News Release

MARKET SENSITIVE INFORMATION
Embargoed until 1000 CEST (0800 UTC) 22 July 2022

S&P Global Flash Eurozone PMI®

Eurozone falls into contraction in July, price pressures ease but remain elevated

Key findings:

Flash Eurozone PMI Composite Output Index(1) at 49.4 (Jun: 52.0). 17-month low.

Flash Eurozone Services PMI Activity Index(2) at 50.6 (Jun: 53.0). 15-month low.

Flash Eurozone Manufacturing Output Index(4) at 46.1 (Jun: 49.3). 26-month low.

Flash Eurozone Manufacturing PMI(3) at 49.6 (Jun: 52.1). 25-month low.

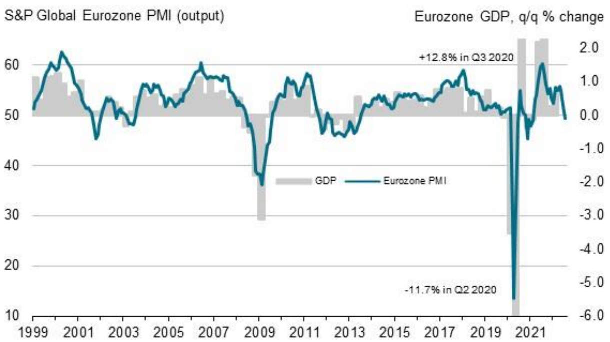
Data were collected 12-20 July

The eurozone economy contracted in July, according to early PMI survey indicators, with output and new orders both falling for the first times since the COVID-19 lockdowns of early 2021. An accelerating downturn in manufacturing was accompanied by a near-stalling of service sector growth as the rising cost of living continued to erode the tailwind of pent-up demand from the pandemic.

Concerns over the weakening of demand were exacerbated by energy, supply and inflation worries to push business expectations lower, and also cause a steep drop in input buying and a pull-back in hiring.

Price pressures meanwhile remained elevated at levels not seen prior to the pandemic, though rates of inflation of both selling prices and input costs moderated amid an easing of supply constraints and weakened demand.

S&P Global Flash Eurozone PMI Composite Output Index



Sources: S&P Global, Eurostat.

The seasonally adjusted **S&P Global Eurozone PMI® Composite Output Index** fell from 52.0 in June to 49.4 in July, according to the 'flash' reading. By dropping below the neutral 50.0 level, the July PMI signals a contraction of business output for the first time since February 2021.

The steepest decline was recorded in Germany, where the composite PMI of 48.0 sank to its lowest since June 2020. Although output continued to rise in France, the pace of growth slowed sharply as the composite PMI fell to 50.6 to register only a marginal improvement and the weakest expansion in 16 months. The rest of the region as a whole meanwhile recorded a marginal contraction of output, the composite PMI dropping to 49.9 to represent the first deterioration since February 2021.

By sector, manufacturing output fell especially sharply, dropping for a second successive month with the rate of decline accelerating to the fastest since May 2020. Barring COVID-19 lockdown periods, the July drop in factory output has not been exceeded since December 2012. Steepening factory downturns were recorded in both Germany and France while the rest of the region slipped into decline for the first time for just over two years.

Service sector output continued to rise, but the rate of expansion has slowed sharply over the past three months to near-stagnation and the weakest since April 2021. The principal drag was a drop in service sector activity in Germany, accompanied by slower rates of growth in France and the rest of the euro area as a whole.

New orders for goods and services meanwhile fell solidly, dropping for the first time since February 2021. Excluding COVID-19 lockdown periods, the latest fall in new orders is the steepest since May 2013. New orders for goods have now fallen for three successive months, the rate of loss accelerating sharply to the steepest since May 2020. The fall in orders for goods was accompanied by the first drop in new orders for services recorded since April 2021.

Looking into further detail, the manufacturing downturn was broad-based but led by chemical and resources firms, as well as vehicle makers. Within the service sector, consumer-oriented services such as tourism and recreation, media and transportation saw either stalled growth or outright declines, contrasting with the growth

PMI® by S&P Global

surge seen in the spring when Omicron-related containment measures were withdrawn. Companies often blamed the rising cost of living as well as adverse weather conditions. Output also fell sharply in banking and real estate, commonly linked to tightening financial conditions. While output of industrial services continued to rise, the increase was among the smallest since the early-2021 lockdowns.

Although factory output was again constricted in many cases by component shortages, the overall incidence of supply delays continued to moderate. Average suppliers' delivery times lengthened in July to the least extent since October 2020. This easing of supply chain pressure largely reflected the biggest monthly drop in purchasing of inputs by manufacturers since the initial pandemic lockdowns of early-2020.

This steep reduction in input buying by factories in turn reflected a large rise in warehouse inventories of inputs and the largest build-up of unsold finished goods ever recorded by the survey, often linked to lower than anticipated sales to customers and weakened order books.

Backlogs of work fell across both manufacturing and services, declining for the first time in almost one-and-a-half years, reflecting the recent weakening of demand from customers and hinting at the build-up of excess capacity.

Overall jobs growth moderated for a second month running to a 15-month low as firms took more cautious approaches to hiring amid the deteriorating demand environment. Payroll growth cooled in both manufacturing and services to run at sharply reduced rates compared to May's recent peaks.

Looking at prices, average charges for goods and services continued to rise sharply in July, though the rate of inflation cooled for a third month in a row from April's all-time high to reach the lowest since February. Rates of selling price inflation eased in both manufacturing and services. The overall rate of increase nonetheless remained significantly higher than anything seen prior to the pandemic over the two decade series history.

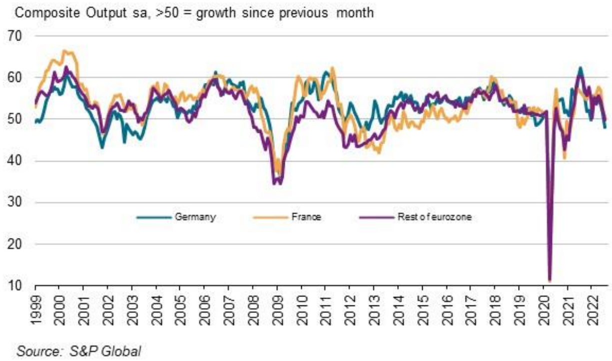
Input cost inflation also cooled, down for a fourth successive month to sit at the lowest since February, yet still significantly exceeded pre-pandemic highs. Manufacturing input cost inflation slowed especially sharply, down to the lowest for nearly one-and-a-half years, reflecting lower prices for many commodities, notably including oil. Service sector input cost inflation exceeded that of manufacturing for the first time in 21 months, despite moderating to a five-month low, boosted by rising energy and wage costs.

Finally, business expectations for the year ahead fell to the lowest since May 2020, dropping to a level rarely exceeded in the past decade. Manufacturing expectations worsened to such an extent that more firms expect to cut output than increase production in the coming year, a situation not seen since the early days of the pandemic (and prior to that, 2012). Future expectations remained positive in the service sector, though nevertheless fell to the lowest since October 2020.

The increasingly gloomy outlook reflected concerns over energy supply and the rising cost of living, as well as tightening financial conditions, the Ukraine war, ongoing supply chain shortages, and growing worries over the economic environment both at home and abroad.

S&P Global Flash Eurozone Manufacturing PMI

Core v. Periphery PMI Output Indices



Commenting on the flash PMI data, **Chris Williamson**, Chief Business Economist at S&P Global Market Intelligence said:

"The eurozone economy looks set to contract in the third quarter as business activity slipped into decline in July and forward-looking indicators hint at worse to come in the months ahead.

"Excluding pandemic lockdown months, July's contraction is the first signalled by the PMI since June 2013, indicative of the economy contracting at a 0.1% quarterly rate. Although only modest at present, a steep loss of new orders, falling backlogs of work and gloomier business expectations all point to the rate of decline gathering further momentum as the summer progresses.

"Of greatest concern is the plight of manufacturing, where producers are reporting that weaker than expected sales have led to an unprecedented rise in unsold stock. Production will likely need to be reduced as companies adapt to this weaker demand environment, in turn widely

linked to rising prices.

"In services, the boost to demand from the reopening of the economy has faded and growth is now at a near-standstill, with customers often deterred by the increased cost of living and concerns about the outlook.

"Business expectations for the year ahead have meanwhile fallen to a level rarely seen over the past decade as concerns grow about the economic outlook, fuelled in part by rising worries over energy supply and inflation but also reflecting tighter financial conditions.

"With the ECB raising interest rates at a time when the demand environment is one that would normally see policy being loosened, higher borrowing costs will inevitably add to recession risks.

"One ray of light was a further marked cooling of inflationary pressures from the survey gauges of both input costs and selling prices, which should feed through to lower consumer price inflation. However, at present, these inflation gauges remain higher than at any time prior to the pandemic, underscoring the unenviable challenge facing policymakers of taming inflation while avoiding a hard landing for the economy."

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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 S&P Global 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
Composite Output Index[1]	0.0	0.3
Manufacturing *PMI*[3]	0.0	0.2
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.

S&P Global 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 S&P Global. 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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