

# Eurozone

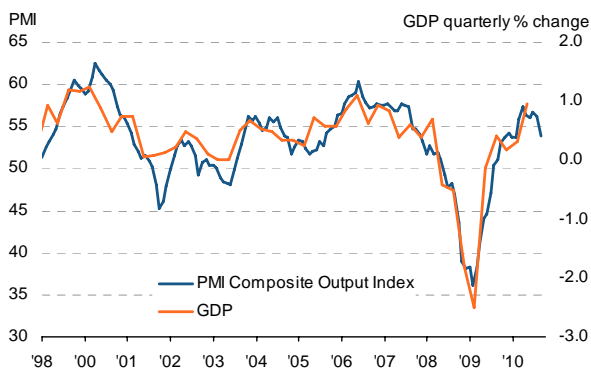
## Eurozone recovery slows as renewed contraction is evident outside of French-German core

### Robust growth in Q3

The **Markit Flash Eurozone Composite Output Index** fell to a seven-month low of 53.8 in September, dropping well below market expectations and down sharply from April's post-recession peak.

The data therefore indicate that euro area economic growth slowed sharply at the end of the third quarter, but that the rate of expansion will have remained strong for Q3 as a whole. At 55.6, the average Composite PMI Output Index reading for Q3 is consistent with gross domestic product (GDP) rising by approximately 0.6%, down from 1.0% in Q2 but nonetheless still robust by historical standards (the third quarter average is down only one point from that recorded in Q2, which was the strongest quarterly average reading for three years). However, the weak September reading sets the scene for a further slowing in the final quarter of the year to a pace more in the region of 0.3%.

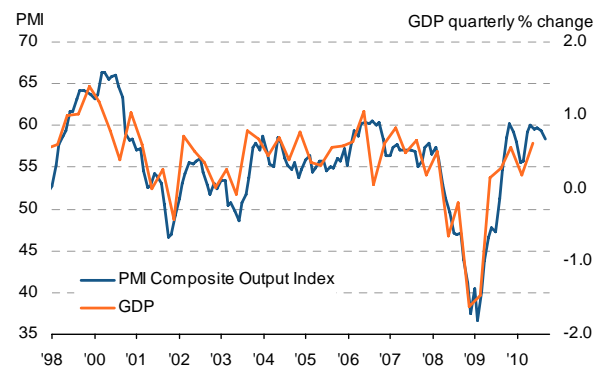
### Eurozone GDP



### Strong French-German core

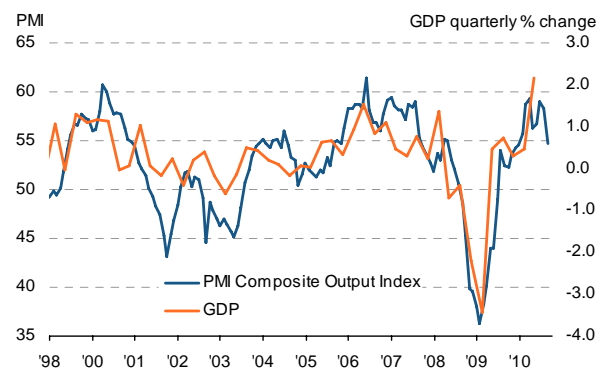
Growth in France proved resilient in September. Although the Composite Output Index dropped by one point compared to August, at 58.5 it remained buoyant by survey standards (the Index has rarely risen much above 60 in the past ten years). At 59.2, the average reading for Q3 was down only marginally on Q2, suggesting growth in Q3 could still match (or exceed) the 0.6% increase reported by INSEE for Q2.

### France GDP



A sharper slowing was evident in Germany, where the Composite Output Index dropped 3.6 points to register the weakest rate of expansion since January. However, the slowing may merely represent a short-term blip as growth cools from the surging rate of expansion seen earlier in the year. For Q3 as a whole, the average Composite Output Index reading of 57.4 for Germany compares with 57.5 in Q2. However, German GDP growth in Q2, at 2.2%, was well above the level indicated by the PMI. We therefore expect Q3 to show a substantial weakening in the rate of GDP growth, but for the pace to remain strong overall. The PMI is historically consistent with GDP rising by around 0.8% in Q3, however, the September PMI is signalling a slowdown to quarterly growth in the region of 0.5%.

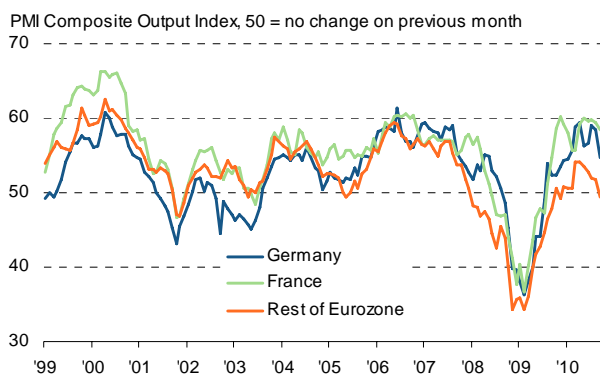
### Germany GDP



### Contracting periphery

Outside of the two largest euro member states, a renewed contraction of economic activity was evident in September. The Composite Output Index for the rest of the Eurozone<sup>1</sup> has fallen steadily since peaking at 54.2 in March, dropping from 51.7 in August to 49.4 to thereby slip below the 50.0 no-change level for the first time since last November.

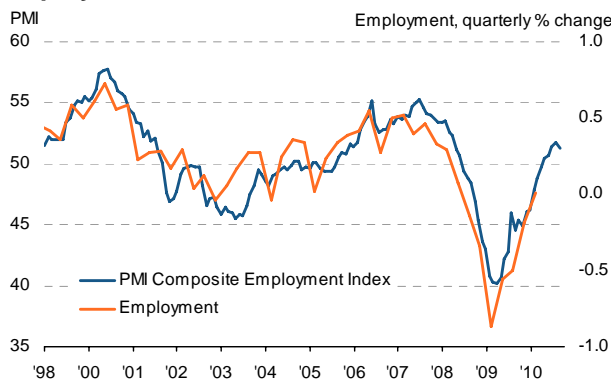
#### Output (manufacturing and services)



### Employment growth disappoints

One of the more disappointing aspects of the recovery has been weak job creation. The Composite PMI Employment Index fell slightly in September, down from its weak post-recession peak in August, and is consistent with only very modest employment growth of perhaps 0.2% per quarter.

#### Employment

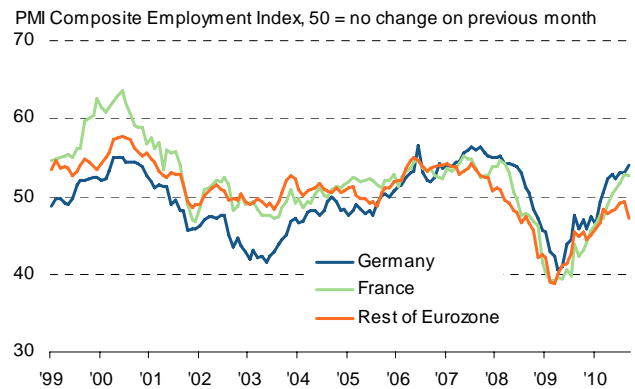


Furthermore, the jobs growth is largely confined to France and Germany. The former saw jobs created at a rate only just below August's 28-month high, while the latter saw the sharpest rise in employment since May 2008. In contrast, outside of these countries, PMI

<sup>1</sup> A detailed national breakdown is not available in the flash release.

data signalled an accelerating rate of job losses in September, with the rate of decline reaching the highest since February.

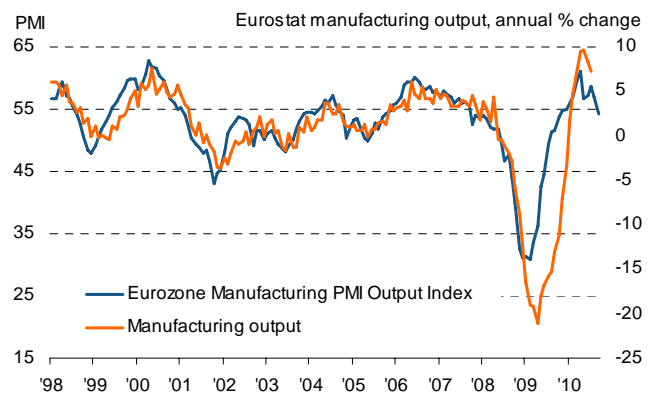
#### Employment (manufacturing and services)



### Slower growth evident in both manufacturing and services

Looking in more detail at the sector breakdown of Eurozone growth, manufacturing saw output rise at the slowest rate since October 2009, with the PMI Manufacturing Output Index consistent with annual growth easing from the near double-digit pace seen earlier in the year to approximately 3%.

#### Manufacturing output

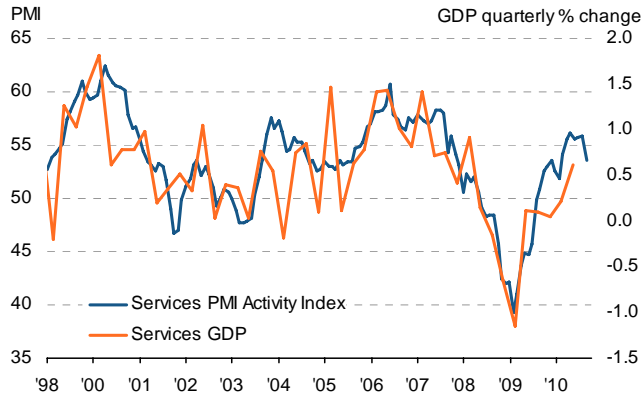


The slower pace is in part due to weaker growth of new export orders, which the PMI shows to have cooled sharply since peaking in March, dropping to a ten-month low in September.

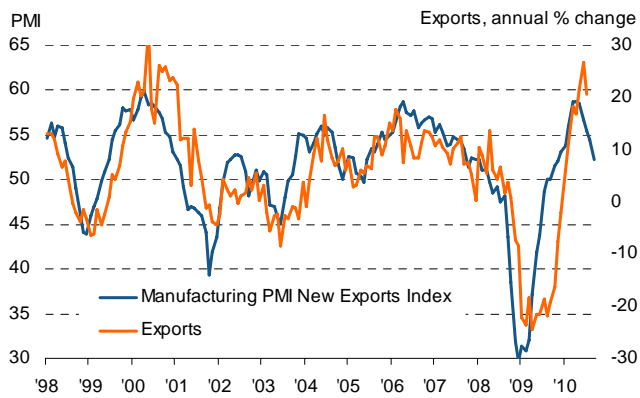
However, growth also slowed in the service sector in September, easing to the weakest since February. This suggests that – in addition to the waning impact of external demand via slower export growth – domestic

demand in the Eurozone may also be showing signs of easing as we move into the final quarter of the year.

**Eurozone service sector growth**

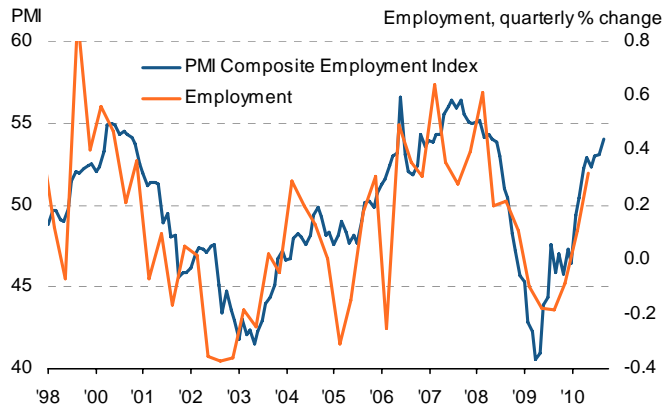


**Eurozone manufacturing export orders**



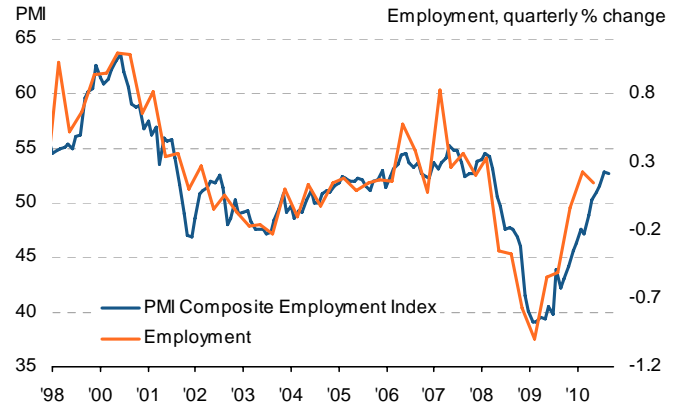
## GERMANY

### Germany employment

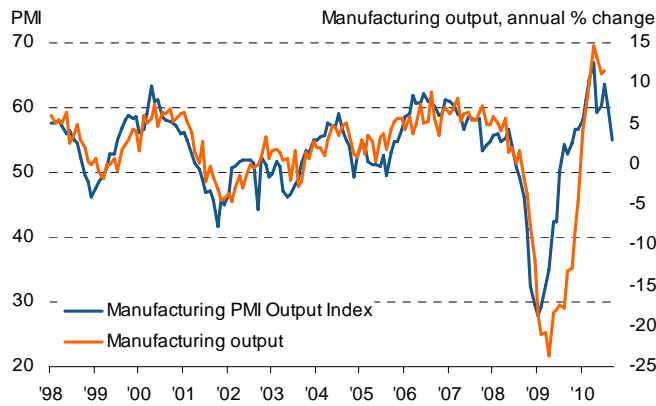


## FRANCE

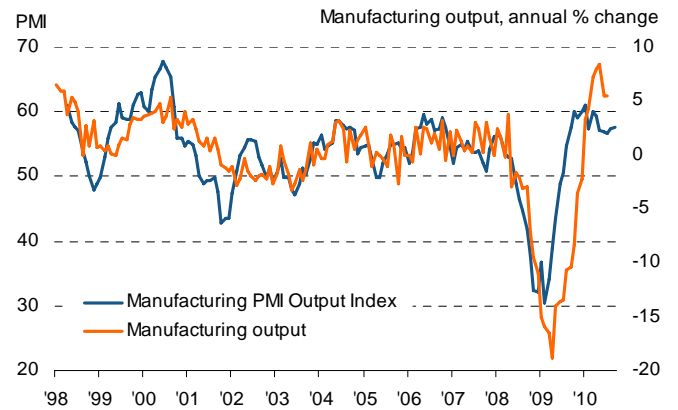
### France employment



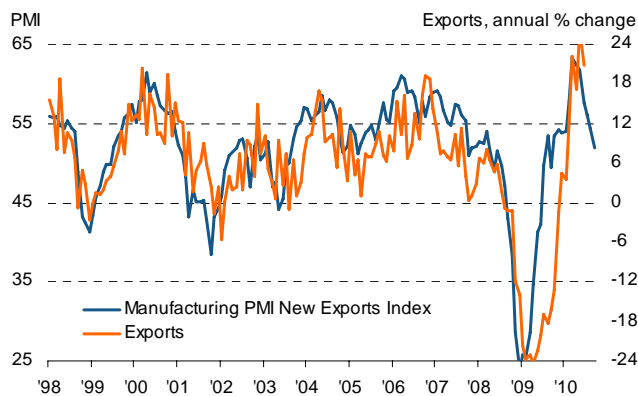
### Germany manufacturing output



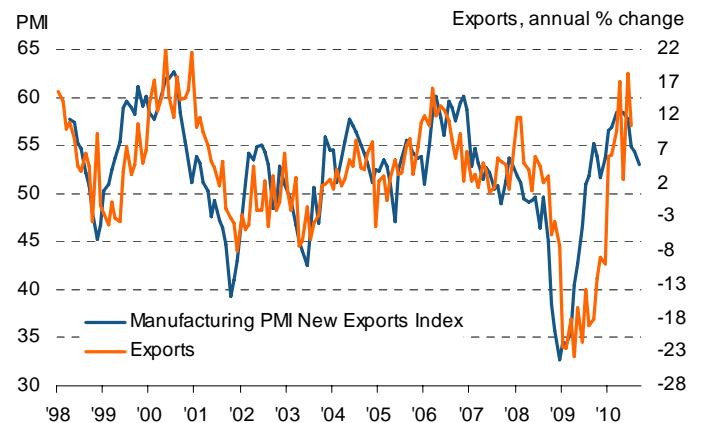
### France manufacturing output



### Germany exports



### France exports



**Chris Williamson**

**Chief Economist**

Markit

Tel: +44 207 260 2329 / +44 779 5555 061

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

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