

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

Eurozone economy starts third quarter on softer footing

Key findings:

- Flash Eurozone PMI Composite Output Index⁽¹⁾ at 54.3 (54.9 in Jun). 2-month low.
- Flash Eurozone Services PMI Activity Index⁽²⁾ at 54.4 (55.2 in Jun). 2-month low.
- Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 54.2 (54.2 in Jun). Unchanged.
- Flash Eurozone Manufacturing PMI⁽³⁾ at 55.1 (54.9 in Jun). 2-month high.

Data collected July 12-23

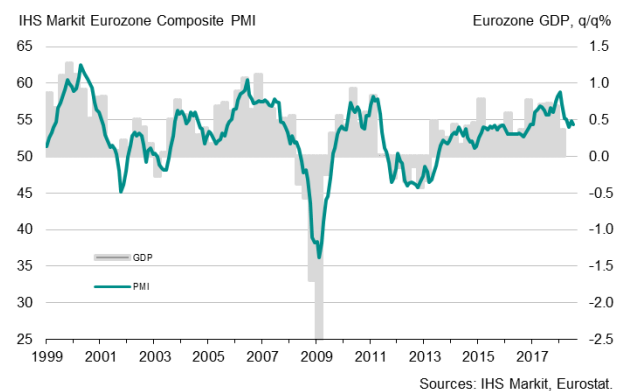
Flash PMI survey data indicated that the eurozone economy lost momentum again at the start of the third quarter after a brief rebound in June. Although the rate of growth remained relatively robust in July, weakened new order inflows and reduced business expectations of future activity added to the downbeat picture. Price pressures meanwhile remained elevated, albeit cooling slightly compared to June.

The IHS Markit Eurozone Composite PMI fell to 54.3 from 54.9 in June, according to the July flash reading (which is based on approximately 85% of usual replies). The latest reading was the second-weakest since November 2016, only narrowly beating May's recent low.

Manufacturing output grew at a rate unchanged on June's 19-month low, while business activity growth in the service sector pulled back from June's four-month high, registering the second-slowest expansion seen in the past year-and-a-half.

A deterioration in growth of new orders suggests that the rate of expansion could slow again in August. Measured across both sectors, July saw the smallest increase in new orders since October 2016.

IHS Markit Eurozone PMI and GDP



Factory order book inflows were the lowest for nearly two years while service sector new business gains were the second-lowest for a year-and-a-half.

For factories, the slowdown in order book growth was partly due to weakened export gains, with new export orders registering the smallest monthly rise since August 2016, the rate of increase having slowed sharply since the buoyant pace recorded earlier in the year.

The reduced inflow of new orders meant companies saw backlogs of uncompleted work grow at a slower pace. The July survey recorded the smallest accumulation of outstanding work since September 2016. Slower growth of backlogs often leads to a reduction in hiring, and employment growth moderated commensurately in July. The overall rate of job creation nonetheless remained strong by the standards of the survey over the past 20 years, running only marginally below that seen in the first half of the year to suggest that firms generally remained firmly in hiring mode.

However, in a further sign that growth of output and hiring may continue to slow, future expectations of business activity slipped to a 20-month low.

Optimism regained some poise in manufacturing, having slumped to a 31-month low in June, but slid to the lowest since November 2016 in the service sector. Growth of input buying in manufacturing also slowed to a 22-month low as firms scaled back production plans.

Price pressures meanwhile eased, though remained elevated. The flash PMI survey gauges of input cost inflation cooled slightly in both manufacturing and services, but the headline index fell only modestly from June, recording its third-highest level in seven years.

Companies continued to report widespread price hikes for fuel and other oil-related inputs, alongside cost increases for metals such as steel and, in some countries, rising wage pressures. Price hikes for raw materials were also again often linked to tariffs, trade wars, supply chain delays and shortages, with supplier delivery times widely reported to have lengthened again, notably from China.

Average selling prices for goods and services rose again as companies often sought to pass higher costs on to customers. The latest rise in prices was weaker than the four-month high seen in June but nevertheless still one of the highest seen over the past seven years. Goods price inflation continued to run higher than for services, yet the latter was notable in being one of the steepest seen over the past decade.

By country, faster growth in Germany contrasted with a slight slowing in France. Elsewhere, growth was the weakest for 21 months, slipping lower in both manufacturing and services.

The rate of growth of Germany's private sector economy rebounded from a 20-month low in May to a five-month high, driven by a stronger increase in manufacturing output. But France saw the second-weakest expansion in 18 months, stymied in particular by near-stagnant manufacturing.

Comment

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

"The flash PMI suggests the eurozone started the second half of the year on a relatively soft footing,

indicative of GDP growth slowing in the third quarter. The July reading is consistent with quarterly GDP growth of 0.4%, down from a 0.5% expansion indicated by the surveys for the second quarter.

"The renewed slowdown comes as a disappointment, confirming suspicions that June's rebound was temporary, largely due to businesses in some countries making up for an unusually high number of public holidays in May.

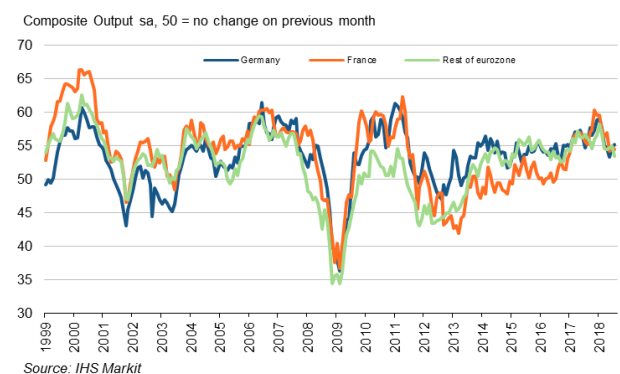
"Given the waning growth of new business and further slide in business optimism, the outlook has also deteriorated, notably in manufacturing, where the surveys saw worries about trade wars intensify markedly in July.

"While there are signs that improving domestic demand in many countries is helping drive robust service sector expansion and support manufacturing, a worsening picture for export growth is clearly having an increasingly detrimental effect on manufacturing.

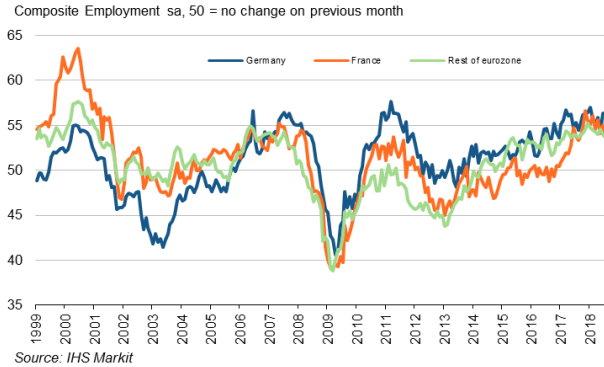
"The big question going forward will be the extent to which domestic demand can remain sufficiently resilient to cushion the eurozone economy from the potential adverse impact of an escalating trade war on exports. For now, the health of domestic demand seems encouragingly solid, but any feed-through of trade worries to other sectors will be a key area of concern to an already cloudier-looking outlook."

-Ends-

Core v. Periphery PMI Output Indices



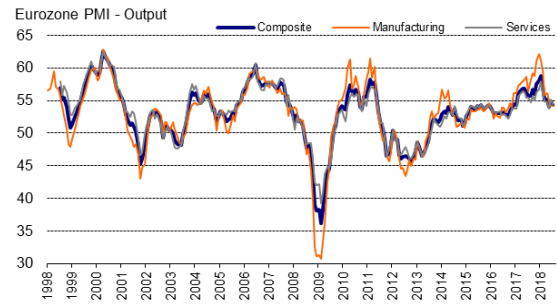
Core v. Periphery PMI Employment Indices



Summary of July data

Output	Composite	Activity increases at slower pace.
	Services	Growth of services activity eases.
	Manufacturing	Manufacturing output growth stable at June's pace.
New Orders	Composite	New order growth at 21-month low.
	Services	Slower rise in new business.
	Manufacturing	Rate of expansion in new orders at 23-month low.
Backlogs of Work	Composite	Slowest increase in backlogs in 22 months.
	Services	Outstanding business rises at weaker pace.
	Manufacturing	Slowest accumulation of manufacturing backlogs in 26 months.
Employment	Composite	Strong rise in employment.
	Services	Further solid job creation.
	Manufacturing	Firms continue to take on extra staff at marked pace.
Input Prices	Composite	Rate of cost inflation eases slightly but remains strong.
	Services	Services input costs continue to rise sharply.
	Manufacturing	Further steep rise in purchase prices.
Output Prices	Composite	Output prices rise at slightly slower pace.
	Services	Charge inflation at two-month low.
	Manufacturing	Further strong rise in selling prices.
PMI⁽³⁾	Manufacturing	PMI at 2-month high of 55.1.

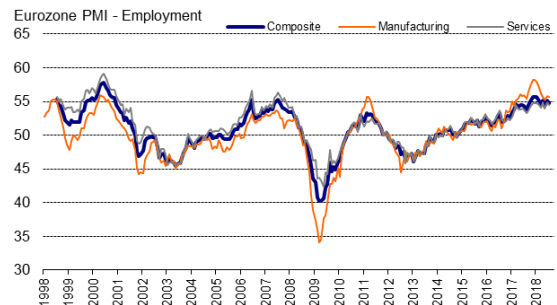
Output



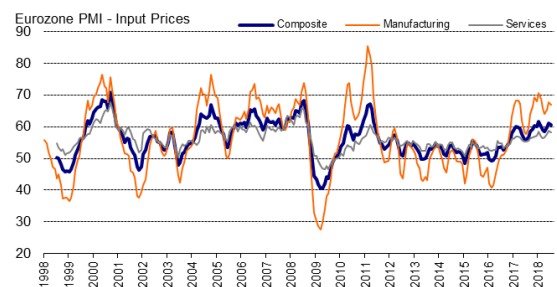
New business



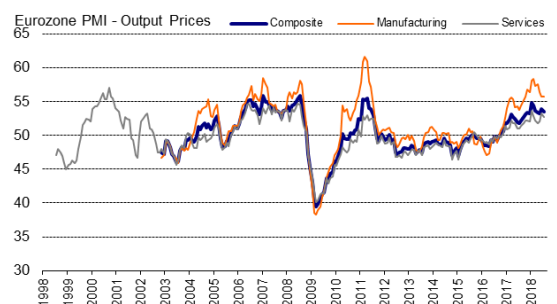
Employment



Input prices



Output prices



Source: IHS Markit.

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Note to Editors:

Final July data are published on 1 August for manufacturing and 3 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> 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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