**IHS Markit Flash Eurozone PMI®**

**Business growth slowest for over two years, optimism hits four-year low**

**Key findings:**

- Flash Eurozone PMI Composite Output Index\(^1\) at 52.7 (54.1 in September). 25-month low.
- Flash Eurozone Services PMI Activity Index\(^2\) at 53.3 (54.7 in September). 24-month low.
- Flash Eurozone Manufacturing PMI Output Index\(^4\) at 51.2 (52.7 in September). 46-month low.
- Flash Eurozone Manufacturing PMI\(^3\) at 52.1 (53.2 in September). 26-month low.

Data collected October 12-23

Flash PMI survey data indicated that the eurozone economy grew at the slowest rate for over two years in October as an export-led slowdown continued to broaden-out to the service sector. In a sign that the slowdown has further to run, companies’ expectations of future growth slipped to the lowest for nearly four years, with a near six-year low seen in manufacturing. Reduced optimism further dented hiring, hitting jobs growth. Price pressures meanwhile remained elevated, close to seven-year highs.

The IHS Markit Eurozone Composite PMI\(^®\) fell to 52.7 in October, down from 54.1 in September and reaching its lowest since September 2016, according to the flash reading (which is based on approximately 85% of usual monthly replies).

Manufacturing led the slowdown, with factory output rising only modestly to register the weakest monthly production gain since December 2014. However, service sector activity growth also slowed, easing to a two-year low, in a sign of the slowdown broadening out beyond the goods-producing sector.

The weakened rate of expansion was accompanied by a further deterioration in expectations for future growth to the lowest since November 2014.

Optimism sank especially in manufacturing, down to the lowest since December 2012, but also dropped markedly in the service sector, where expectations for the year ahead were the joint-lowest since December 2014.

Growth of new orders meanwhile eased to the slowest since August 2016, weakened by manufacturing orders falling (albeit only marginally) for the first time since November 2014. New export orders for goods decreased for the first time since June 2013. However, October also saw the second-smallest rise in service sector new business for almost two years.

Backlogs of work rose at a marginally faster rate than in September but still showed the second-smallest rise since January 2017. Factories reported the second successive monthly fall in backlogs (the first such back-to-back monthly decline since early-2015), contrasting with a slightly increased rate of backlog accumulation in the service sector.

Employment continued to rise, but the rate of jobs growth was the second-lowest for just over a year, easing to a 22-month low in manufacturing and
three-month low in services. Price pressures meanwhile remained close to a seven-year high. Input price inflation edged up to a four-month high, registering the third-largest monthly rise in costs since May 2011. A steeper rate of increase in manufacturing costs was in part offset by a small moderation in service sector input cost inflation, albeit with both sectors continuing to see elevated levels of price pressures.

Output price inflation edged slightly lower but also remained among the highest seen over the past seven years. While factory gate prices showed the smallest increase for 14 months, service sector charges once again rose at one of the strongest rates seen since the global financial crisis.

Other indices added to the softer picture: the amount of inputs bought by manufacturers barely rose, registering the smallest increase in three-and-a-half years. This reduced growth of demand for inputs in turn took some pressure off suppliers, meaning delivery times lengthened to the smallest extent since February of last year.

Within the eurozone, growth moderated especially sharply in Germany, sliding to the weakest since May 2015. The smallest gain in factory output for almost four years was accompanied by the slowest service sector growth since May. Notably, goods exports fell at the steepest rate since June 2013, down for a second consecutive month. Future expectations also sank to the lowest since late-2014, waning to a near six-year low in manufacturing and a three-year low in services.

Business activity growth picked up slightly in France but was nevertheless still the third-weakest seen since the start of last year. Although service sector activity grew at the fastest rate for four months, manufacturing output fell for the first time in 27 months, led down by an increased rate of loss of export sales. Business confidence fell in both sectors, down overall to the lowest for almost two years and dropping especially sharply in the goods-producing sector.

Growth slowed across the rest of the single-currency area to the weakest since November 2013, dropping in both sectors but slipping most prominently in the service sector. Future expectations meanwhile fell outside of France and Germany to the lowest since August 2013.

Comment

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

“The pace of Eurozone economic growth slipped markedly lower in October, with the PMI setting the scene for a disappointing end to the year. The survey is indicative of GDP growth waning to 0.3% in the fourth quarter, and forward-looking indicators, such as measures of future expectations and new business inflows, suggest further momentum could be lost in coming months.

“The slowdown is being led by a drop in exports, linked in turn by many survey respondents to trade wars and tariffs, which appears to have darkened the global economic environment and led to increased risk aversion. It is therefore not surprising to see the slowdown broadening out across the economy, hitting the service sector.

“The survey will make for uncomfortable reading at the ECB. Although the survey’s price gauges remain elevated and close to seven-year highs, the headline PMI has fallen to a level that would historically be consistent with a bias towards loosening monetary policy in order to prevent any further deterioration of economic growth.”

-Ends-

Core v. Periphery PMI Output Indices

[Graph showing Core v. Periphery PMI Output Indices]
Core v. Periphery PMI Employment Indices

Summary of October data

Output

- Composite: Weakest output growth since September 2016.
- Services: Slowest rise in services activity for two years.
- Manufacturing: Production increases at weakest pace in 46 months.

New Orders

- Composite: Slowest rise in new orders in 26 months.
- Services: New order growth at five-month low.

Backlogs of Work

- Composite: Slight increase in outstanding business.
- Services: Work-in-hand rises at faster pace.
- Manufacturing: Second successive fall in backlogs.

Employment

- Composite: Further solid rise in staffing levels.
- Services: Weakest job creation since July.
- Manufacturing: Slowest expansion for 22 months.

Input Prices

- Composite: Input prices continue to increase sharply.
- Services: Further marked rise in input costs.
- Manufacturing: Cost inflation accelerates.

Output Prices

- Composite: Charge inflation ticks down.
- Services: Further solid rise in output prices.
- Manufacturing: Slowest increase in 14 months.

PMI®

- Manufacturing: PMI at 26-month low of 52.1.

Source: IHS Markit.
For further information, please contact:

IHS Markit
Chris Williamson, Chief Business Economist
Telephone +44-20-7260-2329
Mobile +44-779-555-5061
Email chris.williamson@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44207 260 2234
E-mail joanna.vickers@ihsmarkit.com

Note to Editors:

Final October data are published on 2 November for manufacturing and 6 November 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>0.2</td>
</tr>
<tr>
<td>Eurozone Manufacturing PMI²</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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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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