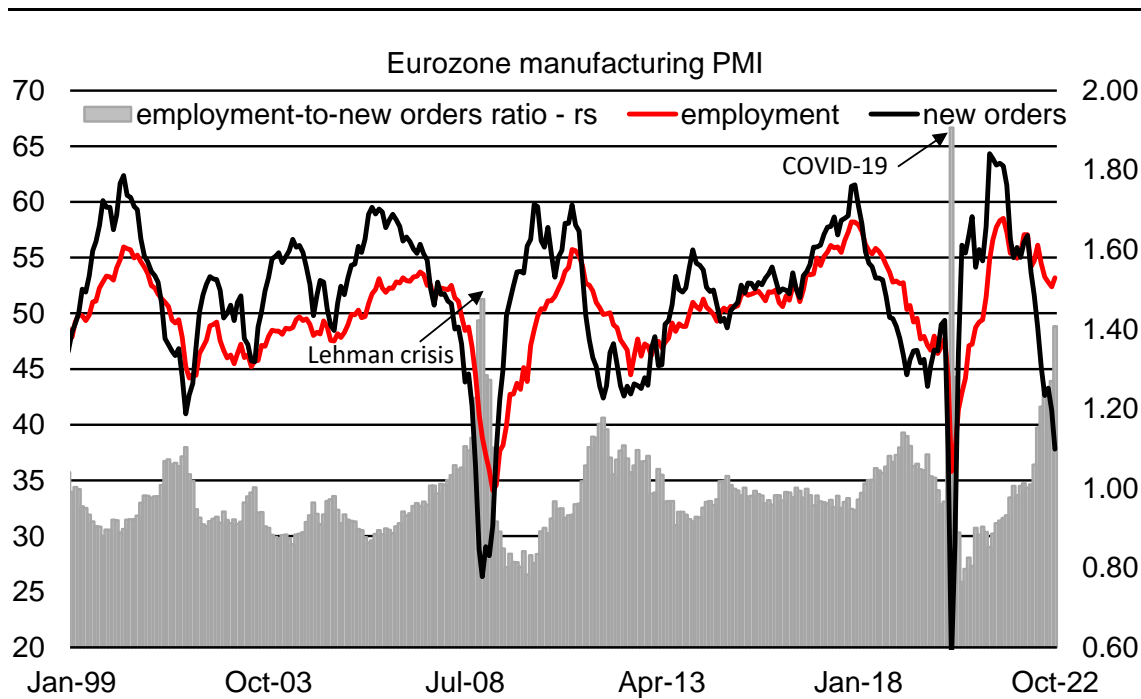


Resilient hiring gives the ECB room to hike by another 75bp



Source: S&P Global, UniCredit Research

- The eurozone PMIs for October, which were published today, sent three messages. First, the eurozone economy is very likely to face a recession at the turn of the year, as suggested by the decline in the composite PMI deeper into contraction territory (to 47.1 from 48.1). Second, pipeline price pressure remains intense, with both input and output price indices remaining at historically elevated levels. Third, the labor market continues to show very good resilience.
- Our *Chart of the Week* looks at firms' hiring plans in the manufacturing sector, as reported in the PMI survey. Labor hoarding is getting very sizeable, as a collapse in new orders comes along with still-robust employment numbers – the employment index remains comfortably above 50. The ratio of employment to new orders has reached one of its highest levels in history, comparable to that recorded in the aftermath of the Lehman crisis (when the decline in the two indices was fairly synchronized) but well below an exceptional spike caused by the first wave of the pandemic (reflecting unprecedented fiscal support to preserve employment while activity collapsed).
- Ongoing hiring probably reflects the fact that the downturn in manufacturing activity started when firms were still reporting widespread labor shortages. Therefore, manufacturers might still be keen on expanding their payrolls at this stage, although with backlog orders on a steeply downward trajectory, we suspect that this trend will not last. In the meantime, the ECB will be comfortable hiking by another 75bp this week despite the looming recession.

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