

MARKET SENSITIVE INFORMATION

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S&P Global Flash Eurozone PMI®

Eurozone downturn eases and inflation pressures fall as supply improves

Key findings:

Flash Eurozone PMI Composite Output Index⁽¹⁾ at 48.8 (Nov: 47.8). 4-month high.

Flash Eurozone Services PMI Activity Index⁽²⁾ at 49.1 (Nov: 48.5). 4-month high.

Flash Eurozone Manufacturing Output Index⁽⁴⁾ at 47.9 (Nov: 46.0). 6-month high.

Flash Eurozone Manufacturing PMI⁽³⁾ at 47.8 (Nov: 47.1). 3-month high.

Data were collected 05-14 December

The eurozone downturn extended into its sixth successive month in December, according to flash PMI data, though the rate of decline of business activity moderated for a second month running amid a reduced rate of loss of orders, improving supply conditions, lower price pressures and an uplift in business confidence.

Firms' costs notably rose at the slowest rate for over one-and-a-half years, reflecting the combination of weakened demand and improved supply, the latter signalled by the first quickening of supplier delivery times since the pandemic began.

However, the overall level of business sentiment remains subdued by historical standards, reflecting the challenging environment caused by the high cost of living, rising interest rates, concerns over energy supply and the Ukraine war. Companies reported only a modest increase in payroll numbers again as a result, underscoring the cautious mood that prevails.

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** rose for a second successive month in December, increasing from 47.8 in November to a four-month high of 48.8, according to the preliminary 'flash' reading based on approximately 85% of usual survey responses. Although remaining below the neutral 50.0 level to indicate a sixth successive fall in business activity, the PMI has now signalled an easing in the rate of contraction for two months in a row.

The subdued level of the PMI nevertheless means that the fourth quarter as a whole has seen a worse performance than the third quarter, with the average PMI for the three months to December indicative of the sharpest economic contraction since 2013 if pandemic lockdown months are excluded.

While manufacturing continued to lead the downturn, with factory output dropping for a seventh straight month, the rate of production decline eased to indicate a further marked cooling in the pace of contraction compared to October's steep fall. The manufacturing output index rose to 47.9, a six-month high, against 46.0 in November.

Service sector output meanwhile fell, down for a fifth successive month, but likewise saw a moderation in the rate of decline. The sector's activity index rose from 48.5 to a four-month high of 49.1, indicative of only a modest monthly deterioration of output.

Within the euro area, the fall in output was broad-based but only **France** saw a deepening downturn. The flash French composite PMI slipped from 48.7 to 48.0 to signal a second consecutive monthly drop in output and the largest decline since November 2014 if the pandemic is excluded. A softening of the manufacturing downturn was offset by the steepest fall in service sector activity for 22 months.

Germany meanwhile saw rates of decline moderate across both manufacturing and services, pushing the composite flash PMI up for a second month in a row from 46.3 in November to 48.9. The December reading thereby registered the smallest drop in activity recorded over the past six months.

Output fell in the **rest of the eurozone** for a fourth successive month, though the pace of decline slowed for a second month running to point to the smallest deterioration seen so far. While services activity remained largely stalled, the biggest change was seen in manufacturing,

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where the latest drop in output was the smallest for four months.

By sector, the steepest downturns continued to be seen in chemical, plastics and basic resources firms (linked in part to high energy costs and destocking), and in the financial services sector. A marked fall was also again seen for transportation, but there was a notable improvement in consumer facing firms such as tourism & recreation and, to a lesser extent, household goods.

Overall new orders meanwhile fell for a sixth straight month as companies continued to report weakening demand from customers, though the rate of decline eased for a second month running to the softest since August. Although new orders continued to fall at an especially steep rate in manufacturing, down for an eighth successive month, the rate of loss cooled markedly. New business in the service sector also continued to deteriorate, down for a sixth consecutive month, dropping at a similar rate to the prior two months.

The ongoing deterioration of order books led to another month of only modest net job creation, with employment rising at a marginally improved rate compared to November yet still showing the second-smallest gain since February 2021. Similar subdued hiring rates were seen in both manufacturing and services. By country, jobs growth picked up marginally in Germany but deteriorated slightly in France and held steady across the rest of the region, in all cases remaining subdued.

Factories meanwhile reported the first – albeit marginal – improvement in supplier delivery times since January 2020. However, delivery times were often faster only because suppliers were less busy due to lower demand for inputs, which fell sharply again in December.

An upside of improving supply and falling demand was a marked cooling of input cost inflation in manufacturing to the weakest since December 2020, and in services to the weakest since January 2022. Measured overall, input costs consequently rose at the slowest rate since May 2021, albeit still rising at an historically elevated rate.

Prices charged for goods and services also continued to rise at a steep rate, though the rate of inflation moderated to the lowest for a year, reflecting weaker rates of increase in both main sectors. Slower selling price inflation was linked often to the slower growth of costs, but also in some cases to the need to offer discounts to help stimulate sales.

Finally, sentiment for the year ahead remained subdued by historical standards, the future output index running at 55.1 compared to a long-run average of 60.8. Confidence continued to be dogged in particular by worries over the impact of the rising cost of living, the energy crisis, the war in Ukraine and rising interest rates, as well as a broad concern over the darkening economic outlook both at home and internationally.

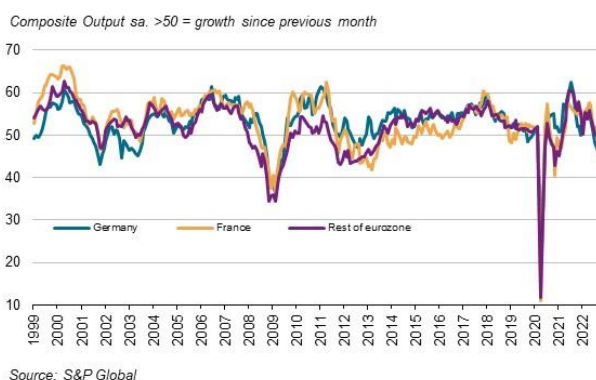
However, sentiment picked up further from September's

recent low, reaching a four-month high, reflecting improved confidence in the service sector and a notable turnaround from net pessimism to renewed optimism in manufacturing. Brighter outlooks were often associated with improving supply chains, fewer energy concerns and signs of a peaking of inflation.

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:

“While the further fall in business activity in December signals a strong possibility of recession, the survey also hints that any downturn will be milder than thought likely a few months ago. The data for the fourth quarter are consistent with GDP contracting at a quarterly rate of just less than 0.2%, and forward-looking indicators are currently boding well for the rate of decline to ease further in the first quarter.”

“The manufacturing downturn has moderated especially markedly in December, led by Germany and linked to a combination of improving supply conditions and reduced fears of energy constraints. The service sector malaise has also calmed, in part driven by signs of reduced fears over the cost of living squeeze and, in the financial service sector, reduced concerns over the tightening of financial conditions.”

“The outlook for inflation is especially encouraging, with supply chains now improving for the first time since the pandemic began and firms’ costs growing at a sharply reduced rate, feeding through to lower rates of increase”

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for prices charged for both goods and services.

“The downside is that this improving inflation outlook is primarily a symptom of falling demand, which has removed pricing power from many companies and their suppliers, and the business environment remains one in which confidence remains very subdued by historical

standards. Thus, while the downturn is looking likely to be less steep this winter than previously anticipated by many, there remain few signs of any meaningful return to growth evident as 2022 comes to an end.”

-Ends-

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Note to Editors

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