orders-to-inventory ratio, which tends to lead developments in the headline manufacturing PMI, stabilized after a big slump. If confirmed, this would indicate that the downturn in manufacturing might be approaching a trough.

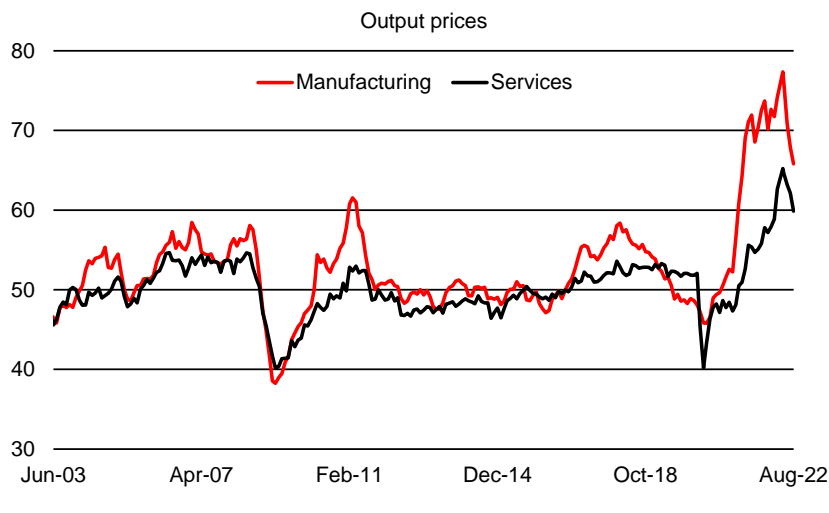
CHART 4: IS THE WORST OVER?



Source: IHS Markit, UniCredit Research

Price pressure moderated further but remains elevated. The output price index fell to 65.8 from 67.9 in manufacturing, while it declined to 59.9 from 62.1 in the services sector.

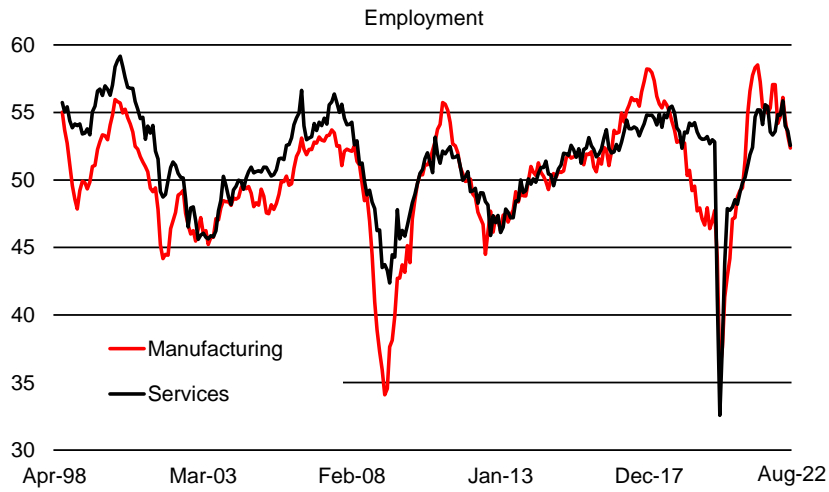
CHART 5: INFLATION PRESSURE MODERATES FURTHER, BUT AT A SLOW PACE



Source: IHS Markit, UniCredit Research

Employment remains resilient in a tight labor market, and the ECB is likely to take notice. The employment index declined to 52.4 from 53.3 in manufacturing and to 52.5 from 53.6 in services.

CHART 6: EMPLOYMENT GROWTH SLOWS, REMAINING RESILIENT



Source: IHS Markit, UniCredit Research

Marco Valli, Global Head of Research, Chief European Economist (UniCredit Bank, Milan)
+39 02 8862-0537
marco.valli@unicredit.eu

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UniCredit Research*

Macro Research



Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu



Dr. Ingo Heimig
Head of Research Operations
& Regulatory Controls
+49 89 378-13952
ingo.heimig@unicredit.de

Head of Macro Research



Marco Valli
Global Head of Research,
Chief European Economist
+39 02 8862-0537
marco.valli@unicredit.eu

European Economics Research



Dr. Andreas Rees
Chief German Economist
+49 69 2717-2074
andreas.rees@unicredit.de



Dr. Loredana Federico
Chief Italian Economist
+39 02 8862-0534
loredanamaria.federico@unicredit.eu



Stefan Bruckbauer
Chief Austrian Economist
+43 50505-41951
stefan.bruckbauer@unicreditgroup.at



Tullia Bucco
Economist
+39 02 8862-0532
tullia.bucco@unicredit.eu



Edoardo Campanella
Economist
+39 02 8862-0522
edoardo.campanella@unicredit.eu



Walter Pudschedl
Economist
+43 50505-41957
walter.pudschedl@unicreditgroup.at



Chiara Silvestre
Economist
chiara.silvestre@unicredit.eu

International Economics Research



Daniel Vernazza, Ph.D.
Chief International Economist
+44 207 826-7805
daniel.vernazza@unicredit.eu

EEMEA Economics Research



Dan Bucsa
Chief CEE Economist
+44 207 826-7954
dan.bucsa@unicredit.eu



Gökçe Çelik
Senior CEE Economist
+44 207 826-6077
gokce.celik@unicredit.eu



Mauro Giorgio Marrano
Senior CEE Economist
+43 50505-82712
mauro.giorgiomarrano@unicredit.de



Artem Arkhipov
Head, Macroeconomic Analysis
and Research, Russia
+7 495 258-7258
artem.arkhipov@unicredit.ru



Hrvoje Dolenc
Chief Economist, Croatia
+385 1 6006-678
hrvoje.dolenc@unicreditgroup.zaba.hr



Dr. Ágnes Halász
Chief Economist, Head, Economics and
Strategic Analysis, Hungary
+36 1 301-1907
agnes.halasz@unicreditgroup.hu



Ľubomír Koršňák
Chief Economist, Slovakia
+421 2 4950 2427
lubomir.korsnak@unicreditgroup.sk



Anca Maria Negrescu
Senior Economist, Romania
+40 21 200-1377
anca.negrescu@unicredit.ro



Kristofor Pavlov
Chief Economist, Bulgaria
+359 2 923-2192
kristofor.pavlov@unicreditgroup.bg



Pavel Sobíšek
Chief Economist, Czech Republic
+420 955 960-716
pavel.sobisek@unicreditgroup.cz

UniCredit Research, UniCredit Bank AG, Am Eisbach 4, D-80538 Munich, globalresearch@unicredit.de
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