Downturn in Euro Zone Deepens Further

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Business activity in Germany and the broader euro zone continued shrinking in November, indicating the region’s economic downturn is steepening even as other major economies such as the U.S. and China show signs of resurgence.

Data company Markit said Thursday a preliminary version of its gauge of euro-zone business activity, the composite purchasing managers' index, gave a reading of 45.8 in November. Although that was slightly higher than October’s 45.7 level, it remains well below the 50 break-even threshold, indicating a steep decline in activity from month to month.

Evidence of worsening business conditions underscores the damage the real economy is suffering from the euro zone's fiscal crisis. A parallel Markit survey of Chinese purchasing managers, by contrast, showed the first expansion in manufacturing activity in more than a year in November.

"The euro-zone economy continued to deteriorate at an alarming pace in November, and is entrenched in the steepest downturn since mid-2009," said Chris Williamson, chief economist at Markit. Official data last week showed the economies of the 17 nations that use the euro shrank 0.1% in the third quarter from the second. That came after a 0.2% decline in the second quarter, meaning the region is in recession, based on a widely used definition.

"Officially, the region saw only a very modest slide back into recession in the third quarter...but the PMI suggests that the downturn is set to gather pace significantly in the fourth quarter," Mr. Williamson said.

He said weakness in Germany is of particular concern and estimated that the euro-zone economy could shrink by 0.5% on a quarterly basis between October and December.

Markit's surveys Thursday showed private-sector economic activity fell in November in both France and Germany, the euro zone's biggest two economies.

In Germany, the services sector fell at its steepest pace in more than three years, confirming that the debt crisis is increasingly hampering growth in the euro zone's largest and most productive member.

The composite PMI showed a steep drop in new orders booked by businesses, suggesting there is little prospect of companies increasing their output markedly in the coming months.

Euro-zone leaders meeting in Brussels this week struggled to agree on ways to ease Greece's debt burden and ensure the country remains solvent. Many economists say that as long as uncertainty persists over the finances of Greece and other fiscally weakened nations such as Spain, Portugal, Ireland and Italy, businesses and households will continue to guard their money, hamstring any prospect of an economic recovery.

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