

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 1000 (CEST) / 0800 (UTC) June 22 2018

IHS Markit Flash Eurozone PMI[®]

Service sector helps Eurozone growth kick higher in June

Key findings:

- Flash Eurozone PMI Composite Output Index⁽¹⁾ at 54.8 (54.1 in May). 2-month high.
- Flash Eurozone Services PMI Activity Index⁽²⁾ at 55.0 (53.8 in May). 4-month high.
- Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 54.3 (54.8 in May). 19-month low.
- Flash Eurozone Manufacturing PMI⁽³⁾ at 55.0 (55.5 in May). 18-month low.

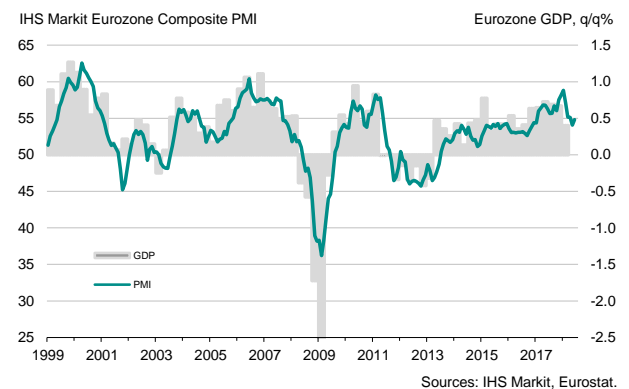
Data collected June 12-21

Flash PMI survey data for June showed business activity regaining some momentum, albeit failing to fully recover the rate of expansion seen earlier in the year. The upturn was fueled by an improved service sector performance, which contrasted with a further waning in the pace of manufacturing growth. The service sector was also responsible for driving up price pressures, though also provided the main impetus to stronger employment growth.

The IHS Markit Eurozone Composite PMI rose from 54.1 in May to 54.8 in June, according to the flash reading (which is based on approximately 85% of usual replies). While an improvement on the 18-month low seen in May, the June reading represented the second-weakest expansion seen over the past 17 months, highlighting how the pace of business activity growth has eased since the turn of the year. At 54.7, the second quarter average PMI reading is the weakest since the end of 2016.

Encouragingly, inflows of new orders also picked up, after having fallen to a one-and-a-half year low in May, registering the largest gain since April. Hiring likewise perked up, with June seeing the largest payroll gain since January and one of the steepest rises seen over the past 18 years.

IHS Markit Eurozone PMI and GDP



The rebound in June in part reflected business activity and order inflows having been subdued in May by an unusually high number of holidays. However, the surveys have also seen rising numbers of companies report that demand growth has slowed in recent months compared to earlier in the year. Weakened output and order book trends have been linked in some cases to trade worries and intensifying political concerns, though also with capacity constraints continuing to be commonly reported, linked in turn to raw material supply and skills shortages.

Business expectations have moderated accordingly. June saw the survey's gauge of future output expectations drop to a 19-month low.

The June rebound was led by an improvement in growth of service sector activity to the fastest since February, but manufacturing output growth slipped to the lowest since November 2016. Factory order inflows rose at the weakest pace in 22 months, while export growth remained close to the lowest for over one-and-a-half years.

Hiring accelerated in both sectors, but the pace of manufacturing job creation remained below the

record highs seen at the turn of the year. New service sector jobs were created at the sharpest rate since October 2007.

The flash PMI survey gauge of input cost inflation across both manufacturing and services meanwhile rose to its second-highest in seven years, falling just short of January's peak. A further widespread lengthening of supplier delivery times meant vendors were often able to hike prices as demand outstripped supply. Higher oil and fuel costs, as well as rising wages, were also often reported.

Companies sought to pass higher costs on to customers, pushing average selling prices for goods and services up at the fastest rate since February. The latest rise in prices was the third-largest in the past seven years. Notably, goods price inflation slipped to a nine-month low but average charges for services showed the second-largest monthly rise seen over the past decade.

By country, both France and Germany saw business activity accelerate in June, albeit with stronger service sector expansions impeded by slower manufacturing growth. Business activity growth in France rebounded from May's 16-month low, yet remained the second-weakest seen over the past ten months. Similarly, the increase in German business activity measured across both sectors was the second-weakest since September 2016. Elsewhere, growth picked up momentum for the second month running, but saw the weakest calendar quarter since the end of 2016.

Comment

Commenting on the flash PMI data, Chris Williamson, Chief Business Economist at IHS Markit said:

“An improved service sector performance helped offset an increasing drag from the manufacturing sector in June, lifting Eurozone growth off the 18-month low seen in May. With growth kicking higher in June, the surveys are commensurate with GDP rising 0.5% in the second quarter.

“Price pressures are also on the rise again, running close to seven-year highs. Increased oil and raw material prices are driving up costs, but wages are also lifting higher, in part reflecting tighter labour markets in some parts of the region. Service sector jobs are being created at the fastest rate seen over

the past decade, underscoring the extent to which the job market is tightening.

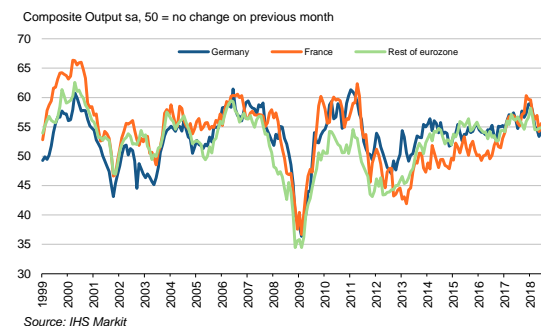
“However, the details of the survey warn against any complacency. The June uptick could be at least in part explained by business returning to normal after an unusually high number of public holidays in May, suggesting that the underlying trend remains one of slower growth. Business expectations are running at one-and-a-half year lows, and output continues to increase at a faster rate than incoming new orders, all of which suggests that output and employment growth could weaken again in July unless demand picks up again.

“Manufacturing is looking especially prone to a further slowdown in coming months, with companies citing trade worries and political uncertainty as their biggest concerns. Sentiment about the year ahead in the factory sector has sunk to its lowest since 2015.

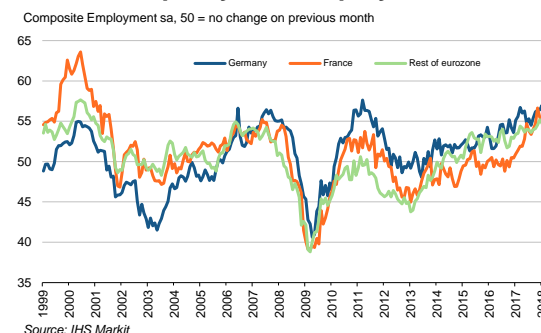
“While the June upturn provides some hope that the weakening of official data earlier in the year may have overstated the region's weakness, the risks remained tilted towards a further slowdown in the second half of the year.”

-Ends-

Core v. Periphery PMI Output Indices



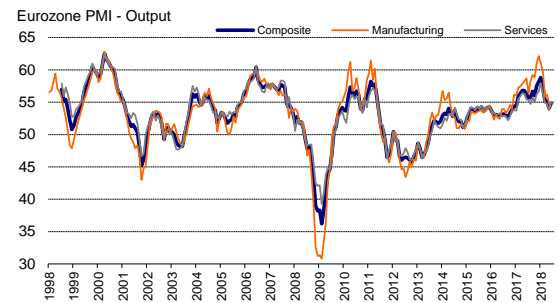
Core v. Periphery PMI Employment Indices



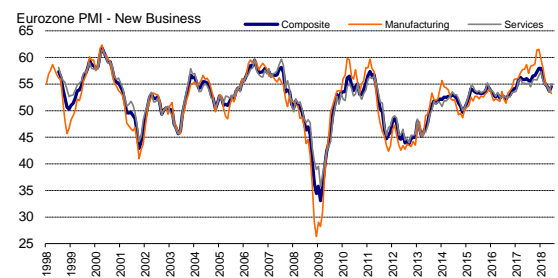
Summary of June data

Output	Composite	Activity increases at slightly faster pace.
	Services	Growth of services activity quickens to four-month high.
	Manufacturing	Slowest rise in manufacturing output since November 2016.
New Orders	Composite	New order growth quickens.
	Services	Fastest rise in new business since February.
	Manufacturing	Rate of expansion in new orders at 22-month low.
Backlogs of Work	Composite	Modest increase in backlogs.
	Services	Outstanding business rises at weaker pace.
	Manufacturing	Moderate accumulation of manufacturing backlogs.
Employment	Composite	Marked rise in employment.
	Services	Sharpest pace of job creation since October 2007.
	Manufacturing	Firms continue to take on extra staff at marked pace.
Input Prices	Composite	Rate of cost inflation at five-month high.
	Services	Services input costs increase at fastest pace in over seven years.
	Manufacturing	Further sharp rise in input prices.
Output Prices	Composite	Output prices rise at quicker pace.
	Services	Charge inflation at five-month high.
	Manufacturing	Slowest rise in selling prices since September last year.
PMI⁽³⁾	Manufacturing	PMI at 18-month low of 55.0.

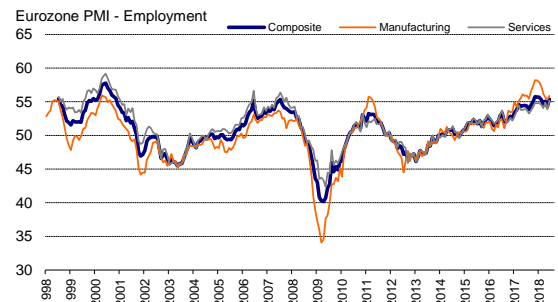
Output



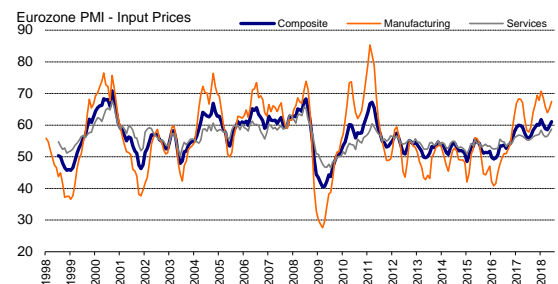
New business



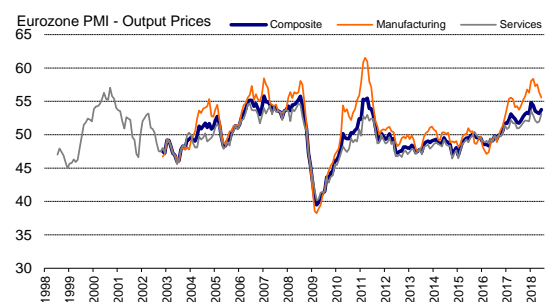
Employment



Input prices



Output prices



Source: IHS Markit.

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Note to Editors:

Final June data are published on July 2 for manufacturing and July 4 for services and composite indicators.

The Eurozone *PMI[®]* (*Purchasing Managers' Index[®]*) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 5,000 companies based in the euro area manufacturing and service sectors. National manufacturing data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland. The flash estimate is typically based on approximately 85%–90% of total *PMI* survey responses each month and is designed to provide an accurate advance indication of the final *PMI* data.

The average differences between the flash and final *PMI* index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Eurozone Composite Output Index ¹	0.0	0.2
Eurozone Manufacturing <i>PMI</i> ³	0.0	0.2
Eurozone Services Business Activity Index ²	0.0	0.3

The *Purchasing Managers' Index[®]* (*PMI[®]*) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. *PMI[®]* surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

Notes

1. The Composite Output *PMI* is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing *PMI* is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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