News Release

MARKET SENSITIVE INFORMATION
Embargoed until 1000 CEST (0800 UTC) 3 August 2022

S&P Global Eurozone Composite PMI®

Eurozone slips into contraction at beginning of third quarter

Key findings:

Final Eurozone Composite Output Index at 49.9 (Jun: 52.0). 17-month low.

Final Eurozone Services Business Activity Index at 51.2 (Jun: 53.0). 6-month low.

Data were collected 11-26 July

For the first time since February 2021, eurozone output declined in July as a deepening manufacturing downturn was accompanied by a further slowdown in the service sector. There were also additional signs of the negative impact that high inflation was having on demand as overall new business intakes fell at a rate which, excluding those seen during COVID-19 lockdowns, was the steepest since May 2013.

There was however a slight cooling of inflationary pressures during July, although rates of increase in both input costs and output prices were faster than anything seen prior to their recent highs.

Further evidence of economic weakness was also seen in new export orders, which fell at the strongest pace for just over two years. Amid growing concerns surrounding future gas supply, risks of a recession in Europe and persistently high price pressures, business confidence fell in July to its weakest level since the initial outbreak of COVID-19 in the first half of 2020.

The seasonally adjusted **S&P Global Eurozone PMI® Composite Output Index** dipped below the 50.0 no-change mark in July. At 49.9, down from 52.0 in June, the latest reading pointed to the first reduction in private sector business activity since February 2021, albeit one that was fractionall overall.

The manufacturing sector was a significant drag on the euro area economy during July as production volumes fell at the fastest rate since May 2020. Services activity continued to rise overall, but growth slowed to its weakest since the Omicron-related disruption at the start of the year. Survey respondents in both sectors highlighted the damaging impact that high inflation was having on output levels as businesses adjust to lower order volumes. Supply issues and growing uncertainty among client bases were also mentioned as negative factors.

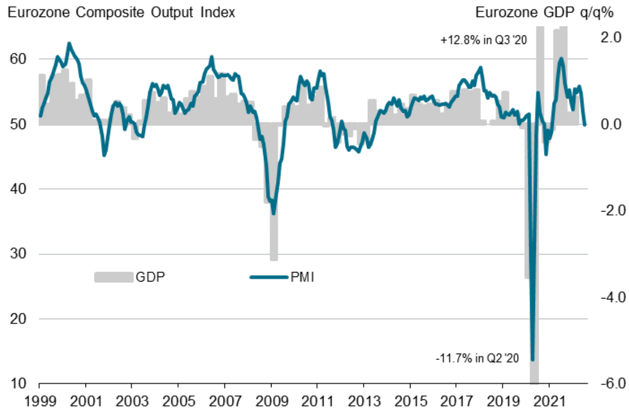
Countries ranked by Composite PMI Output Index: July[1]

Spain	52.7	6-month low
France	51.7 (flash: 50.6)	15-month low
Germany	48.1 (flash: 48.0)	25-month low
Italy	47.7	18-month low

** Composite Output PMI against GDP comparisons for Germany, France, Italy and Spain are included on page 3 of this press release*

[1] Ireland Composite & Services PMI released on 4 August.

S&P Global Eurozone Composite Output Index



Source: S&P Global, Eurostat.

Of the monitored euro area countries that data are available for, declines in Composite PMIs were registered across the board. Germany and Italy both saw overall output levels decline in July, with indices here slumping to 25- and 18-month lows respectively. France and Spain continued to grow at the beginning of the third quarter, although momentum losses were seen in both cases. Spain only managed to record a moderate expansion in activity, and one that was the slowest in the current six-month sequence of growth. Meanwhile, French economic output increased at the weakest pace since April 2021.

Demand for euro area goods and services fell in July, marking the first reduction since February 2021. Falling new business receipts were reportedly a consequence of higher prices, with companies commenting on waning client appetite and growing hesitancy to spend as purchasing power came under pressure. Excluding reductions seen during the pandemic and in periods of lockdown, the fall in new orders was the strongest in just over nine years. There was also a steeper drop in export demand during July as new business from abroad* declined at the quickest pace in just over two years.

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With new orders falling at a faster rate than output, latest survey data highlighted a reduction in capacity pressures as backlogs of work fell for the first time since February 2021. Sector data showed that this decline was exclusively driven by manufacturers, although services companies registered a slower uptick in outstanding business volumes.

Meanwhile, eurozone employment exhibited a degree of resilience at the start of the third quarter as the rate of private sector jobs growth continued to run above its historical average (dating back to 1998). Efforts to address staff shortages underpinned hiring activity, according to some companies. That said, the increase in workforce numbers was the slowest in 15 months.

The softer employment trend coincided with retreating business confidence across the euro area. Future output expectations slumped to their weakest since the initial COVID-19 lockdowns in the first half of 2020. The war in Ukraine, concerns surrounding future gas supply, high inflation and recession risks were all cited as reasons underpinning downbeat sentiment.

Finally, inflationary pressures remained historically elevated in July, although there was a slight moderation in rates of increase for input costs and output prices, as both rose to the softest extents since February.

**includes intra-eurozone trade*

S&P Global Eurozone Services PMI®

The S&P Global Eurozone PMI Services Business Activity Index posted 51.2 in July, down from 53.0 in June and indicative of the slowest increase in service sector output since January. A fading post-pandemic restrictions bounce and cooling demand pressures reportedly drove the weaker expansion at the start of the third quarter.

For the first time since April 2021, incoming new business at eurozone services firms fell. Panel members frequently commented on higher prices as a reason for lower demand. New business from overseas clients also fell, with the decline gathering pace to the quickest since March 2021.

Services companies meanwhile registered a slower rise in backlogs of work, with outstanding business volumes increasing only marginally as weaker demand enabled firms to reduce some strain on their capacities. Employment continued to increase, albeit at the softest rate in five months.

On the prices front, surveyed businesses were once again faced with elevated cost pressures. Firms continued to share the burden of higher costs with clients as selling prices were increased further. However, rates of inflation eased in both instances.

Lastly, business confidence slumped to a 21-month low in July amid concerns regarding the underlying strength of the euro area and global economy.

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

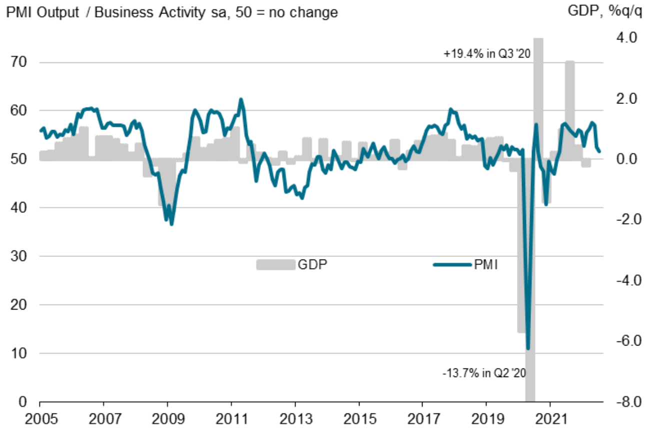
"The eurozone economic outlook has darkened at the start of the third quarter, with the latest survey data signalling a contraction of GDP in July. Soaring inflation, rising interest rates and supply worries – notably for energy – have led to the biggest drops in output and demand seen for a almost a decade, barring pandemic lockdown months.

"A much hoped-for surge in consumer spending after the easing of pandemic restrictions is being thwarted as households grow increasingly concerned about the rising cost of living, meaning discretionary spending is being diverted to essentials such as food, utility bills and loan repayments. At the same time, business spending is being subdued by increased caution and risk aversion amid the gloomier economic outlook.

"Some encouragement can be gleaned from the drop in price pressures signalled by the survey, which should feed through to lower inflation in the coming months. However, this easing of inflation could fail to materialise if energy prices spike higher as we head towards the winter. Companies are also concerned that energy restrictions may also potentially lead to further constraints on economic activity, leading to new supply problems and fueling further price hikes."

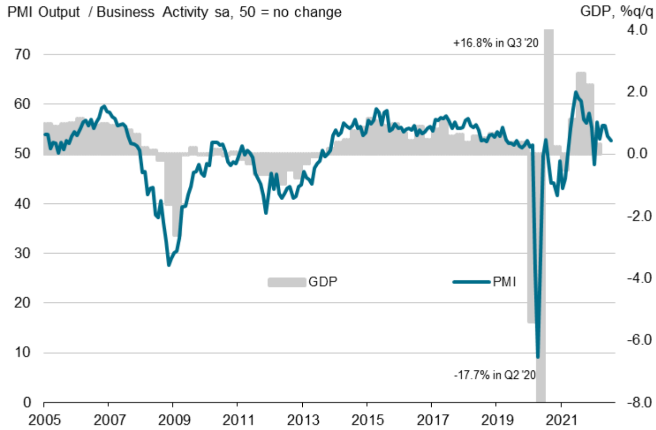
-Ends-

France



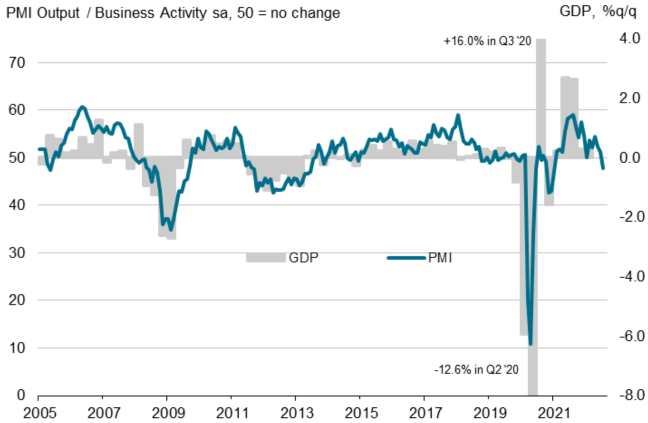
Source: S&P Global, INSEE GDP = gross domestic product

Spain



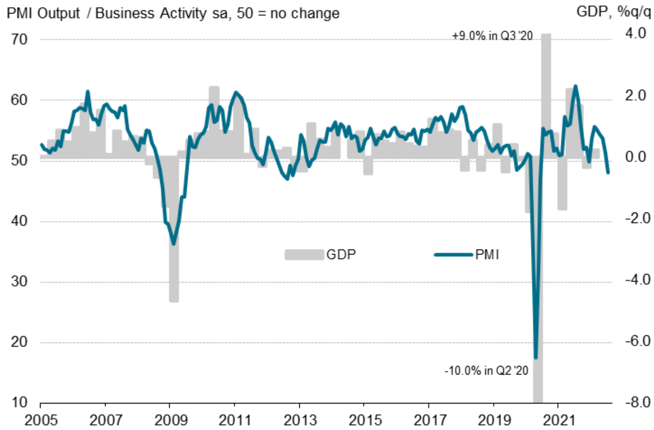
Source: S&P Global, INE. GDP = gross domestic product

Italy



Source: S&P Global, ISTAT GDP = gross domestic product

Germany



Source: S&P Global, FSO. GDP = gross domestic product

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Note to Editors

The Eurozone Composite 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 manufacturing and services firms. 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 Eurozone Services PMI (Purchasing Managers' Index) is produced by S&P Global and is based on original survey data collected from a representative panel of around 2,000 private service sector firms. National data are included for Germany, France, Italy, Spain and the Republic of Ireland. These countries together account for an estimated 78% of eurozone private sector services output.

The final Eurozone Composite PMI and Services PMI follows on from the flash estimate which is released a week earlier and is typically based on approximately 75%–85% of total PMI survey responses each month. The July composite flash was based on 83% of the replies used in the final data. The July services flash was based on 72% of the replies used in the final 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 PMI	0.0	0.3
Eurozone Services Business Activity PMI	0.1	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.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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