Activity in euro-zone factories fell further in August as new orders dwindled, suggesting the outlook for the 17-nation economy remains poor, a survey of purchasing executives showed Monday.

The decrease in manufacturing activity was less steep in August than in July, but still marks a 13th month of contraction that will drag on the economy overall in the third quarter.

Data company Markit said the manufacturing Purchasing Managers’ Index for the 17 nations that use the euro rose to 45.1 in August from 44 in July. The latest reading remains below the 50 break-even level, indicating a drop in activity compared with July.

While the pace of decline slowed in Europe’s largest economy, Germany, as well as in France, new orders for German exports suffered their steepest retreat in over three years, underscoring the vulnerability of its economy to global stagnation.

“The final reading of the August PMI confirms that the euro-zone manufacturing sector remains firmly in contraction territory,” said Rob Dobson, senior economist at Markit. “The sector is on course to act as a drag on gross domestic product in the third quarter.”

The euro-zone economy shrank 0.2% in the second quarter of the year, while the number of unemployed people has climbed to a record of more than 18 million, helping push consumer and business confidence down to a three-year low. Many economists say the bloc’s economy will continue to weaken during the rest of 2012, as European leaders struggle with the sovereign debt crisis.

“The euro-zone product and labor markets are unlikely to show any real sustained improvement until regional structural issues are addressed and the broader global backdrop brightens,” Mr. Dobson said.

The PMI and other economic indicators could persuade the European Central Bank to take action this week to support the economy, such as cutting its key interest rate from a current all-time low of 0.75% or setting out plans to buy the government bonds of weaker member states such as Spain.

The latest spate of data “maintains pressure on the ECB to take interest rates lower still,” said Howard Archer, economist at IHS Global Insight, a consultancy. "We expect the ECB to cut interest rates from 0.75% to 0.5% by October, with a move very possible as soon as its September meeting this Thursday."

Markit’s data showed that in Germany, the factory index rose to 44.7 from July’s three-year low of 43. That marks the first time the pace of decline has slowed since January, the company said.

The figures however show the worsening impact that a slowdown in global demand is having on Germany’s exporters—the driving force of the country’s economy. New foreign orders for goods fell at their steepest rate since April 2009, just after Germany emerged from its last recession.

A weaker German economy could curb the country’s ability or willingness to bankroll any future rescue efforts needed in the euro-zone debt crisis.
Markit’s data showed manufacturing activity also fell month-to-month in France, Spain and Greece in August—albeit at a lessened pace. The decline steepened in Italy.

Ireland was the only euro-zone country in the survey to report month-to-month growth in its factory sector.

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