Eurozone growth remains muted amid ongoing manufacturing woes

Key findings:
- Flash Eurozone PMI Composite Output Index\(^1\) at 51.8 (51.5 in July). 2-month high.
- Flash Eurozone Services PMI Activity Index\(^2\) at 53.4 (53.2 in July). 2-month high.
- Flash Eurozone Manufacturing PMI Output Index\(^4\) at 47.8 (46.9 in July). 2-month high.
- Flash Eurozone Manufacturing PMI\(^3\) at 47.0 (46.5 in July). 2-month high.

Data collected August 12-21

The recent soft patch in the eurozone economy continued into August, according to latest PMI data from IHS Markit, with activity rising modestly amid a marginal increase in new business. The recent pattern of services growth compensating for a downturn in manufacturing was repeated midway through the third quarter. August did see a drop off in confidence among companies in the single-currency area, with firms becoming more wary of hiring additional staff as a result.

The IHS Markit Eurozone Composite PMI\(^5\) ticked up to 51.8 in August according to the ‘flash’ estimate, up from July’s three-month low of 51.5 but still one of the weakest readings for six years.

Although narrowing slightly from the previous month, there remained a wide divergence in performance between the manufacturing and service sectors. Services activity continued to increase at a solid pace, with growth recorded in Germany, France and across the rest of the euro area.

In contrast, manufacturing output was down for the seventh month running, albeit to a lesser extent than in July. While France was able to eke out production growth, falls were seen in Germany and outside of the ‘big-2’.

Total new business rose marginally again, with the rate of expansion unchanged from that seen in July. Overall new orders were hindered by a decline in new export business (which includes intra-euro area trade). New export orders were down for the eleventh successive month in August.

A sizeable drop in confidence regarding the 12-month outlook was registered in August as the global economic slowdown tempered optimism. Sentiment was down to the lowest since May 2013, with confidence weaker across both monitored sectors. Softer optimism was recorded in France and the rest of the eurozone, while German firms were pessimistic about the prospects for business activity for the first time in almost five years.

Fading confidence led to further caution around hiring midway through the third quarter. The rate of job creation was modest, having ticked down from that seen in July to the weakest since April 2016. Services job creation softened, while the manufacturing sector posted job cuts for the fourth month running. Despite slower job creation across the euro area, companies were still able to comfortably deal with incoming new orders and also work through backlogs of work. In fact, outstanding
business decreased to the greatest extent since November 2014.

Spare capacity was also evident in manufacturing supply chains, with vendors able to shorten their delivery times for the sixth month running amid a sharp reduction in demand for inputs.

Rates of both input cost and output price inflation ticked up in August, but remained subdued given the softer demand environment. Moreover, manufacturers continued to signal outright reductions in both their cost burdens and selling prices.

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.

While output growth in Germany picked up slightly in August, there were worrying signs on the new order front as inflows decreased to the greatest extent since April 2013. Negative sentiment among companies in the eurozone’s largest economy was highlighted by the strongest pessimism in the manufacturing sector in the over seven-year series history.

France fared better in comparison, seeing solid expansions in both output and new orders as the manufacturing sector returned to growth to join services in expansion territory.

The rest of the euro area as a whole saw little change in the rate of growth during August, as solid expansion in services outweighed falling manufacturing output.

Comment

Commenting on the flash PMI data, Andrew Harker, Associate Director at IHS Markit said:

“The dynamics of the eurozone economy were little changed in August, with solid growth in services continuing to hold the wider economy’s head above water despite ongoing manufacturing decline. While the rate of overall expansion ticked up, we’re still looking at GDP only rising by between 0.1% and 0.2%, based on the PMI data for the third quarter so far.

“The lack of a quick rebound from the recent economic slowdown has impacted firms’ confidence, with sentiment the lowest in over six years. It appears that companies are braced for a sustained period of weakness, and as a result are showing greater reluctance to take on additional staff.

“France was a relative bright spot in August, seeing manufacturing return to growth alongside a further solid expansion of services activity. The same can’t be said for Germany, however, where new orders fell to the greatest extent in over six years and firms were pessimistic around the future path for activity. The risk remains, therefore, that the euro area’s largest economy will have fallen into technical recession in the third quarter.”

-Ends-

Core v. Periphery PMI Output Indices

Core v. Periphery PMI Employment Indices
## Summary of August data

### Output

<table>
<thead>
<tr>
<th>Category</th>
<th>Composite</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>Business activity up slightly in August.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Manufacturing output continues to fall.</td>
<td></td>
</tr>
</tbody>
</table>

### New Orders

<table>
<thead>
<tr>
<th>Category</th>
<th>Composite</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>Rate of new order growth unchanged.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>New business rises at weakest pace in three months.</td>
<td></td>
</tr>
</tbody>
</table>

### Backlogs of Work

<table>
<thead>
<tr>
<th>Category</th>
<th>Composite</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>Modest reduction in backlogs of work.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>First reduction in outstanding business for five months.</td>
<td></td>
</tr>
</tbody>
</table>

### Employment

<table>
<thead>
<tr>
<th>Category</th>
<th>Composite</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>Rate of job creation at 40-month low.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Fourth successive fall in employment.</td>
<td></td>
</tr>
</tbody>
</table>

### Input Prices

<table>
<thead>
<tr>
<th>Category</th>
<th>Composite</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>Input price inflation ticks up.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Input costs increase at sharp pace.</td>
<td></td>
</tr>
</tbody>
</table>

### Output Prices

<table>
<thead>
<tr>
<th>Category</th>
<th>Composite</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>Slight rise in output prices.</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Charges up only modestly.</td>
<td></td>
</tr>
</tbody>
</table>

### PMI®

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>PMI at two-month high of 47.0.</td>
</tr>
</tbody>
</table>

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**Output**

![Graph showing eurozone PMI output from 1998 to 2019.](chart)

**New business**

![Graph showing eurozone PMI new business from 1998 to 2019.](chart)

**Employment**

![Graph showing eurozone PMI employment from 1998 to 2019.](chart)

**Input prices**

![Graph showing eurozone PMI input prices from 1998 to 2019.](chart)

**Output prices**

![Graph showing eurozone PMI output prices from 1998 to 2019.](chart)

Source: IHS Markit.
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Note to Editors:

Final August data are published on 2 September for manufacturing and 4 September 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 Index¹</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Eurozone Manufacturing PMI³</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Eurozone Services Business Activity Index²</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.

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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