Markedly lower growth of eurozone economy during August

Key findings:
- Final Eurozone Composite Output Index: 51.9 (Flash: 51.6, July Final: 54.9)
- Final Eurozone Services Business Activity Index: 50.5 (Flash: 50.1, July Final: 54.7)

The recovery of the eurozone’s private sector economy lost momentum in August as growth eased markedly on July’s recent peak. After accounting for seasonal factors, the IHS Markit Eurozone PMI® Composite Output Index fell to 51.9, down from 54.9 in the previous month. The index was, however, higher than the earlier flash reading (51.6) and represented moderate growth in activity.

There was a divergence in performance in activity by sector during August. Manufacturing output rose markedly and at the fastest pace since April 2018. Although service sector activity also rose for a second month in succession, the rate of growth eased sharply and was only marginal.

Underpinned by a strong performance in its manufacturing sector, Germany was the best-performing country during August, although overall growth was a little softer than the previous month. Ireland and France also recorded gains in activity although, in the case of the latter, the rate of expansion was much slower than in July.

In contrast, subdued service sector performances meant that Italy and Spain recorded outright declines in private sector activity during August.

Levels of new business increased for a second successive month during August, although growth was modest and weaker than in July. New export sales were reported to have fallen again, extending the current period of contraction to nearly two years.
contrast, output charges continued to fall, in line with the trend since March. Competitive pressures and the challenging business environment continued to weigh on pricing power. That said, the decline was modest and the weakest in the current sequence.

Looking to the year ahead, business confidence remained in positive territory. Sentiment about the next 12 months was however slightly down compared to July.

Services

The IHS Markit Eurozone PMI® Services Business Activity Index recorded a notably slower rate of growth during August. After accounting for seasonal factors, the index declined to 50.5, from 54.7 in July. A marked slowdown of growth in France, plus returns to contraction in Italy and Spain, weighed heavily on overall service sector expansion.

Following modest growth in July, a slight contraction of new business was seen during August led by falls in Italy and Spain. Foreign trade was noted as a particular source of demand weakness, with new export business declining for a twenty-fourth month in succession and at a severe rate.

The underwhelming trend in new work meant firms were comfortably able to keep on top of overall workloads, with backlogs of work declining solidly and for a sixth month in succession. Job losses were also extended to a sixth straight month as firms grew more cautious about the future. Lower employment was seen across the eurozone, with the exception of Germany where a slight rise was registered.

Meanwhile, operating expenses continued to rise, increasing for a third successive month and at the fastest pace since February. However, output charges continued to be cut in line with the challenging economic environment.

Finally, business expectations for the next year slipped when compared to July, falling to a three-month low. Spanish service providers were the least optimistic about the future.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

“Service sector companies across the eurozone saw growth of business activity grind almost to a halt in August, fueling worries that the post-lockdown rebound has started to fade amid ongoing social distancing restrictions linked to COVID-19.

“The near-stalling needs to be viewed in the context of the strong expansion seen in July: business growth had surged to a near two-year high as economies opened up further from the severe COVID-19 lockdowns. However, the latest reading still sends a disappointing signal that the rebound has lost almost all momentum.

“The deterioration was often linked to worries of resurgent COVID-19 infection rates, notably among consumer-facing companies and especially in Spain and Italy, where virus containment measures remained particularly strict.

“The larger size of the services economy means the subdued picture offsets the more upbeat survey of manufacturers in August, suggesting that the overall pace of economic growth has waned midway through the third quarter.

“Although the relative strength of the PMI data in July and August mean the autumn is likely to still see the economy rebound strongly from the collapse witnessed in the spring, the survey highlights how policymakers will need to remain focused firmly on sustaining the recovery as we head further into the year.”

-Ends-

** Click here for further details of using the PMI to measure GDP in advance.

† for business confidence (optimism), companies are asked whether they expect levels of business activity in one year’s time to be higher, the same or lower than the current month.
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Note to Editors:

The Eurozone Composite 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 manufacturing and services firms. 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 Eurozone Services PMI (Purchasing Managers’ Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 2,000 private service sector firms. National data are included for Germany, France, Italy, Spain and the Republic of Ireland. These countries together account for an estimated 78% of eurozone private sector services output.

The final Eurozone Composite PMI and Services PMI follows on from the flash estimate which is released a week earlier and is typically based on approximately 75%–85% of total PMI survey responses each month. The August composite flash was based on 83% of the replies used in the final data. Data were collected 12-25 August.

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 PMI</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Eurozone Services Business Activity PMI</td>
<td>0.0</td>
<td>0.3</td>
</tr>
</tbody>
</table>

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.

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