

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
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IHS Markit Flash Eurozone PMI[®]

Eurozone businesses report strongest growth for two years in July

Key findings:

- Flash Eurozone PMI Composite Output Index⁽¹⁾ at 54.8 (48.5 in June). 25-month high.
- Flash Eurozone Services PMI Activity Index⁽²⁾ at 55.1 (48.3 in June). 25-month high.
- Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 54.0 (48.9 in June). 23-month high.
- Flash Eurozone Manufacturing PMI⁽³⁾ at 51.1 (47.4 in June). 19-month high.

Data collected July 10-23

Business activity across the eurozone rose for the first time since February, according to provisional PMI[®] survey data, growing at the sharpest rate for just over two years as economies continued to reopen after lockdowns implemented to prevent the spread of the coronavirus disease 2019 (COVID-19). Output expectations improved, while new order inflows also picked up and job losses eased, albeit with job cutting remaining widespread as many firms continued to scale back capacity.

The flash IHS Markit Eurozone Composite PMI rose further in July from the all-time low of 13.6 seen back in April, climbing from 48.5 in June to 54.8. This was the first reading above the 50.0 no-change level since February and indicated the largest monthly gain in output since June 2018.

Both manufacturing and services returned to growth (the latter recording the slightly stronger performance), with growth hitting 23- and 25-month highs respectively. While the rise in service sector output was the first since February, the increase in factory production was the first reported since January 2019.

The improvement in part reflected a technical rebound from recent lockdowns, as businesses and their customers increasingly returned to work

IHS Markit Eurozone PMI and GDP



Sources: IHS Markit, Eurostat.

following the further relaxation of COVID-19 containment measures across the region during the month.

Demand was also reported to have revived alongside the lifting of lockdowns, with new order inflows likewise rising for the first time since February and increasing to an extent not seen since October 2018. However, the upturn in new orders was less marked than that recorded for output, thanks in part to a further loss of export sales, leading to an ongoing depletion of backlogs of work during the month.

Although the drop in outstanding business was smaller than witnessed in prior months, a resulting surfeit of capacity relative to order books prompted many companies to continue to reduce staffing numbers. Headcounts consequently fell for a fifth straight month. While the rate of job cutting eased compared to the prior four months, it nevertheless remained faster than at any time since the start of 2013.

Job losses remained especially severe in the manufacturing sector where, besides the prior three months, the rate of job cutting was quicker than at any time since 2009. A far more modest rate of

employment decline was seen in the service sector, though even here the drop in headcounts was the greatest for seven years, barring the height of the pandemic.

Looking ahead, expectations of future output continued to improve from the low plumbed in March, rising to five-month highs in both manufacturing and services, the latter reporting relatively greater prospects. Hopes of improved performance over the coming year often reflected expectations of a further opening up of economies, though companies also often warned that any gains were from historically low bases, due to business volumes having been hit hard by the pandemic.

Average prices charged for goods and services meanwhile fell for a fifth month running as firms commonly reported the need to offer discounts to stimulate sales, though the rate of decline continued to moderate from April's near-11-year record.

The easing in price deflation was linked to rising costs: average input prices increased for a second month running, albeit only modestly. While raw material prices continued to fall, higher staff and PPE or other COVID-19 protection costs were widely reported.

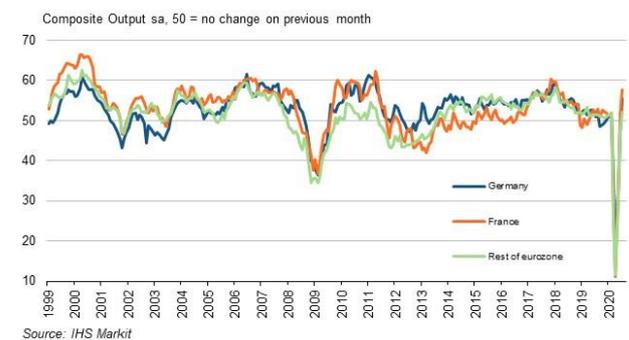
By country, French companies led the upturn, reporting a second successive month of output gains, with growth surging to the fastest since January 2018. Both manufacturing and services reported the best output growth for two-and-a-half years. While French service sector companies reported the first rise in new orders since February, factory orders edged back into decline, led by a sharp drop in exports. Employment continued to fall, but the loss of jobs was the smallest seen over the past five months.

In Germany, output rose for the first time since February, increasing to an extent not seen for almost two years. A surge in service sector activity (which showed the largest gain for two-and-a-half years) was accompanied by a more modest manufacturing output increase. The factory output gain was nonetheless the best seen for nearly two years, fueled by a marked jump in new orders, including exports. Employment continued to fall, however, with overall job losses centred on the manufacturing sector.

The rest of the region outside of France and Germany also saw output return to growth, led by manufacturing, though the overall gain was more modest than seen in France and Germany. While new orders stabilised and job cutting moderated, the pace of job shedding remained marked, especially 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.

Core v. Periphery PMI Output Indices



Core v. Periphery PMI Employment Indices



Comment

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

"Companies across the euro area reported an encouraging start to the third quarter, with output growing at the fastest rate for just over two years in July as lockdowns continued to ease and economies reopened. Demand also showed signs of reviving, helping curb the pace of job losses.

"The data add to signs that the economy should see a strong rebound after the unprecedented

collapse in the second quarter.

“However, while the survey’s output measures hint at an initial v-shaped recovery, other indicators such as backlogs of work and employment warn of downside risks to the outlook.

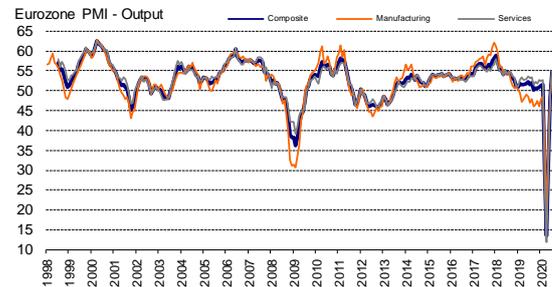
“The concern is that the recovery could falter after this initial revival. Firms continue to reduce headcounts to a worrying degree, with many worried that underlying demand is insufficient to sustain the recent improvement in output. Demand needs to continue to recover in coming months, but the fear is that increased unemployment and damaged balance sheets, plus the need for ongoing social distancing, are likely to hamper the recovery.”

-Ends-

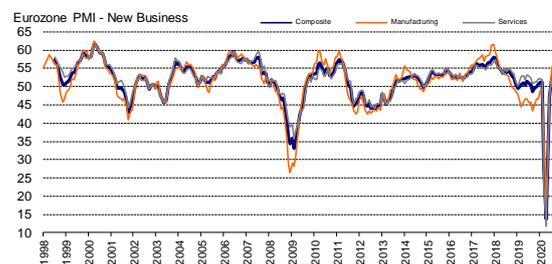
Summary of July data

Output	Composite	Output returns to growth in July.
	Services	First rise in activity for five months.
	Manufacturing	Solid increase in production.
New Orders	Composite	New orders rise for first time since February.
	Services	New business returns to growth.
	Manufacturing	First expansion of new orders since September 2018.
Backlogs of Work	Composite	Slight fall in outstanding business.
	Services	Softer reduction in backlogs of work.
	Manufacturing	Work-in-hand down marginally.
Employment	Composite	Solid fall in employment.
	Services	Staffing levels down modestly.
	Manufacturing	Further steep decline in workforce numbers.
Input Prices	Composite	Input prices rise slightly.
	Services	Second successive increase in input costs.
	Manufacturing	Input costs fall, but at softer rate.
Output Prices	Composite	Fifth successive reduction in output prices.
	Services	Output prices fall, but at slower pace.
	Manufacturing	Slight decrease in selling prices.
PMI⁽³⁾	Manufacturing	PMI at 19-month high of 51.1.

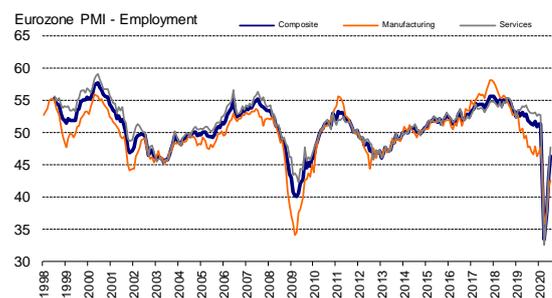
Output



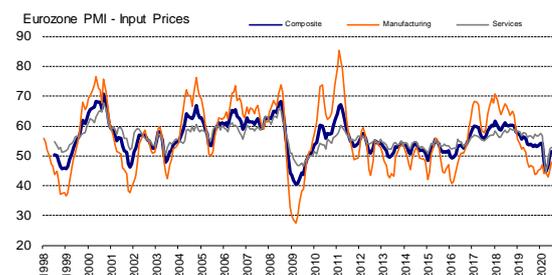
New business



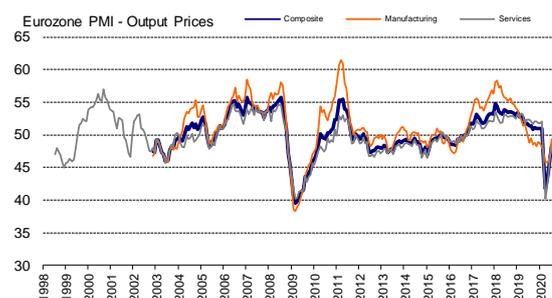
Employment



Input prices



Output prices



Source: IHS Markit.

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Note to Editors:

Final July data are published on 3 August for manufacturing and 5 August 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):

Index	Average difference	Average difference in absolute terms
Eurozone Composite Output Index ¹	0.0	0.2
Eurozone Manufacturing <i>PMI</i> ²	0.0	0.2
Eurozone Services Business Activity Index ²	0.0	0.3

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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