IHS Markit Flash Eurozone PMI®

Eurozone mired close to stagnation at start of fourth quarter

Key findings:
- Flash Eurozone PMI Composite Output Index\(^{(1)}\) at 50.2 (50.1 in September). 2-month high.
- Flash Eurozone Services PMI Activity Index\(^{(2)}\) at 51.8 (51.6 in September). 2-month high.
- Flash Eurozone Manufacturing PMI Output Index\(^{(4)}\) at 46.2 (46.1 in September). 2-month high.
- Flash Eurozone Manufacturing PMI\(^{(3)}\) at 45.7 (45.7 in September). Unchanged rate of decline.

Data collected October 11-23

The Eurozone economy remained close to stagnation at the start of the fourth quarter, according to the latest flash PMI data, with demand for goods and services falling for a second successive month. A further steep decline in manufacturing output was accompanied by one of the weakest service sector expansions since 2014. Future expectations sank to the gloomiest since 2013 and jobs growth hit the lowest since 2014. Selling price inflation meanwhile stuck at a near three-year low amid muted cost pressures.

By country, an improved performance in France helped keep the eurozone out of contraction, alongside a mild easing in the rate of decline in Germany. However, the rest of the region slowed closer to stagnation.

At just 50.2 in October, the ‘flash’ IHS Markit Eurozone Composite PMI® rose only marginally from 50.1 in September to signal the second-smallest expansion of output across manufacturing and services since the current upturn began in July 2013.

New orders for goods and services fell for a second month in a row, the rate of decline easing slightly but nevertheless adding to the worst picture of demand since mid-2013 in recent months.

The malaise was once again primarily a reflection of a steep deterioration of manufacturing business conditions, where factory output fell for a ninth successive month. The rate of decline was only marginally weaker than seen in September to indicate that the goods-producing sector remained in its deepest downturn since 2012, linked in turn to further steep falls in new orders and exports*.

Service sector growth picked up slightly compared to September but continued to run at one of the weakest rates since late-2014 as new business inflows slipped closer to stagnation.

The lack of new business meant backlogs of work fell for the tenth time in the past 11 months, hinting at the further development of excess capacity in both the service and manufacturing sectors.

Future expectations for output meanwhile fell to the lowest since May 2013, prompting companies to take an increasingly cautious approach to hiring.

Jobs growth consequently sank to the lowest since December 2014, led by the steepest loss of
manufacturing jobs since the start of 2013. Service sector employment growth was meanwhile the lowest seen since January, and the second- weakest since 2016.

Finally, average prices charged for goods and services rose only modestly, registering the smallest increase since November 2016. Prices charged for goods fell for a fourth straight month, while prices levied for services showed the smallest monthly rise since August 2017.

The subdued rate of selling price inflation in part reflected a lack of pricing power amid weak demand, but was also a symptom of subdued input cost inflation. Although lifting slightly on September, the average input cost increase was the second- lowest since September 2016.

*Exports include intra-eurozone trade.

The flash estimate is typically based on approximately 85% of the final number of replies received each month, covering all countries included in the final PMI readings. However, only national data for France and Germany are published.

By country, business activity fell for a second successive month in Germany, the rate of decline easing only very slightly on September to mark the worst period of decline since 2012. New orders continued to drop sharply, and employment fell for the first time for six years. The rate of loss of factory output eased but remained among the steepest since 2009. Services growth meanwhile hit the weakest since September 2016, as new business fell at the steepest rate for over six years.

In contrast, business activity picked up in France, registering the third-largest expansion of output seen over the past 11 months. New orders and jobs growth also quickened. Service sector growth accelerated to one of the strongest rates seen over much of the past year, accompanied by a modest return to growth of manufacturing output after a brief slide in September.

A key divergence between France and Germany remained exports, with the former seeing modest growth in new business from abroad while Germany’s exports remained in steep decline.

The rest of the euro area saw a near-stalling of growth, with output rising at the weakest pace since the current upturn began in August 2013. Service sector activity rose at the slowest rate since December 2013 while manufacturing output declined at a pace not seen since April 2013.

Comment

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

“The eurozone economy started the fourth quarter mired close to stagnation, with the flash PMI pointing to a quarterly GDP growth rate of just under 0.1%.

“The manufacturing downturn remains the fiercest since 2012, and continues to infect the service sector, where October saw the smallest increase in new work for almost five years.

“The labour market is meanwhile being hit as firms retrench amid signs of excess capacity and uncertainty about the year ahead intensifies. Optimism about future prospects deteriorated further in October to the lowest for over six years, commonly linked to global trade tensions, Brexit-related worries and increasingly gloomy economic forecasts.

“A further deterioration in jobs growth adds to the risk that the trade-led weakening is spreading further to the household sector, which could dampen growth further as we head towards the end of the year.

“The survey indicates that Mario Draghi’s tenure at the helm of the ECB ends on a note of near-stalled GDP, slower jobs growth, near-stagnant prices and growing pessimism about the outlook, piling pressure on Christine Lagarde to drive new solutions to the eurozone’s renewed malaise.”

-Ends-
Summary of October data

**Output**
- Composite: Business activity ticks up slightly.
- Services: Modest expansion of services activity.
- Manufacturing: Further solid fall in output.

**New Orders**
- Composite: Second successive decrease in new orders.
- Services: New order growth at nine-month low.
- Manufacturing: Marked decline in new work.

**Backlogs of Work**
- Composite: Modest reduction in backlogs.
- Services: Outstanding work decreases slightly.
- Manufacturing: Manufacturing backlogs fall at softer pace.

**Employment**
- Composite: Slowest rise in employment since December 2014.
- Services: Weaker increase in staffing levels.

**Input Prices**
- Composite: Solid increase in input prices.
- Services: Cost inflation at five-month high.
- Manufacturing: Input prices fall at fastest pace in 43 months.

**Output Prices**
- Composite: Charge inflation remains slight.
- Services: Slowest rise in selling prices for 26 months.
- Manufacturing: Modest reduction in output prices.

**PMI**
- Manufacturing: PMI unchanged at 45.7.
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Note to Editors:

Final October data are published on 4 November for manufacturing and 6 November 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):

<table>
<thead>
<tr>
<th>Index</th>
<th>Average difference</th>
<th>Average difference in absolute terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurozone Composite Output Index®</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Eurozone Manufacturing PMI®</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Eurozone Services Business Activity Index</td>
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<td>0.3</td>
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</tbody>
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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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About PMI

Purchasing Managers’ Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to https://ihsmarkit.com/products/PMI.html.

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