Service sector weighs on eurozone economy in September

Key findings:

- Final Eurozone Composite Output Index: **50.4** (Flash: 50.1, August Final: 51.9)
- Final Eurozone Services Business Activity Index: **48.0** (Flash: 47.6, August Final: 50.5)

Data collected September 11-25

Growth of the eurozone’s private sector slowed further towards stagnation in September. The IHS Markit Eurozone Composite Output Index slipped to a three-month low of 50.4, down from August’s 51.9 and indicative of only a marginal expansion. The final reading was, however, firmer than the earlier flash estimate (50.1).

The composite PMI belied a two-speed economy during September. Led by a strongly performing Germany, overall regional manufacturing output rose at the fastest pace for over two-and-a-half years. In contrast, service sector activity slipped back into contraction by registering its worst performance since May.

There was some notable divergences in activity at the country level during September. On the one hand, Germany recorded a marked rate of growth, with its performance far outstripping the rest of the region. Italy was the only other nation to record expansion, although the gain here was marginal.

France and Ireland meanwhile slipped back into contraction, whilst a sharp deterioration in services activity weighed heavily on Spain’s private sector performance.

Incoming new business in the eurozone increased only slightly during September, and at the slowest rate in the current three-month period of growth. That was in spite of the first rise in overall export trade for the first time in over two years.

As new business growth softened, and with evidence of ongoing spare capacity across the private sector economy, companies were again able to comfortably deal with overall workloads. According to the latest data, backlogs of work declined for a nineteenth successive month albeit again only modestly.

Employment numbers were again reduced, marking a seventh successive monthly fall in staffing levels. That said, the rate of contraction was the weakest recorded in the current sequence with all nations registering slower falls when compared to August. France and Spain recorded the sharpest cuts to employment numbers, and Italy the weakest.

Operating expenses increased for a fourth successive month during September, with the rate of inflation solid. Input price inflation was sharpest in
Spain. Meanwhile, the challenging business environment, characterised by still-weak demand and strong competitive pressures, weighed on company pricing power. Subsequently a seventh successive monthly decline in output charges was recorded in September, with the fall the greatest since June.

Business expectations did, however, improve to their highest level for seven months with confidence broadly in line with its long run average. Italian companies where the most confident, with sentiment here at its highest since the start of 2016.

Services

The IHS Markit Eurozone PMI® Services Business Activity Index signalled a fall back into contraction of the services economy during September. After accounting for seasonal factors, the index posted 48.0, down from 50.5 in the previous month and the lowest level since May.

Germany was the only services economy to register growth (albeit marginal) as all four other nations monitored registered a contraction. Spain recorded by far the steepest monthly fall, followed by Ireland.

A second successive monthly reduction in overall new business was signalled by September’s survey, with Germany again the only nation to record any growth. Export business was also down markedly, extending the current period of contraction to over two years.

A modest reduction in employment was signalled by the September survey data as there remained little pressure on capacity (backlogs of work outstanding declined for a seventh successive month). Spain registered the sharpest monthly fall in job numbers with solid reductions also seen in France, Ireland and Italy, while Germany posted a slight rise.

Cost considerations were a factor behind the latest round of job losses, although firms nonetheless recorded a fourth successive monthly rise in overall operating expenses. Output charges declined again, however, with the rate of deflation the sharpest for three months.

Finally, looking ahead to the coming 12 months, business confidence strengthened in September with sentiment highest in Italy.

Comment

Chris Williamson, Chief Business Economist at IHS Markit said:

“With the eurozone economy having almost stalled in September, the chances of a renewed downturn in the fourth quarter have clearly risen.

“Spain has been especially hard-hit as rising Covid-19 case numbers led to further disruptions to daily life. With the exception of the March-to-May period at the height of the first wave of infections, Spain’s service sector contraction in September was the largest recorded since November 2012.

“However, renewed service sector downturns were also recorded in France and Ireland, while a near-stalling was recorded in Germany, underscoring the broad-based geographical spread of the worsening service sector picture. Virus containment measures remained particularly strict in both Spain and Italy during September, and were also tightened in France and Germany.

“Much will depend on whether second waves of virus infections can be controlled, and whether social distancing restrictions can therefore be loosened to allow service sector activity to pick up again.

“Governments will also need to be vigilant in providing timely support to sustain recoveries, alongside increasingly accommodative monetary policy. In terms of the latter, inflationary pressures remained low in September, keeping the door open for loose policy. Any further deterioration of the PMI numbers as we head through the fourth quarter will add further weight to calls for more stimulus.”

-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.
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 September composite flash was based on 88% of the replies used in the final data. The September services flash was based on 81% of the replies used in the final data. Data were collected 11–25 September 2020.

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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