

MARKET SENSITIVE INFORMATION

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S&P Global Flash Eurozone PMI®

Eurozone growth remains robust in May thanks to buoyant service sector. Cost pressures ease for second month but remain elevated.

Key findings:

Flash Eurozone PMI Composite Output Index⁽¹⁾ at 54.9 (Apr: 55.8). 2-month low.

Flash Eurozone Services PMI Activity Index⁽²⁾ at 56.3 (Apr: 57.7). 2-month low.

Flash Eurozone Manufacturing Output Index⁽⁴⁾ at 51.2 (Apr: 50.7). 2-month high.

Flash Eurozone Manufacturing PMI⁽³⁾ at 54.4 (Apr: 55.5). 18-month low.

Data were collected 12-20 May

Eurozone economic growth remained robust in May despite headwinds associated with the Ukraine war, pandemic supply constraints and the rising cost of living. However, while the service sector continued to report strong growth from pent-up pandemic demand, the manufacturing sector saw only a modest expansion for the second month running amid falling order book inflows.

While both sectors continued to report solid hiring, with the service sector reporting the strongest jobs gain for almost 15 years, business expectations deteriorated slightly to the second-weakest seen over the past year-and-a-half to reflect growing concerns about the outlook.

Meanwhile prices charged for goods and services rose at the second-highest rate yet recorded by the survey, though the rate of inflation cooled slightly compared to April following a second successive monthly easing in firms' input cost inflation.

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** edged down from 55.8 in April to 54.9 in May, according to the preliminary 'flash' reading. The latest reading indicated an expansion of economic activity for the fifteenth successive month, with the rate of growth easing only modestly to remain well above the survey's long-run average.

Growth was led by the service sector, which recorded its second-strongest expansion in the past eight months. Many consumer-facing service sector businesses again reported strong demand due to the reopening of the economy after Omicron related restrictions, driving especially robust growth for tourism and recreation activities. However, the overall rate of service sector growth eased compared to April due in part to weaker expansions for financial services and industrial services, the latter in turn linked to a recent slowdown in manufacturing.

Although manufacturing output growth improved slightly in May, it remained very modest after production growth had slowed to a near stand-still in April. The second quarter so far has consequently seen the weakest manufacturing expansion since the pandemic-related shutdowns in the second quarter of 2020.

Factory output continued to be constrained by widespread supply shortages, with the Ukraine war and China's lockdowns having exacerbated existing pandemic-related supply chain pressures. The lengthening of supplier delivery times in May continued to exceed anything recorded prior to the pandemic, albeit with the number of reported delays easing slightly compared to March and April, which in turn helped buoy growth in the autos sector. However, many other manufacturing industries reported that supply chain delays, combined with increased caution among customers and spending by households being diverted from goods to services, led to weaker output growth or even falling production.

Measured overall, manufacturing new orders fell for the first time since June 2020, contrasting with further solid growth of new business inflows into the service sector, albeit the latter seeing demand growth wane slightly compared to April's eight-month high.

Similar sector divergences were seen in terms of backlogs

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of work: while levels of outstanding business rose in manufacturing at the slowest rate since August 2020, hinting at weaker production needs in coming months, growth of service sector backlogs hit the highest since July 2021, rising at a rate rarely exceeded in the survey's history to suggest service providers may need to expand capacity to meet current demand growth.

Identical rates of solid and improving employment growth were recorded in manufacturing and services, the latter notably representing the strongest payroll gain since July 2007, as firms sought to boost operating capacity.

Average prices charged for goods and services meanwhile rose sharply, increasing at a rate below April's all-time high but still registering the second-steepest increase yet recorded by the survey. Slightly slower rates of inflation were seen for both goods and services, principally reflecting the slower growth of costs recorded during the month.

Input cost inflation eased slightly for a second successive month, albeit the rise was still the third-largest recorded since comparable data were first available in 1998 due to soaring energy prices, rising transport costs, broader supplier-driven input price increases and rising wage pressures. Rates of increase eased in both manufacturing and services to the lowest since February, the factory sector reporting an especially marked cooling in raw material price inflation.

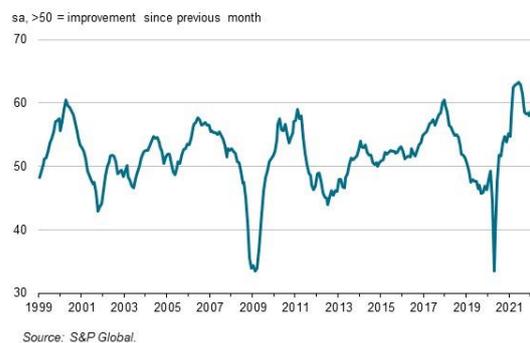
Looking ahead, business optimism about the next 12 months deteriorated slightly to run at the second-lowest recorded over the past year-and-a-half. Confidence has moved sharply lower since the outbreak of the Ukraine war, with the uncertainty and supply constraints caused by Russia's invasion continuing to be accompanied by wider global supply chain worries linked to China, as well as broader gloom regarding economic prospects and high inflation. Confidence fell to the lowest since the first wave of the pandemic in manufacturing during May but remained more resilient in services.

Looking across the region, **France** recorded the strongest expansion, its rate of growth easing slightly on April but remaining the second-strongest since June of last year thanks to a further surge in service sector activity and a more modest expansion of manufacturing output.

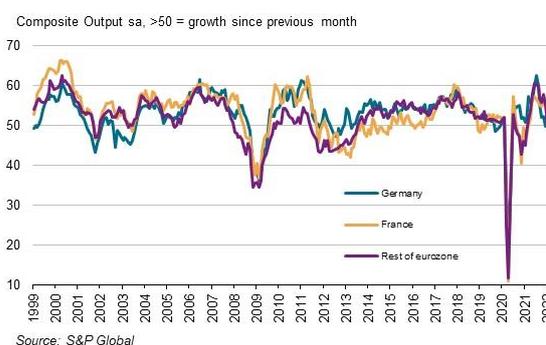
Growth in **Germany** meanwhile lagged that of France but gained a little momentum compared to April to run close to the average recorded so far this year. Robust services growth in Germany was accompanied by a modest return to growth in manufacturing after April's brief downturn.

The **rest of the eurozone** as a whole meanwhile also continued to expand, though the increase was the smallest seen over the past four months thanks to slower growth in services and a near-stalling of factory output growth.

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 retained encouragingly resilient growth in May, as a beleaguered manufacturing sector was offset by a buoyant service sector. Although factories continue to report widespread supply constraints and diminished demand for goods amid elevated price pressures, the economy is being boosted by pent-up demand for services as pandemic-related restrictions are wound down. May saw a further surge in spending on tourism and recreation in particular.

"Thanks to buoyant demand for services, particularly from households, the PMI data are consistent with the economy growing at a solid quarterly rate of 0.6% so far in the second quarter. However, it remains to be seen how long this service sector rebound can persist for, especially given the rising cost of living, and the weakness of manufacturing remains a concern, as the factory malaise is already showing signs of spilling over to some parts of the services economy.

"Although there are signs that inflationary pressures could be peaking, with input cost inflation down for a second successive month and supply constraints starting to be less widely reported, inflationary pressures remain elevated at previously unprecedented levels.

"Such high price pressures, accompanied by the reassuringly resilient GDP growth signalled by the surveys, looks set to tilt policymakers at the ECB towards a more hawkish stance." -Ends-

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by S&P Global

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Note to Editors

Final May data are published on 1 June for manufacturing and 3 June 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 ²	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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