News Release

MARKET SENSITIVE INFORMATION
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S&P Global Flash Eurozone PMI®

Eurozone edges back into growth at start of 2023, selling price inflation ticks higher

Key findings:

Flash Eurozone PMI Composite Output Index(1) at 50.2 (Dec: 49.3). 7-month high.

Flash Eurozone Services PMI Activity Index(2) at 50.7 (Dec: 49.8). 6-month high.

Flash Eurozone Manufacturing Output Index(4) at 49.0 (Dec: 47.8). 7-month high.

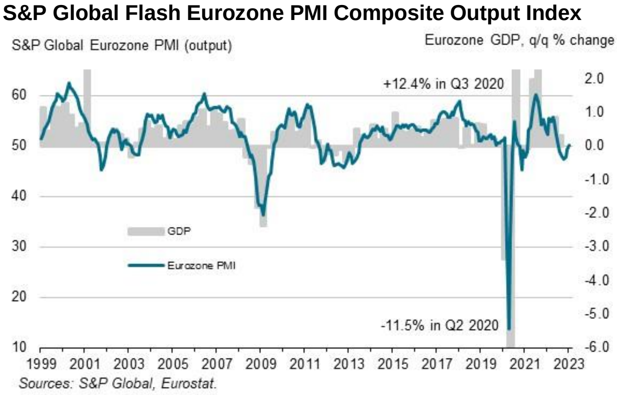
Flash Eurozone Manufacturing PMI(3) at 48.8 (Dec: 47.8). 5-month high.

Data were collected 12-20 January

The start of 2023 saw eurozone business activity rise marginally, according to flash PMI data from S&P Global, showing a tentative return to growth after six successive months of decline. Business confidence jumped higher to hint at markedly improving prospects for the year ahead, with order books meanwhile showing reduced rates of contraction. Employment growth also picked up momentum as firms prepared for a better than previously expected year ahead.

Input cost inflation meanwhile cooled further thanks to alleviating supply chain stress, but average selling price inflation for both goods and services ticked higher, reflecting still-elevated cost growth and upward wage pressures.

S&P Global Flash Eurozone PMI Composite Output Index



Sources: S&P Global, Eurostat.

The seasonally adjusted **S&P Global 'flash' Eurozone PMI® Composite Output Index** rose for a third consecutive month in January, up from 49.3 in December to 50.2 in January, breaking above the 50.0 no-change level to thereby indicate the first expansion of business activity – albeit only marginal – since last June.

The preliminary flash reading is based on approximately 85% of usual survey responses, covering both manufacturing and services. January saw service sector activity rise for the first time since last July (the services business activity index rose from 49.8 to 50.7) while manufacturing output contracted only modestly (the index up from 47.8 to 49.0), registering the smallest drop in factory production since last June.

Growth was driven by technology (both IT services and equipment), as well as healthcare and pharmaceutical sectors, though industrial services also rebounded into growth territory. However, downturns also eased in financial services, notably including real estate, and in basic resources sectors, while consumer-facing sectors such as tourism and recreation and household goods showed signs of stabilising after several months of decline.

Within the euro area, **Germany** reported only a marginal drop in output, the composite PMI rising from 49.0 in December to 49.7, its highest since output began falling last July, led by a marginal return to growth of services activity. While manufacturing output continued to fall at a rate unchanged on December, the decline remained far less marked than recorded last autumn.

Output meanwhile fell for a third successive month in **France**, the composite index slipping from 49.1 to 49.0 to indicate a marginal steepening in the rate of decline. A cooling in the rate of manufacturing decline was countered by a sharper fall in services activity.

Output meanwhile returned to growth across the **rest of the eurozone** as a whole after four months of decline, led by the steepest rise in service sector activity for seven months and a near-stabilisation of manufacturing output.

The marginal return to growth of output across the eurozone as a whole was accompanied by a sharp improvement in optimism about the year ahead. January saw the largest monthly increase in the eurozone PMI

PMI® by S&P Global

composite business expectations index since June 2020, building on gains seen in the prior three months to push confidence to its highest since last May. Sentiment improved in both manufacturing and services, rising across France, Germany and the rest of the eurozone as a whole.

Some encouraging news regarding near-term prospects was also provided by the survey data on order books. Although new orders fell for a seventh straight month, the decline was the smallest recorded over this period. New business placed at service providers fell only marginally while new orders for manufactured goods decreased at the slowest rate since last May, albeit still declining sharply.

Similarly, although backlogs of orders continued to fall – dropping for a seventh straight month – the decline was the shallowest since last October.

Companies met this brightening of business prospects and moderating decline in demand with additional hiring. Employment rose at the fastest rate for three months in January, accelerating in both manufacturing and services, albeit with the rate of job creation remaining much weaker than seen this time last year. By country, jobs growth picked up across the board, led by Germany.

Factories meanwhile reported unchanged supplier delivery times for a second successive month, contrasting with the deteriorating supply picture seen over the prior three years. Delivery times notably improved for a third straight month in Germany (though worsened in France).

Supply chain stress has eased in part due to falling demand for inputs, which declined steeply again in January (though to a lesser degree than in each of the prior three months), which in turn is linked to a developing shift away from inventory building to inventory reduction. Both stocks of factory inputs and finished goods fell in January, dropping for the first times in 16 and eight months respectively.

The easing of supply chain pressure helped alleviate input cost inflation, as did the calming of energy markets, especially in manufacturing. Measured overall, input prices rose in January at the slowest rate since April 2021 – albeit still running well above the survey's pre-pandemic long-run average. However, manufacturing input cost inflation has now fallen below its pre-pandemic average, down to its lowest since October 2020, and service sector input cost inflation has slipped to a 13-month low.

Although input cost inflation slowed, average prices charged for goods and services rose at a slightly steeper rate than in December, with rates of inflation edging higher in both manufacturing and services. While in both sectors the rates of increase remained off recent peaks, the sustained upward pressure on selling prices in part reflected efforts to rebuild margins, notably in the face of historically high energy and other raw material costs, as well as growing staff costs.

S&P Global Flash Eurozone Manufacturing PMI

Source: S&P Global.

Core v. Periphery PMI Output Indices

Source: S&P Global

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

"A steadying of the eurozone economy at the start of the years adds to evidence that the region might escape recession. The survey suggests that a nadir was reached back in October, since when fears over the energy market in particular have been alleviated by falling prices, helped by the warmer than usual weather and generous government assistance. At the same time, supply chain stress has eased, benefitting producers most notably in Germany, and more recently the reopening of the Chinese economy has helped to restore confidence in the broader global economic outlook for 2023, propelling business optimism sharply higher.

"The region is by no means out of the woods yet, however, as demand continues to fall – merely dropping at a reduced rate – and an upturn in the rate of inflation of selling prices for both goods and services will add encouragement to the hawks to push for further monetary policy tightening. The case for higher interest rates is fuelled further by the upturn in employment growth recorded during the month and signs of higher wages driving the latest upturn in price pressures.

"A case for policy caution is supported by the survey merely indicating a stagnation of the eurozone economy, hinting that a renewed slide into contraction should not be ruled out as borrowing costs rise, but the survey undoubtedly brings welcome good news to suggest that any downturn is likely to be far less severe than previously feared and that a recession may well be avoided altogether."

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Note to Editors

Final January data are published on 1 February for manufacturing and 3 February 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]	0.1	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.

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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