

Eurozone

Eurozone GDP grew just 0.1% in Q4 2009

Key findings

- Flash GDP estimate indicates slowdown in growth momentum in Q4 but PMI suggests recovery remains on course.
- Marked divergences in country performance.

Eurostat data released today signalled that economic growth in the single currency area faltered in Q4 2009. Gross domestic product expanded just 0.1% on the previous quarter, well below expectations of a 0.3% rise according to analysts polled by Reuters. On an annual basis, GDP was down 2.1%.

The latest figure compared unfavourably with the 0.4% increase seen in Q4, and suggested that the recovery was struggling to gain traction after the region exited recession in Q3 last year.

Initial GDP estimates need to be treated with caution

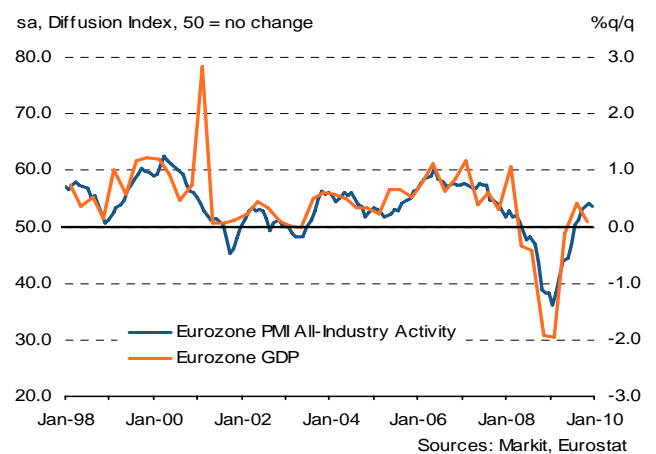
However, quarterly GDP figures tend to be volatile and must be placed into context against other data sources to provide a comprehensive picture of underlying trends. Moreover, it should also be remembered that initial estimates of GDP are based on incomplete samples, and as such may therefore be subject to substantial revision.

The Markit Eurozone Composite PMI has accurately tracked broad trends in quarterly GDP data during its 12-year history and is generally a more stable series. Reassuringly, the PMI signalled continued growth momentum across the Eurozone private sector economy in Q4, suggesting that the recovery remains on track.

The latest available PMI data also indicate that growth was maintained at a solid pace at the start of 2010. January's Composite PMI was at a similar level to the average for Q4 2009, although it dipped slightly since

December amid weather-related disruption in a number of countries.

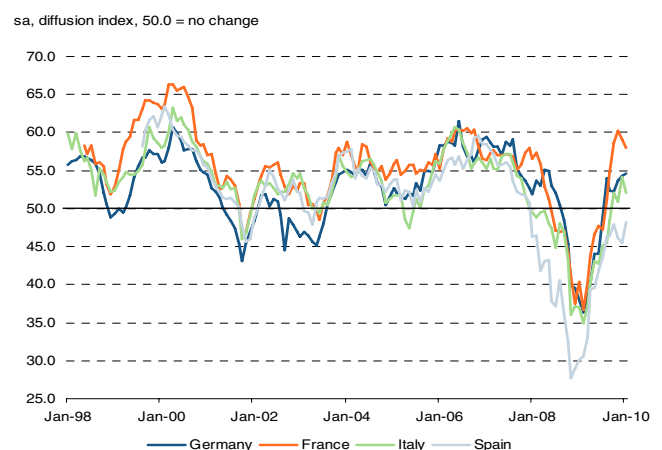
Eurozone Composite PMI & GDP data



France outperformed, Germany stalled, and Italy and Spain contracted

There were significant disparities between the main euro area countries during the final quarter of last year. France was the strongest performer as it posted a 0.6% q/q expansion, but Germany registered a flat reading whilst contractions of 0.2% and 0.1% were recorded in Italy and Spain respectively. These divergences largely mirrored the trends evident in the respective PMIs for those countries during Q4.

Big-four euro nations: Composite PMI



France was lifted by robust consumer spending in Q4, as household consumption rose 0.9% on the quarter. This was in contrast to Germany, where consumer expenditure fell according to the statistics office (although a detailed breakdown is not yet available for Germany). A number of other countries face an uncertain outlook for consumer demand as weak labour markets make households reluctant to spend, limiting near-term economic growth potential.

The next snapshot of economic conditions in the Eurozone will be next week with the release of the flash PMI on Friday 19th February.

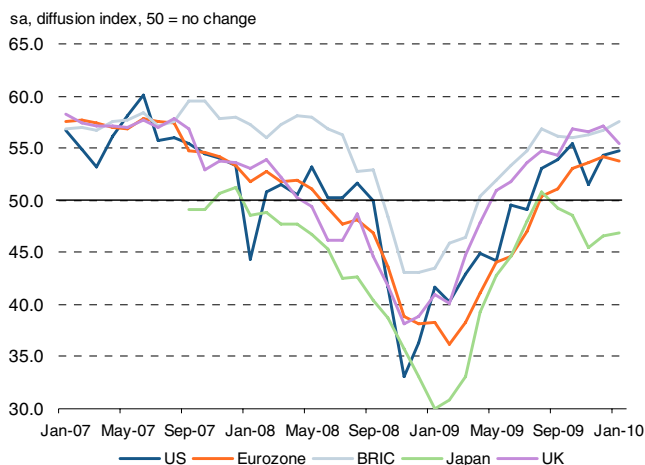
Peripherals remain weak

Peripheral Eurozone countries in particular are suffering as stimulus packages are failing to have the desired effect – Spain remained in recession for the seventh successive quarter in Q4, while Ireland, Greece and Cyprus also contracted and Portugal stagnated. These countries also face serious competitiveness issues and a shaky outlook for the public finances, despite efforts this week by European leaders to prevent Greece’s debt crisis from spilling over across the single currency area.

Eurozone continues to lag BRICs and US

Overall, the Eurozone remains a laggard on the global stage compared with the strong performances posted by emerging markets and the US during Q4. The US economy expanded 1.4% q/q at the end of 2009 while annual growth in China is already back in double digits. PMI data suggest that the recovery in the Eurozone has so far been weaker than in the BRIC area and the US, and is also weaker than the UK, although its performance is superior to that of Japan, where activity has slipped back into contraction territory.

Major regions: Composite PMI



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