Euro Area: September Flash PMIs — Below Expectations as Pace of Recovery Slows

Sven Jari Stehn
+44(20)7774-8061 | jari.stehn@gs.com
Goldman Sachs International

Alain Durre
+33(1)4212-1127 | alain.durre@gs.com
Goldman Sachs Paris Inc. et Cie

Adrian Paul
+44(20)7552-9958 | adrian.paul@gs.com
Goldman Sachs International

Soeren Radde
+44(20)7774-1105 |
soeren.radde@gs.com
Goldman Sachs International

Christian Schnittker
+44(20)7774-2269 |
christian.schnittker@gs.com
Goldman Sachs International

Nikola Dacic
+44(20)7774-1633 |
nikola.dacic@gs.com
Goldman Sachs International

Kavya Saxena
+44(20)7552-0509 |
kavya.saxena@gs.com
Goldman Sachs International

BOTTOM LINE: The Euro area composite PMI declined by 1.8pt to 50.1 in September, notably below expectations. Across sectors, the overall decline was concentrated in the service sector, with the pace of recovery in manufacturing reaccelerating from August. Across countries, the overall decline was heavily skewed towards France, Spain and Italy, with the relative resilience of German PMIs particularly evident in manufacturing. Despite a weaker spot assessment, firms indicated improving expectations for the year-ahead outlook. The combined set of August-September PMIs points to downside risks to our near-term growth forecasts.

KEY NUMBERS:

Note: The responses were collected between 11 and 22 September.

Euro Area Composite PMI (September, Flash): 50.1, GS 52.8, consensus 51.9, last 51.9.

Euro Area Manufacturing PMI (September, Flash): 53.7, GS 52.8, consensus 51.9, last 51.7.

Euro Area Services PMI (September, Flash): 47.6, GS 51.3, consensus 50.6, last 50.5.

Germany Composite PMI (September, Flash): 53.7, GS 55.6, consensus 54.0, last 54.4.

France Composite PMI (September, Flash): 48.5, GS 52.3, consensus 51.9, last 51.6.

MAIN POINTS:

1. The Euro area composite PMI declined by 1.8pt to 50.1 in September, notably below expectations. The composition across sectors showed that the overall decline was solely driven by the weaker services PMI (-2.9pt), amid an improvement in the manufacturing output PMI (+1.2pt) which enters into the composite index (Exhibit 1). This cross-sectoral pattern mirrors that from August and suggests a smoother recovery in manufacturing than in the service sector. The relative resilience of manufacturing likely reflects its lower exposure to existing and new containment measures that have been adopted across the Euro area to contain renewed COVID-19 infections, as well as a pick up in global industrial demand (with a larger improvement in foreign than domestic new orders). Relative to August, job creation strengthened in manufacturing but was marginally weaker in services. Across countries, the overall area-wide decline in September was heavily skewed towards

France, Spain and Italy, which accounted for 82% of the overall decline—well above their combined weight of 58% in the Euro area composite PMI. In contrast to the spot divergence, forward expectations showed renewed optimism about the year-ahead outlook, improving almost identically across manufacturing and services (+2.5pt).

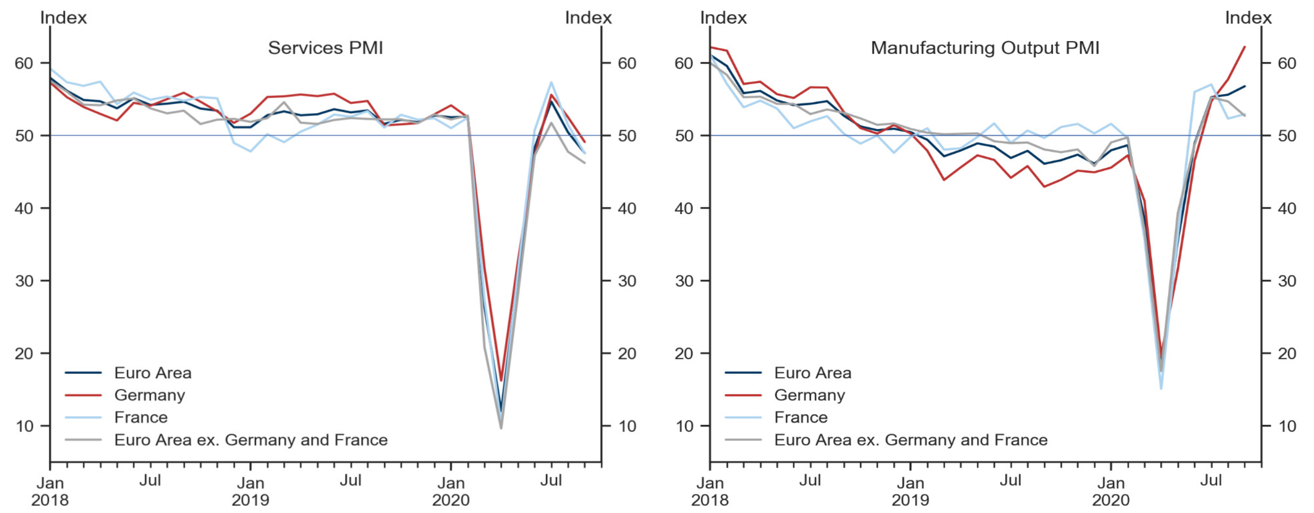
2. The German composite PMI declined by 0.7pt to 53.7 in September, modestly below expectations. The composition of the decrease showed the same divergent pattern across sectors as in August, with the services PMI falling by 3.4pt and manufacturing output increasing strongly by 4.5pt relative to August. The underlying subindices in the service sector did not echo the weakness in the headline index: relative to August, foreign demand was stronger, job creation little changed, and overall new orders only modestly weaker. In manufacturing, the composition of the overall improvement was very strong: output, domestic and foreign new orders, and employment all increased strongly relative to August. Expectations of future output also diverged, improving notably in manufacturing again but falling moderately in services.

3. The French composite PMI declined by 3.1pt to 48.5 in September, significantly below expectations, amid widespread reports from panelists of renewed disruption related to the COVID-19 pandemic. The decline was solely driven by the service sector, with the services PMI falling by 3.9pt to 47.5. By contrast, the headline manufacturing PMI increased by 1.2pt to 50.9, although the underlying improvement in manufacturing output was more modest (+0.6pt). This was partly driven by a renewed lengthening of suppliers' delivery times, which boosted the headline manufacturing index. Despite divergent headline movements, both manufacturing and services showed four common patterns relative to August: (i) weaker domestic new orders (especially in services), (ii) stronger export demand (especially in manufacturing) (iii) stronger job creation (especially in manufacturing), and (iv) improving one-year-ahead expectations. The press release noted that some panelists reported concerns around a second prolonged lockdown period, which weighed on hiring intentions. Further disinflationary pressures were implied by the survey results.

4. Today's PMI data came in below our expectations. Our reading of the September flash PMIs suggests that—barring a few exceptions, most notably German manufacturing—the pace of recovery across the Euro area has slowed. Today's set of PMIs suggest that following the initial lockdown easing-driven rebound, the recovery in manufacturing has proceeded more steadily than that in services—a pattern embedded in our growth forecasts. Our approach to mapping PMI readings (strongly related to *multi-month* growth) into implied monthly growth points to two consecutive monthly contractions in services activity over August-September (Exhibit 2, left). By contrast, we find that growth in manufacturing had significantly slowed in August, but its pace has picked up again (albeit moderately). Although we had expected the pace of sequential growth to moderate as the gap in the level of activity relative to pre-Covid narrows (especially in services), the combined set of August-September PMIs points to downside risks to our near-term growth forecasts.

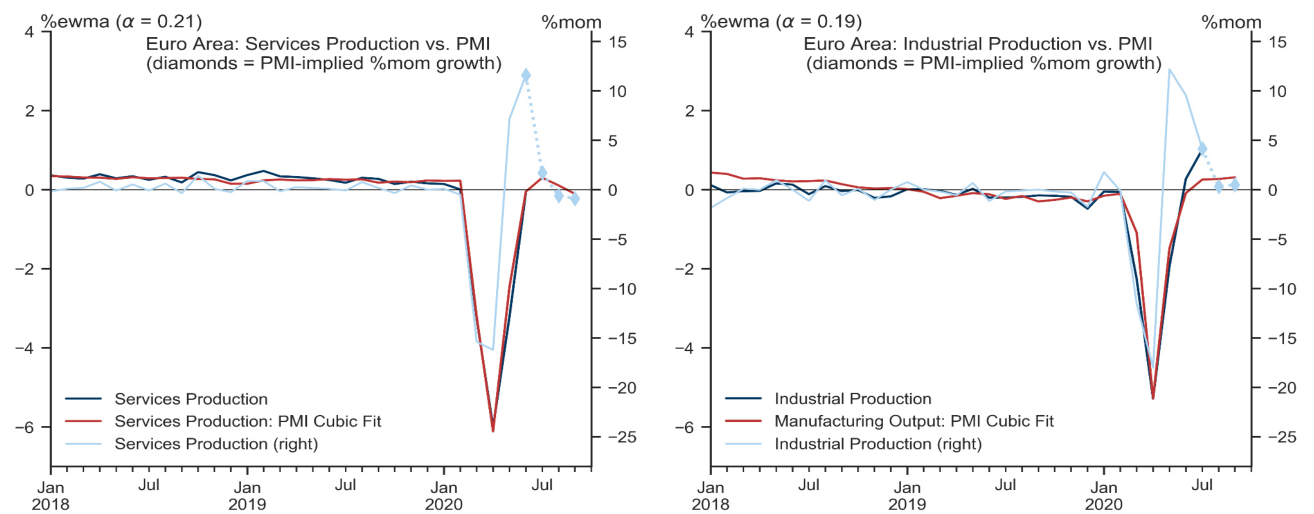
Nikola Dacic

Exhibit 1: September Flash PMIs — Below Expectations, Suggesting Slower Near-Term Momentum



Source: Goldman Sachs Global Investment Research, Markit, Haver Analytics

Exhibit 2: The September PMIs Point to a Slowdown in Services, and a Moderate Reacceleration of Growth in Manufacturing



Notes: ''ewma'' denotes the exponentially weighted moving average of monthly growth rates. Grey solid lines denote the fitted exponentially-weighted moving average of growth in services (industrial) production, as implied by a cubic relationship with the services (manufacturing) PMI. The dashed lines (with diamonds) denote the implied month-on-month growth rates consistent with the fitted EWMA paths.

Source: Goldman Sachs Global Investment Research, Haver Analytics

Disclosure Appendix

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