

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

Eurozone ends 2017 on a high amid record manufacturing growth

Key findings:

- Flash Eurozone PMI Composite Output Index⁽¹⁾ at 58.0 (57.5 in November). 82-month high.
- Flash Eurozone Services PMI Activity Index⁽²⁾ at 56.5 (56.2 in November). 80-month high.
- Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 62.0 (61.0 in November). 212-month high.
- Flash Eurozone Manufacturing PMI⁽³⁾ at 60.6 (60.1 in November). Record high.

Data collected December 5-13

The eurozone economy picked up further momentum at the end of 2017, with December seeing the fastest growth of business activity for nearly seven years. The best factory output and order book gains since 2000 pushed the manufacturing headline PMI to a record high, while an upturn in service sector to growth to the highest since early-2011 underscored the broad-based nature of the current surge in activity. Job creation stayed at the highest for just over 17 years and price pressures remained elevated, albeit easing slightly during the month.

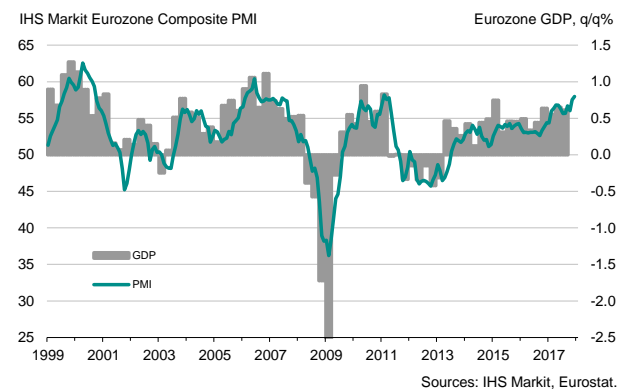
Growth spurt

The headline IHS Markit Eurozone PMI rose to 58.0 in December, according to the 'flash' estimate (based on approximately 85% of final replies), up from 57.5 in November and its highest since February 2011.

The upturn continued to be led by manufacturing, where the headline PMI rose to its highest since the series began in June 1997. Faster manufacturing output growth (the best since April 2000) was accompanied by the largest monthly improvement in service sector activity since April 2011.

Activity rose in response to higher inflows of new

IHS Markit Eurozone PMI and GDP



orders, which showed the biggest monthly increase for just over a decade. In manufacturing, the largest upturn in new orders since April 2000 was buoyed by export orders rising at a rate only marginally below November's record high. Growth of new business in the service sector was meanwhile the joint-highest in over a decade, highlighting the broad-based improvement in demand.

Future expectations also improved, perking up in both sectors and reviving after two months of decline.

Capacity

Buoyant job creation was again seen as firms boosted capacity in line with strong demand and the improved outlook. Measured across both sectors, employment growth was the joint-highest since September 2000, matching November's recent peak. A record gain in factory payrolls helped offset a slowing in services job creation, albeit with the latter still the second-best in the past ten years.

Despite the recent bout of strong hiring, capacity constraints continued to be reported, reflected in a further marked rise in backlogs of uncompleted

orders. Backlogs rose especially sharply in manufacturing, with December seeing a similar rise to the record increase seen in November.

Supply chains also likewise continued to be stretched as a result of strong demand, with average delivery times lengthening to an extent not seen since May 2000 as manufacturers reported a record increase in the amount of inputs purchased.

Prices

Strong demand was a key factor helping firms hike prices. Average charges for goods and services showed a slightly smaller rise than the prior two months but still recorded one of the largest increases since mid-2011.

Higher prices also reflected the need to pass higher costs on to customers. Average input costs rose sharply again in both sectors, though especially in manufacturing. The overall rate of inflation dipped from November, but remained among the highest seen over the past six-and-a-half years.

National trends

By country, growth in France outpaced that seen in Germany for the third month running, though both countries recorded strong gains. Although growth in France eased slightly, it continued the best spell of expansion seen since the first half of 2011. German business activity meanwhile grew at its fastest since April 2011, with the manufacturing PMI notable in hitting a record high. While both countries saw manufacturing lead services in terms of output growth, expansions remained broad-based.

Elsewhere, growth lagged behind France and Germany on average, though continued to run at one of the fastest rates seen since the global financial crisis.

Comment

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

“The eurozone economy is picking up further momentum as the year comes to a close, ending its best quarter since the start of 2011. The PMI is signalling an impressive 0.8% GDP increase in the fourth quarter, with accelerating growth seen in both Germany and France, where fourth quarter growth rates of 1.0% and 0.7-0.8% are indicated

respectively.

“France has been the big surprise this year, rapidly pulling out of its malaise to help shift the eurozone expansion into a higher gear.

“The eurozone upturn is being led by a booming manufacturing sector, with a record PMI seen in December, but stronger domestic demand is also helping drive faster service sector growth.

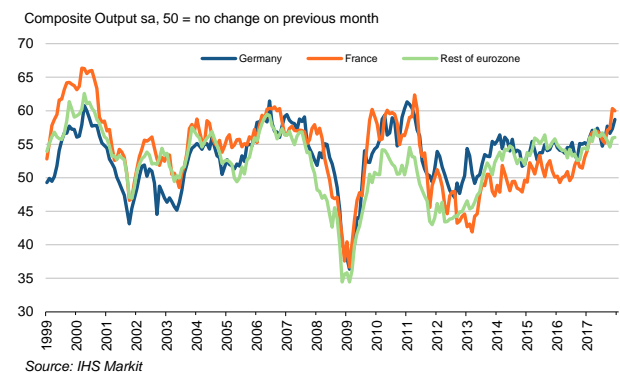
“Demand in the region’s home markets is being buoyed by the improved labour market, with new jobs being created at a pace not seen for 17 years over the past two months.

“A revival in business confidence about the year ahead highlights how companies are shrugging off political uncertainty and instead focusing on the improving demand environment, setting the scene for a good start to 2018.

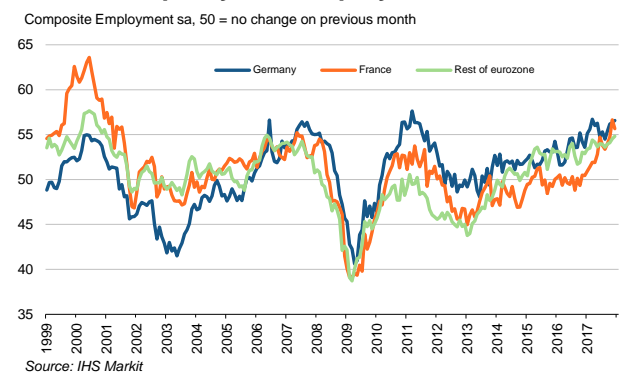
“Although price pressures abated slightly in December, the robust growth of demand and tightening labour market hint at rising core inflationary pressures as we move through 2018.”

-Ends-

Core v. Periphery PMI Output Indices



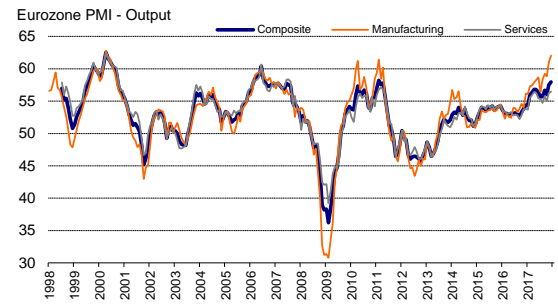
Core v. Periphery PMI Employment Indices



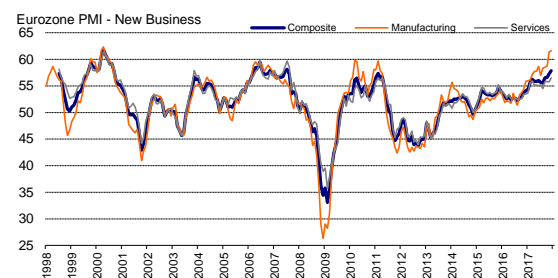
Summary of December data

| | | |
|--------------------------|------------------|---|
| Output | Composite | Sharpest expansion in output since February 2011. |
| | Services | Growth of activity at 80-month high. |
| | Manufacturing | Fastest rise in production since April 2000. |
| New Orders | Composite | Fastest increase in new business in over a decade. |
| | Services | New order growth quickens to 80-month high. |
| | Manufacturing | Sharpest expansion since April 2000. |
| Backlogs of Work | Composite | Solid, but slower, rise in outstanding business. |
| | Services | Rate of accumulation at four-month low. |
| | Manufacturing | Further sharp increase in manufacturing backlogs. |
| Employment | Composite | Rate of job creation unchanged. |
| | Services | Services employment rises sharply again. |
| | Manufacturing | Rate of increase quickens to a new record. |
| Input Prices | Composite | Slight easing in rate of cost inflation. |
| | Services | Slowest increase in services input prices for three months. |
| | Manufacturing | Manufacturing costs rise at weaker pace. |
| Output Prices | Composite | Charge inflation at three-month low. |
| | Services | Modest increase in output prices. |
| | Manufacturing | Selling prices up sharply, albeit at reduced pace. |
| PMI⁽³⁾ | Manufacturing | PMI at record high of 60.6. |

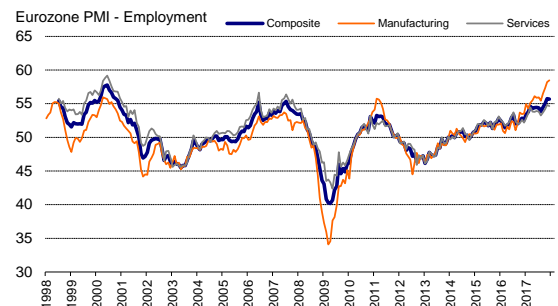
Output



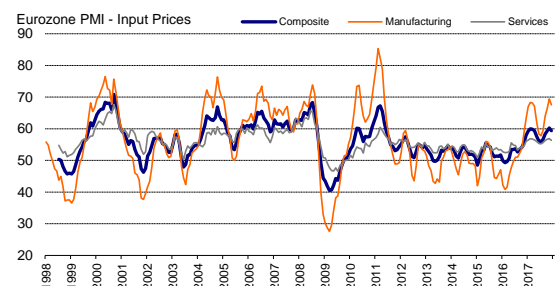
New business



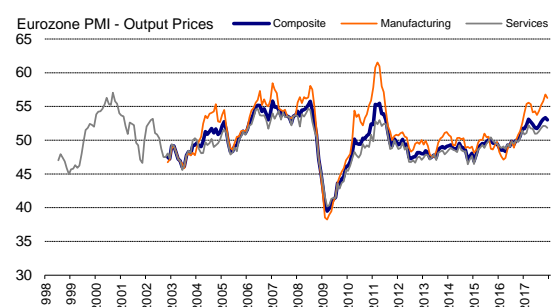
Employment



Input prices



Output prices



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

Rob Dobson, Director
Telephone +44-1491-461-095
Mobile +44-782-691-3863
Email rob.dobson@ihsmarkit.com

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

Note to Editors:

Final December data are published on January 2 for manufacturing and January 4 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> ³ | 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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