

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 1000 (CEST) / 0800 (UTC) 24 July 2019

IHS Markit Flash Eurozone PMI[®]

Eurozone economic growth falters as manufacturing downturn deepens

Key findings:

- Flash Eurozone PMI Composite Output Index⁽¹⁾ at 51.5 (52.2 in June). 3-month low.
- Flash Eurozone Services PMI Activity Index⁽²⁾ at 53.3 (53.6 in June). 2-month low.
- Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 47.0 (48.5 in June). 75-month low.
- Flash Eurozone Manufacturing PMI⁽³⁾ at 46.4 (47.6 in June). 79-month low.

Data collected July 12-23

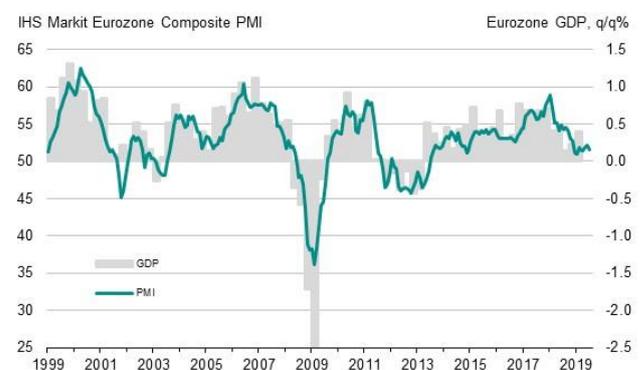
Eurozone economic growth edged lower in July as a deepening manufacturing downturn was accompanied by a slight moderation in service sector growth. Overall inflows of new work almost stagnated and business sentiment fell to its lowest since late-2014, causing companies to take an increasingly cautious approach to hiring. Selling prices meanwhile came under pressure amid tough competition and weak demand.

Having risen in the prior two months, the IHS Markit Eurozone Composite PMI[®] fell to 51.5 in July according to the 'flash' estimate, down from 52.2 in June to register the weakest monthly expansion of output for three months. Over the past six years, only four months have seen lower PMI readings.

The modest overall expansion masked a widening divergence between the manufacturing and service sectors to the largest since April 2009. While the service sector continued to record robust growth, albeit easing slightly compared to June, the manufacturing sector reported the steepest drop in production since April 2013.

Similar modest rates of growth were seen in Germany, France and the rest of the region as a whole, with manufacturing acting as an increased drag on output in all cases, notably in Germany.

IHS Markit Eurozone PMI and GDP



Sources: IHS Markit, Eurostat.

Overall growth of new business meanwhile slowed to near stagnation, its lowest for five months. Manufacturers reported the second-largest drop in new orders since 2012 and service sector inflows of work slipped to the second-lowest in five months.

Exports (including intra-euro area trade) remained a key area of weakness, declining at a rate not exceeded since data covering both goods and services were available in late-2014. Good exports fell at the steepest rate since November 2011, while a more muted decline was seen for services.

Backlogs of work fell at an accelerated rate as firms increasingly depended on previously-placed orders to maintain current output growth. Work-in-hand dropped particularly sharply in manufacturing, down to the greatest extent in seven years.

Companies' future expectations of output also worsened, sliding to the lowest since October 2014. A small rise in sentiment in the service sector (though still among the gloomiest seen over the past four years) was countered by a drop in optimism in manufacturing to the lowest since December 2012. The survey saw growing concerns about trade wars and weakened economic growth prospects both locally and globally, as well as rising

geopolitical stress, notably including Brexit.

Companies scaled back their hiring in response to the deteriorating outlook and order book situation, resulting in the smallest employment gain for 34 months. Manufacturers reported their third consecutive monthly fall in payroll numbers, with jobs being lost at a rate not seen since June 2013. Service sector companies reported further net job creation, though the rise was the smallest for four months.

Inflationary pressures became increasingly subdued amid the slowdown. Average prices charged for goods and services registered the smallest increase since November 2016, led by the largest drop in factory selling prices since April 2016. Service sector charges meanwhile rose at the second-slowest rate seen over the past 14 months.

Input cost inflation across the two sectors remained unchanged from June's 33-month low. Input prices fell for a second successive month in manufacturing but rose at a slightly increased rate in services. While manufacturing costs were often reported to have eased on the back of lower global commodity prices as suppliers offered discounts, service sector costs were often pushed up by higher wages.

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.

The pace of growth slipped to the joint-lowest since June 2013 in **Germany** as solid service sector expansion was countered by a deepening manufacturing downturn. Factory production fell at a markedly increased rate, resulting in a drop in output exceeded only once since July 2012. The latest fall in new orders into the manufacturing sector was the third-largest since April 2009.

Growth likewise slowed to only a modest pace in **France**, though the rise in output was still the second-strongest seen over the past eight months. The upturn in output was driven by services, whereas manufacturing suffered its seventh fall in the past ten months, albeit declining only marginally.

The **rest of the euro area** as a whole also saw

growth weaken, hitting the lowest since November 2013. A second successive monthly fall in manufacturing output, which recorded the steepest decline since May 2013, was softened by a further modest gain in service sector activity.

Comment

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

"The eurozone economy relapsed in July, with the PMI giving up the gains seen in May and June to signal one of the weakest expansions seen over the past six years. The pace of GDP growth looks set to weaken from the 0.2% rate indicated for the second quarter closer to 0.1% in the third quarter.

"The manufacturing sector has become an increasing cause for concern. Geopolitical worries, Brexit, growing trade frictions and the deteriorating performance of the autos sector in particular has pushed manufacturing into a deeper downturn with the survey indicative of the goods-producing sector contracting at a quarterly rate of approximately 1%.

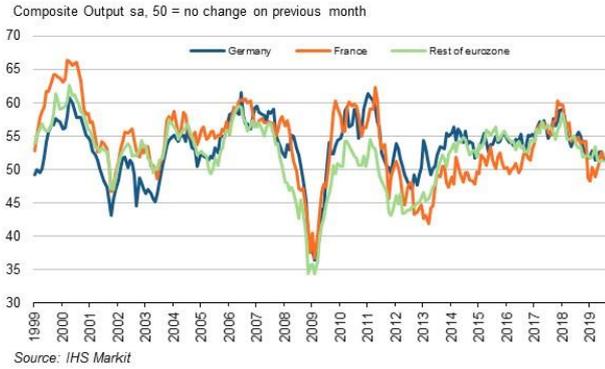
"The more domestically-focused service sector remained the main driver of expansion, though even here the rate of growth has slowed, likely in part due to signs of weaker labour market trends. Hiring was close to a three-year low in July.

"Germany has been especially hard hit by the manufacturing and autos sector downturns, and is at risk of GDP contracting marginally in the third quarter. France appears more robust, albeit with growth likely to ease slightly from 0.3% to 0.25% in the third quarter.

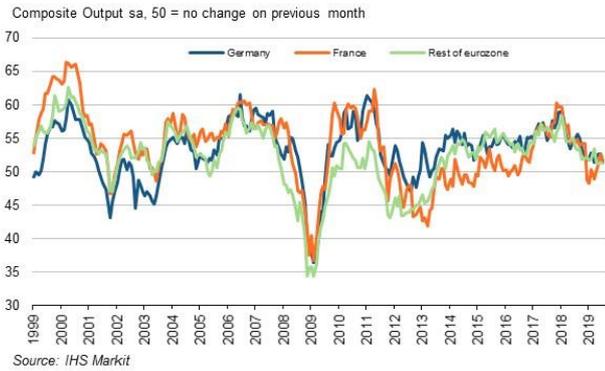
"With growth slowing, job creation fading and price pressures having fallen markedly compared to earlier in the year, the survey will give added impetus to calls for more aggressive stimulus from the ECB."

-Ends-

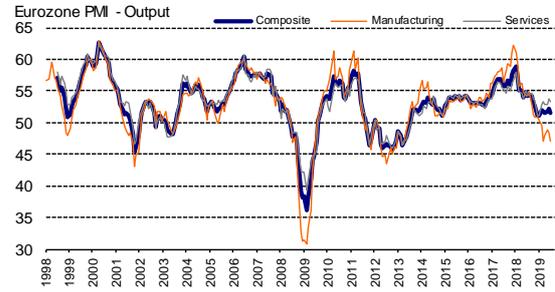
Core v. Periphery PMI Output Indices



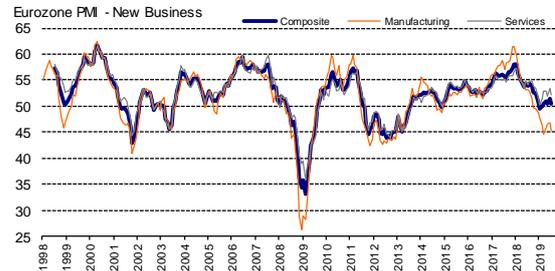
Core v. Periphery PMI Employment Indices



Output



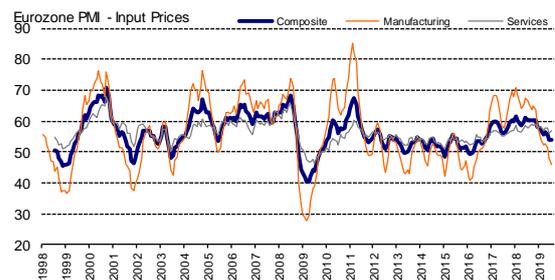
New business



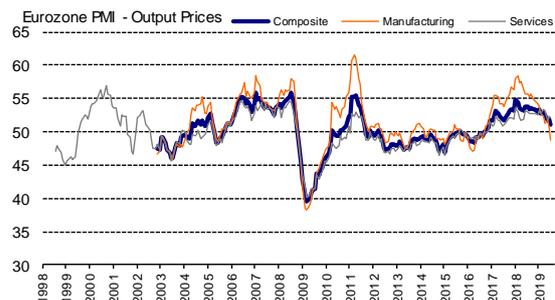
Employment



Input prices



Output prices



Summary of July data

Output	Composite	Modest expansion of output.
	Services	Services activity rises solidly again.
	Manufacturing	Sharpest decline in production since April 2013.
New Orders	Composite	New business up only marginally.
	Services	Modest growth of new orders.
	Manufacturing	Sharp fall in new work.
Backlogs of Work	Composite	Backlogs of work continue to fall.
	Services	Work-in-hand up for third month running.
	Manufacturing	Rate of backlog depletion accelerates.
Employment	Composite	Slowest rise in employment for 34 months.
	Services	Rate of job creation softens.
	Manufacturing	Employment falls for third month running.
Input Prices	Composite	Cost inflation remains muted.
	Services	Marked rise in input costs.
	Manufacturing	Sharpest decline in input prices for 39 months.
Output Prices	Composite	Charge inflation at 32-month low.
	Services	Further modest inflation of output prices.
	Manufacturing	Selling prices reduced for first time in almost three years.
PMI⁽³⁾	Manufacturing	PMI at 79-month low of 46.4.

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Note to Editors:

Final July data are published on 1 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	0.1
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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