MARKET SENSITIVE INFORMATION
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S&P Global Flash Eurozone PMI®

Eurozone growth slows, exports fall, business sentiment slumps and prices rise at record rate as Russia invades Ukraine

Key findings:
Flash Eurozone PMI Composite Output Index(1) at 54.5 (Feb: 55.5). 2-month low.
Flash Eurozone Services PMI Activity Index(2) at 54.8 (Feb: 55.5). 2-month low.
Flash Eurozone Manufacturing Output Index(3) at 53.6 (Feb: 55.5). 5-month low.
Flash Eurozone Manufacturing PMI(3) at 57.0 (Feb: 58.2). 14-month low.

Data were collected 11-22 March

Eurozone business activity growth slowed in March as the economic impact of Russia’s invasion of Ukraine offset a boost to demand from the further reopening of the economy from COVID-19 restrictions.

Firms’ costs and average prices charged for goods and services rose at unprecedented rates as commodity prices surged higher and supply chain delays hit the highest since last November. Falling exports meanwhile led to a renewed cooling of demand and business confidence sank to the lowest for nearly one-and-a-half years as companies grew increasingly concerned about the outlook.

The headline S&P Global Eurozone Composite PMI® fell from 55.5 in February to 54.5 in March, according to the preliminary ‘flash’ estimate*. The decline indicates some loss of economic growth momentum from February’s five-month high but still signals the second-strongest expansion since last November. The rate of expansion also remained above the survey’s pre-pandemic long-run average.

While firms – notably in the service sector – continued to benefit from resurgent demand linked to the further reopening of the economy from COVID-19 containment measures, companies also reported that the Ukraine war and accompanying sanctions had led to weakened demand, rising uncertainty, higher costs and renewed supply chain issues.

Manufacturing output growth waned most sharply, dropping to the lowest since last October as new orders placed with eurozone factories rose at the joint-slowest pace since the recovery from the first pandemic lockdowns began in July 2020. New export orders for goods fell for the first time in 21 months. Auto makers were especially hard hit, with output back in decline, with chemicals and resources firms also near-stalled.

Business activity and new orders in the service sector also rose at reduced rates compared to February’s rebound, led by a renewed drop in service sector exports, though the overall expansions remained well above the long-run averages thanks principally to the easing of pandemic restrictions. March saw virus containment measures ease across the eurozone to the lowest since the pandemic began, boosting tourism and recreation activity.

A major impact of the war was evident on prices, with the invasion of Ukraine widely linked to a further rise in companies’ costs, exacerbating existing supply and demand imbalances and causing a surge in energy prices. Average input prices across both manufacturing and services rose at a rate far in excess of any previous increase recorded since comparable data were first available in 1998. The eurozone PMI input cost index reading of 81.6 compared to 74.8 in February and a prior
peak of 76.0 seen back in November. A record increase for service sector input costs was accompanied by the steepest rise in manufacturing input costs since the near-record increases seen late last year.

The increase in raw material and energy input costs, combined with further upward pressure on wages, drove an unprecedented rise in average prices charged for goods and services in March, with rates of inflation reaching new highs in both manufacturing and services.

The Ukraine war and sanctions on Russia were also widely reported to have led to a worsening of supply chain delays, aggravating pandemic-related supply disruptions, including new delays from China amid fresh lockdowns. Having shown signs of moderating in February, average supplier delivery times lengthened in March to the greatest extent since last November.

An additional impact of the invasion was evident on business sentiment, as tracked by the PMI’s future output expectations index, which fell in March to its lowest since October 2020. Expectations of output in the coming year fell to the lowest since November 2020 in the service sector, and down even further in manufacturing to the lowest since May 2020. Backlogs of work, another indicator of future business activity, meanwhile rose at the slowest rate for a year.

Despite the drop in business optimism and weakening order book trend, firms again took on more workers to help alleviate current staffing shortages. Employment growth accelerated for a third month running to the highest since last November, though an increased rate of jobs growth in services was partly offset by slower hiring in manufacturing.

By country, France bucked the slowdown trend with business activity rising at the fastest rate since last July, as rebounding service sector activity offset a marked slowing in the manufacturing sector and rising domestic demand countered a marked drop in exports.

Growth meanwhile slowed in Germany but remained above that seen in the four months prior to February thanks to sustained expansions in both manufacturing and services, though in both cases rates of increase moderated from February and exports fell.

Output growth in the rest of the region as a whole also slowed. Barring the near-stalling seen in January amid the onset of the Omicron wave, the expansion was the weakest for a year, with growth slowing in both sectors but most notably in services.

* 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.

Commenting on the flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global said:

“The survey data underscore how the Russia-Ukraine war is having an immediate and material impact on the eurozone economy, and highlights the risk of the eurozone falling into decline in the second quarter.

“Had it not been for the easing of COVID-19 containment measures to the lowest since the start of the pandemic, business activity would have weakened far more sharply in March. This short-term boost from the rebound will fade in the coming months. Meanwhile, the war has aggravated existing pandemic-related price pressures and supply chain constraints, leading to record inflation rates for firms’ costs and selling prices, which will inevitably feed through to higher consumer prices in the months ahead.

“Businesses are themselves bracing for weaker economic growth, with expectations of future output collapsing in March as firms grow increasingly concerned about the impact of the war on an economy that is still struggling to find its feet from the pandemic.

“While the headline indicators on current output from the PMI survey may have beaten expectations, the detail reveals a significantly darker economic outlook compared to February, signalling slower growth and higher inflation in the months ahead.”-Ends-
News Release

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Note to Editors
Final March data are published on 1 April for manufacturing and 5 April for services and composite indicators.

The Eurozone PMI® (Purchasing Managers’ Index®) is produced by S&P Global 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>Composite Output Index¹</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Manufacturing PMI²</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>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.

S&P Global 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 S&P Global. 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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