

Eurozone

Flash PMI rounds off best quarter for four years despite dip in September

- PMI points to 0.4% GDP growth in Q3
- 0.4% Q3 GDP expansion in Germany compares with 0.1% growth in France
- Employment growth sinks to eight-month low
- Some pricing power returns to services

The September PMI surveys indicate a further steady expansion of the eurozone economy, but there remains a worrying failure of growth to accelerate to a pace sufficient to generate either higher inflation or strong job creation.

France continued to lag the upturn, but saw growth pick up from the near-stagnation seen in August. Growth meanwhile slowed in Germany and in the rest of the region.

The ECB would no doubt like to see more bang for their euros as far as stimulus from their QE programme is concerned, but it's debatable whether these numbers are weak enough to convince the central bank to take more aggressive action just yet.

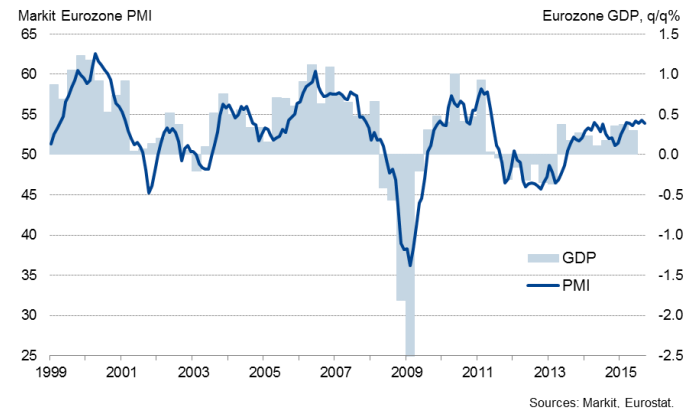
Solid(ish) third quarter

The Markit Eurozone PMI slipped from 54.3 in August to 53.9 in September, according to the preliminary 'flash' reading. The latest index came in below consensus expectations of a dip to 54.1 but nevertheless remained broadly in line with recent readings seen over the past eight months.

The September reading was also sufficiently strong to push the third quarter average to the highest seen since the second quarter of 2011 (the average of 54.0 compares with 53.9 in the second quarter).

The survey data therefore indicate that the eurozone economy expanded 0.4% in the third quarter, in line with the second quarter. This is, however, below what's generally regarded as its long-term potential growth rate and puts the economy on course to grow by just 1.6% this year.

Eurozone economic growth and the PMI



Job creation sinks to eight-month low

Further robust expansion is signalled for the start of the fourth quarter, with growth of new orders hitting a five-month high in September and pushing backlogs of work up to the greatest extent seen since May 2011. But the rate of job creation eased to an eight-month low as many firms focused on boosting productivity.

The failure of current business growth to generate faster job creation suggest unemployment will remain high and therefore that consumer spending may in turn act as a drag on the economy.

First rise in services prices since 2011

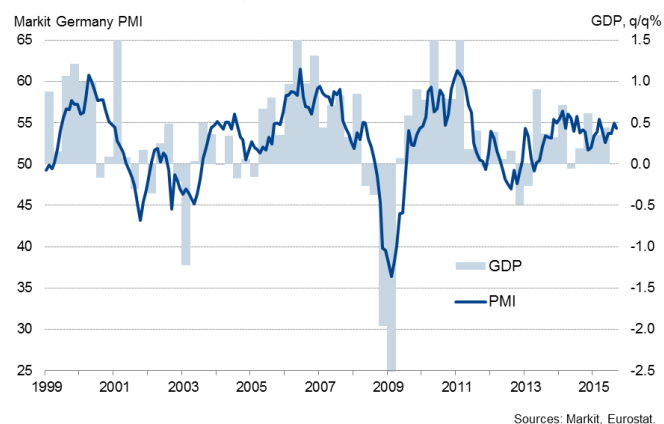
Average input costs rose marginally, the rate of increase having slowed markedly since earlier in the summer to the weakest since February, largely on the back of the steepest drop in manufacturing input prices since January. The marked decline in manufacturing costs reflected widespread commodity price falls, especially oil. Input cost inflation in services edged slightly higher.

Average selling prices were meanwhile largely unchanged compared with August. Charges levied for services rose (though only marginally) for the first time since August 2011 in a sign of improved pricing power. Factory gate prices fell, however, dropping for the first time in six months as manufacturers passed lower raw material costs on to customers.

Growth is set to accelerate in Germany

Although growth slowed slightly in Germany in September, the euro area's largest member state has seen the best quarterly expansion for a year. German growth was again led by the service sector, supported by solid growth in manufacturing. Furthermore, growth of new business hit the highest since November 2013, backlogs of work jumped to the greatest extent since May 2011 and employment rose at the fastest rate since December 2011, pointing to an increasingly sustainable-looking upturn.

German economic growth and the PMI

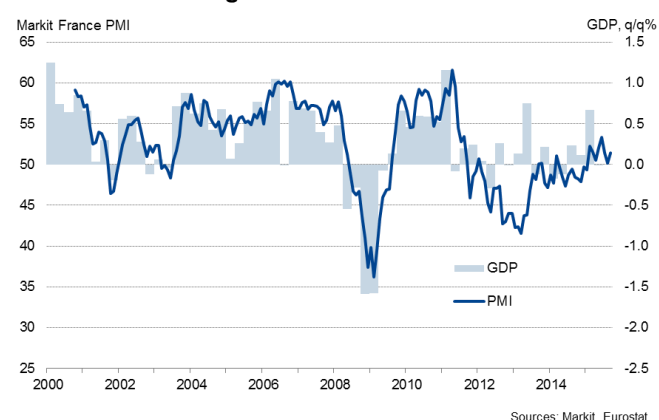


France remains the sickest patient

In France, the rate of expansion in business activity picked up from the near-stagnation seen in August but remained only modest. The survey data are pointing to a mere 0.1% expansion of the French economy in the third quarter.

Growth accelerated in both the French service sector and manufacturing, the latter enjoying the fastest increase in output for one-and-a-half years. However, employment fell at the fastest rate for ten months as firms sought to cut capacity and raise productivity.

French economic growth and the PMI



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