

IHS Markit Eurozone Productivity PMI[®]

Efficiency losses across eurozone intensify at year end

Key findings:

- Quickest drop in aggregate productivity since May 2013
- Manufacturing firms note sharper fall than their services counterparts
- Germany remains weakest link, but reduction in France also accelerates
- Growth in Italy comes to a halt

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The overall performance of eurozone private sector workers deteriorated to the greatest extent in 67 months at the end of 2018. Faster rates of contraction in productivity were evident among service providers and goods producers, with the latter once again leading the downturn. Nationally, Germany recorded the quickest drop, followed by France. In Italy, a sustained increase in output per head in the service economy was insufficient to offset efficiency losses in the manufacturing industry.

At 49.0 in December, the seasonally adjusted **Eurozone Productivity PMI[®]** – derived from IHS Markit's national manufacturing and services PMI survey data – pointed to a moderate decline in output per head in the currency union. Falling from 49.5 mid-quarter, the latest figure highlighted the quickest rate of deterioration in over five-and-a-half years.

Accelerated falls in output per head were registered in both the manufacturing and service sectors. In the former, the reduction was the sharpest in six-and-a-half years. Although only slight in comparison, the contraction at service providers was the quickest since May 2013.

Italy's service sector was the only one to post efficiency gains during December. The rise was the seventh in as many months, albeit marginal. At the same time, Italian goods producers noted a quicker worsening of labour market performance as sustained job creation coincided with ongoing declines in factory production. Hence, aggregate productivity decreased fractionally after growth had been recorded in November.

Germany remained the key source of efficiency losses, noting a quicker drop than France and Italy. The contraction gathered pace, reaching the fastest seen since August 2012. A marginal decline was registered in the service sector, one that was broadly similar to that recorded halfway through the final quarter. By comparison, German manufacturers posted the steepest deterioration since March 2009.

Following stabilisation during November, productivity in France's service sector worsened to the greatest extent in 32 months at the end of 2018. While services jobs continued to expand, business activity dipped for the first time since mid-2016. In the manufacturing industry, a combination of marginal job shedding and solid output contraction saw workforce efficiency weaken at the quickest pace in over five years. Subsequently, the Composite Productivity Index was at a 32-month low.

With productivity performances worsening across the big-three nations in December, the headline Eurozone Productivity PMI[®] posted its worst quarterly figure (49.3) since Q4 2012. Quarterly averages in Germany (48.6), France (49.4) and Italy (49.9) were the lowest seen since Q4 2011, Q2 2016 and Q3 2016 respectively.

Productivity PMI Indices: December 2018

	Total	Manufacturing	Services
France	48.5	48.3	48.5
Germany	48.2	45.9	49.5
Italy	49.9	48.2	50.5
EZ	49.0	47.8	49.5

Productivity PMI Indices: Q4 2018

	Total	Manufacturing	Services
France	49.4	49.4	49.4
Germany	48.6	46.6	49.6
Italy	49.9	48.5	50.4
EZ	49.3	48.3	49.7

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Note to Editors:

IHS Markit's Eurozone Productivity PMI indices are derived from data collected from IHS Markit's panels of companies that participate in the Purchasing Managers' Index (PMI) surveys of business conditions across the euro area. The panels are designed to accurately reflect the true industrial, geographical and company size structure of the eurozone manufacturing and service economies.

IHS Markit analyses the output and employment data for each company to produce a single-figure measure of the rate of change of each sector's productivity. This information is weighted together according to the individual country's contribution to the gross value added of that sector at the eurozone level. This figure is then seasonally adjusted. Sectors are weighted together to form the Eurozone Total Productivity PMI.

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.

IHS Markit 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 revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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