EUROPE INTELLIGENCE BRIEF — FRIDAY, AUGUST 21, 2026

What The Order Book Is Actually For

German factories reported their fastest growth in more than four years on Friday morning, and German service companies shrank. The survey compilers named defence spending and precautionary stockpiling as the reasons.

That is a recovery assembled out of armaments and out of fear of shortage. It counts as growth in the arithmetic and it is a different thing from confidence.

Read in German, French, Italian, Spanish, Dutch, Polish and English, from national statistics offices and the survey compilers.

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EDITOR'S LEADER · 01

A FACTORY REVIVAL WITH A NAMED CAUSE

The Things Being Bought

A number can be strong and still be bad news, if you know what was purchased to produce it.

German manufacturing activity came in at 54.1 on Friday morning, against expectations of 52.0 and a previous reading of 52.2. Output, new orders and export sales all rose at their quickest rates since the early months of 2022.

On the same morning German services activity fell to 48.5, below the fifty mark that separates growth from decline. Economists had expected 50.1 and the previous month was 49.8.

The combined figure was 51.0, below the 51.3 that had been forecast and below the 51.3 recorded the month before. Europe's largest economy grew, and it grew in exactly one place.

What the compilers said was driving it

The survey's own commentary attributed the manufacturing revival to two things. One was catch-up after a subdued second quarter, and the other was the influence of increased defence spending filtering through.

The wider currency-area report added a third. It described reports of precautionary stock building by goods producers, prompted by continuing supply disruption out of the Middle East.

So the order book is full of weapons, of equipment bought because of weapons, and of inventory held because managers are frightened of not having it. None of those is a household deciding it feels better off.

> *Output, new orders and export sales have all risen at their quickest rates since early 2022.*
>
> PHIL SMITH, ECONOMICS ASSOCIATE DIRECTOR, S&P GLOBAL MARKET INTELLIGENCE · FRIDAY 21 AUGUST 2026

The half that is shrinking

German services employ far more people than German factories do. That sector recorded a second consecutive slight increase in new business and a renewed rise in employment, while its actual activity contracted.

Firms are hiring into a business they expect to improve rather than one that has. The German disposition here is preparatory rather than confident, which is a distinct thing from the discomfort we described earlier in the week.

The currency area did better without its two largest members

The twenty-nation composite reading rose to 52.1 against a forecast of 51.7. Manufacturing reached 52.8, the highest in fifty-one months, and factory output hit a fifty-four month high.

New export business expanded for the first time in roughly four and a half years. The compilers put third-quarter growth at around three tenths of a per cent and attributed the services strength to tourism, notably outside France and Germany.

France's private sector contracted again in August, while a separate survey showed French business confidence extending its recovery. A country can be cheerful about a situation that has not improved, and France currently is.

EXECUTIVE SUMMARY · 02

TEN ITEMS, RANKED BY CONSEQUENCE

The Day At A Glance

Here is Friday's news, in order of consequence for Latin American readers. Every item is dated.

#	ITEM	WHY IT MATTERS
1	German factories at a four-year high	Manufacturing activity reached 54.1 against 52.0 expected. Output, orders and export sales all grew at their fastest since early 2022.
2	German services contracted	The reading fell to 48.5 against 50.1 expected and 49.8 previously. The sector that employs most Germans is shrinking.
3	The German composite missed	At 51.0 against 51.3 forecast, the combined figure fell short. Growth in the largest economy is concentrated in one sector.
4	Defence spending named as a driver	The survey compilers cited increased defence spending filtering into orders. They also reported precautionary stock building against Middle East supply disruption.
5	Currency-area factory activity at a 51-month high	Manufacturing reached 52.8 and the composite 52.1, both above forecast. Factory output was the strongest in fifty-four months.
6	Export orders grow for the first time in four and a half years	New export business expanded across the currency area. It is the first such reading in roughly fifty-four months.
7	British borrowing overshoots	July borrowing was 1.8 billion pounds, some 2.3 billion above the budget watchdog's forecast. It was two thirds higher than the same month a year earlier.
8	British public debt nears three trillion	Net debt stands at 94.1% of output, the highest level since the early 1960s. The stock has grown by 127.2 billion pounds over the year.
9	British retail sales fell	Sales dropped half a per cent in July from June. Analysts attributed the fall to hot weather and to a June boosted by the football tournament.
10	A rate-setter keeps the door open	Martins Kazaks said the September decision will be based on data. He said there are arguments both for and against raising further.

THE NUMBERS AT A GLANCE · EUROPE · FRIDAY, AUGUST 21, 2026

GERMANY Factory activity **54.1** from 52.2	**GERMANY** Services **48.5** from 49.8	**GERMANY** Composite **51.0** below forecast	**EURO AREA** Composite **52.1** above forecast
EURO AREA Factory activity **52.8** 51-month high	**UNITED KINGDOM** July borrowing **1.8bn** 2.3bn above forecast	**UNITED KINGDOM** Retail sales **-0.5%** July, on the month	**UNITED KINGDOM** Public debt **94.1%** of annual output

OUR SIMPLE HEALTH CHECK · TEN EUROPEAN ECONOMIES

How The Countries Are Doing

Our own reading of ten European economies across five dimensions, scored one to five. This is a judgement, not a forecast, and it is not financial advice.

	POLITICS	BUDGET	MONEY	MARKETS	OUTSIDE	WHAT WE SEE
Germany **Berlin**	3	4	3	3	4	Factories at a four-year high on defence orders and stockpiling, while services fell to 48.5 and the composite missed.
France **Paris**	4	4	3	3	4	Private-sector activity contracted again in August, even as a separate survey showed business confidence still recovering.
United Kingdom **London**	3	5	4	3	4	July borrowing 2.3 billion above forecast, debt at 94.1% of output, retail sales down half a per cent.
Italy **Rome**	3	4	3	3	3	Carried by the wider currency-area upturn in factory output and by a strong tourism season.
Spain **Madrid**	2	3	3	2	3	Among the economies outside the two largest that recorded the fastest services growth in over three years.
Netherlands **Amsterdam**	2	2	3	2	3	Open goods economy positioned to benefit from the first expansion in export orders in four and a half years.
Poland **Warsaw**	3	3	3	3	4	Directly exposed to German industrial demand, which is now the strongest part of the European picture.
Sweden **Stockholm**	3	2	3	3	3	Policy rate held at 1.75% on Thursday with a warning attached. Carried here as background to the currency-area picture.
Norway **Oslo**	2	1	3	2	3	Policy rate at 4.25%, two and a half points above its neighbour, with an oil account behind it.
Euro area **Twenty members**	3	3	3	3	4	Composite 52.1 and factory activity at a fifty-one month high, with input costs at their weakest since February.

How to read the colours: 1 = calm, 2 = fairly good, 3 = mixed, 4 = some strain, 5 = serious strain. Updated Friday, August 21, 2026.

DEEP DIVE · THE COMPOSITION · 04

WHAT HAPPENS WHEN THE STOCKPILING STOPS

Growth You Cannot Repeat

Part One · What Actually Happened

European factory output is now growing at its fastest pace in fifty-four months. The compilers of the survey named three causes and two of them have expiry dates.

The first is defence procurement. Governments across the continent have raised military budgets and those orders are now reaching production lines, which is real activity and also a political decision that can be revisited.

The second is precautionary stock building. Manufacturers are holding more inventory than they need because supply routes out of the Middle East remain disrupted, and inventory building is arithmetic that reverses.

The third is demand for equipment tied to artificial intelligence, which the compilers singled out as helping Germany specifically. That one has no obvious expiry date attached.

Set against this, input cost inflation eased to its weakest since February while remaining sharp by any pre-conflict standard. Services selling-price inflation fell to its joint-lowest of the year.

The compilers' own conclusion was that a hawkish stance is likely to be maintained and that further near-term rate increases cannot be ruled out. A central bank reading growth of this composition has to decide whether it is looking at demand or at insurance.

Part Two · Three Ways This Can Go

Possibility A · The upturn broadens into services · 40%

Services hiring and new business, both of which improved in Germany even as activity fell, turn into actual output over the autumn. The recovery stops depending on what governments and frightened purchasing managers are buying.

Possibility B · Stockpiling unwinds and factory growth fades · 40%

Supply routes stabilise, inventories are run down and the manufacturing figures give back most of this summer's gain. Defence orders continue but cannot carry the sector alone.

Possibility C · Price pressure forces a rise · 20%

Activity of any composition, combined with the first hiring in a year, is read as sufficient reason to tighten. The September meeting in Berlin becomes live rather than procedural.

OUTCOME	WHAT IT LOOKS LIKE	WHAT IT MEANS FROM LATIN AMERICA
Broadening upturn	Services activity turns positive and German households start spending.	Durable European demand for Latin American food, metals and energy inputs.
Stockpiling unwinds	Factory readings fall back through the autumn as inventories normalise.	A shorter and shallower European order cycle than the headline figures imply.
A rate rise	Borrowing costs go up into an economy growing on procurement.	A firmer euro and tighter global financial conditions, felt first in regional currencies.

Chances are Rio Times Intelligence Desk estimates and sum to one hundred. They are a way of ordering possibilities, not financial advice.

EIGHT THINGS, WITH OUR OWN VIEW

Eight Things We Are Watching

Eight things we are watching, with our own view on each. These are opinions from the Rio Times Intelligence Desk and not financial advice.

WHAT	WHEN	OUR VIEW
German services	Monthly	At 48.5 the larger half of the economy is shrinking. Hiring rose anyway, which suggests firms disagree with their own current numbers.
Defence procurement	Ongoing	Named by the compilers as a driver of the factory revival. It is fiscal policy appearing in an activity survey.
Inventory building	Autumn	Precautionary stockpiling flatters output now and subtracts from it later. Watch for the turn.
Export orders	Monthly	The first expansion in about four and a half years. One month is a signal, not a trend.
British public finances	27 October	Borrowing 2.3 billion above forecast in July narrows the chancellor's room before his first budget.
British retail	Monthly	Sales fell half a per cent in July. Higher household costs are reaching discretionary spending.
The September meeting	9-10 September	Hosted in Berlin by the German central bank. A rate-setter said this week the arguments run both ways.
Input costs	Monthly	Weakest since February but still sharp against pre-conflict levels. This is the number that decides the autumn.

POWER PLAYERS · 06

WHO IS DECIDING THIS WEEK

Five People Shaping The News

Five people whose decisions this week shape what follows. We characterise stances and choices, not private motives.

Phil Smith · Economics Associate Director, S&P Global Market Intelligence

Wrote the commentary that named defence spending and stockpiling as the drivers of the German factory revival. Naming the cause changed how the number should be read.

Martins Kazaks · Governing Council member, European Central Bank

Said the September decision will rest on data and that there are arguments for and against tightening further. That is a deliberate refusal to guide.

John Healey · Chancellor of the Exchequer, United Kingdom

Faces a first budget on 27 October with July borrowing running 2.3 billion pounds above forecast. He has committed publicly to fiscal discipline before setting out how.

Andy Burnham · Prime Minister, United Kingdom

Has promised measures to ease household costs while his chancellor promises restraint. The July figures make those two commitments harder to hold together.

Grant Fitzner · Chief Economist, Office for National Statistics

Reported that retail sales rose across the latest three months while July fell, and pointed to higher energy and fuel costs squeezing discretionary spending.

DAILY BRIEFING · 07

WHAT HAPPENED WHERE

The Day, Country By Country

What happened where, across the continent, on Friday 21 August 2026.

GERMANY

Factory activity reached 54.1 in the August flash reading, against 52.0 expected and 52.2 previously. Output, new orders and export sales rose at their fastest rates since early 2022.

Services fell to 48.5 against 50.1 expected, and the composite came in at 51.0 against 51.3 forecast. The services sector recorded a second consecutive rise in new business and a renewed increase in employment.

THE EURO AREA

The composite reading rose to 52.1 against 51.7 expected, with manufacturing at 52.8, a fifty-one month high. Factory output reached a fifty-four month high.

New export business expanded for the first time in about four and a half years. Input cost inflation eased to its weakest since February while remaining sharp.

FRANCE

Private-sector activity contracted further in August as demand conditions stayed subdued. The decline continues a run that has now outlasted several forecasts of recovery.

A separate reading showed French business confidence extending its recovery into August. The two series are pointing in opposite directions.

UNITED KINGDOM

Public borrowing was 1.8 billion pounds in July, against 1.1 billion in the same month last year and 2.3 billion above the budget watchdog's forecast. Spending rose 5.6 billion to 115.3 billion and receipts rose 4.8 billion to 113.5 billion.

Borrowing in the financial year to July reached 56.7 billion pounds, some 6.0 billion lower than a year earlier. Net debt stands at 94.1% of output, the highest since the early 1960s.

BRITISH HOUSEHOLDS

Retail sales fell half a per cent in July from June. Analysts attributed the drop to hot weather and to a June lifted by the football tournament.

The statistics office reported growth across the latest three months in every major category except motor fuel. It cited higher energy and petrol costs leaving less for discretionary spending.

MONETARY POLICY

Martins Kazaks said the September decision will be based on the data and that there are arguments on both sides of a further increase. The Governing Council meets on 9 and 10 September in Berlin, hosted by the German central bank.

The survey compilers concluded that a hawkish stance is likely to be maintained. They said further near-term increases cannot be ruled out.

CORPORATE PIPELINE · 08

DEALS, SECTORS AND DATES

Pipeline, Sectors, And The Calendar

Sectors, dates and structural questions across the continent over the next month.

WHAT	WHO	WHERE IT STANDS
Defence procurement	National governments	Named by survey compilers as feeding directly into German factory orders and export sales.
Precautionary stockpiling	Goods producers	Reported across the currency area in response to continuing Middle East supply disruption.
Artificial intelligence equipment	Technology supply chain	Cited as a source of rising demand for European-made goods, helping Germany in particular.
British budget	HM Treasury	Set for 27 October, with July borrowing running 2.3 billion pounds above forecast.
Governing Council meeting	European Central Bank	9 and 10 September in Berlin, hosted by the German central bank.

Sector Watch · Four Things to Track

Capital goods

Defence and infrastructure orders are the strongest part of European industry. That is government demand and it moves with parliaments rather than with cycles.

Services

Contracting in Germany, growing fastest in over three years elsewhere on the back of tourism. The continent's largest economy is now its weakest service performer.

Retail

British sales fell in July as energy and fuel costs absorbed household budgets. The pattern will show up in other member states with administered energy prices.

Logistics and inventory

Stock building supports output today and reverses it later. The turning point is the single most important thing to watch this autumn.

Calendar · Next 30 Days

DATE	WHAT
21 August	German, French, British and currency-area flash activity readings for August.
26 August	The next British energy price cap decision for the October to December quarter.
7 September	The next estimate of second-quarter output for the currency area.
9-10 September	The European Central Bank Governing Council, hosted in Berlin by the Bundesbank.
13 September	The Swedish general election.
24 September	The next Swedish rate decision, from 1.75%.
27 October	The British budget, the chancellor's first.

BOTTOM LINE · SOURCES · 09

WHAT THE DAY ADDS UP TO

What Friday Tells Us

European industry is growing at its fastest pace in four and a half years, and the survey compilers have told us what it is building.

Weapons, equipment bought because of weapons, and inventory held against the possibility that the ships stop coming. Plus, more encouragingly, machinery for artificial intelligence.

Two of those four are insurance rather than appetite. Insurance purchases are real economic activity and they are also, by definition, things nobody wanted to have to buy.

The tell is Germany's own split. Factories at a four-year high while the sector that employs most Germans contracts is not the shape of a country that feels better off.

For Latin American readers the practical reading is about duration. European demand for industrial inputs is genuine right now and rests substantially on a stockpile that will at some point be run down.

	DETAIL
PRIMARY	HCOB flash purchasing surveys for Germany, France and the euro area, released 21 August 2026. Office for National Statistics public sector finances and retail sales, both 21 August 2026.
REPORTING	S&P Global Market Intelligence commentary, investingLive, Reuters, London Business News, Yahoo Finance · 20-21 August 2026.
LANGUAGES	German, French, Italian, Spanish, Dutch, Polish and English.
VERIFICATION NOTE	Flash readings are preliminary and based on roughly eighty-five per cent of survey responses. Final figures are published in the following week and have historically differed from the flash estimate. The attribution of the factory revival to defence spending and stockpiling comes from the survey compilers' own commentary rather than from separate order data.
EXCLUDED	No conflict coverage. Index moves appear as evidence only, and Sweden's Thursday decision is carried as background rather than as news.
SKIPPED	Euro-area consumer confidence for August had not been published when this edition closed.