

# Eurozone

## Spanish manufacturers get left behind in Eurozone recovery

- **Output growth at 27-month peak, led by French manufacturing.**
- **But Spain shows signs of 'double-dip'.**

The Markit Eurozone PMI Manufacturing Output Index hit a 27-month high in December, signalling a robust rate of expansion and the fifth consecutive monthly increase in output. However, it is becoming increasingly apparent that business conditions are varying markedly amongst the major euro countries.

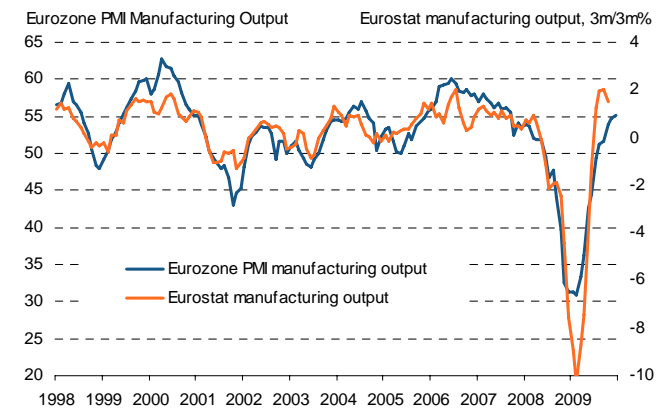
French manufacturers continued to report the strongest growth of production in December, outperforming all other euro nations for the fifth successive month, followed by Germany. Manufacturers in the Netherlands also reported substantial growth, and a sharp improvement has also been seen in Italy, with output rising at the fastest pace for 27 months in December.

For Q4 as a whole, France saw the strongest manufacturing output gains since Q3 2000, while Germany saw its best calendar quarter since Q3 2007. Producers in Italy and the Netherlands meanwhile had the best quarters since Q4 2007.

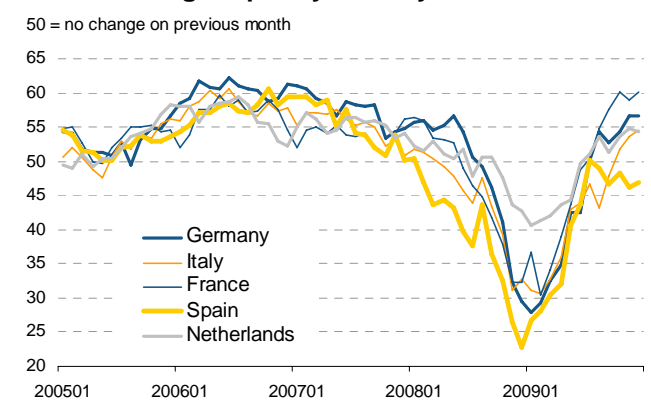
In sharp contrast, production continued to fall in Spain in December, and the rate of contraction for Q4 was greater than that seen in Q3. Since February 2008, manufacturing output has fallen in Spain in every month with the exception of a marginal increase in July 2009. Moreover, although the rate of contraction towards the end of 2009 had been considerably less steep than at the height of the financial crisis, it remained high by the historical standards of the survey, exceeded over the past decade only by the rate of decline seen in the aftermath of 9/11 in late-2001.

The below-par performance of Spain is also reflected in employment, with Spanish producers reporting far steeper job losses than the other main euro countries. Furthermore, while rates of job losses have eased sharply between Q3 and Q4 in Germany, France, Italy and the Netherlands, the opposite is true for Spain.

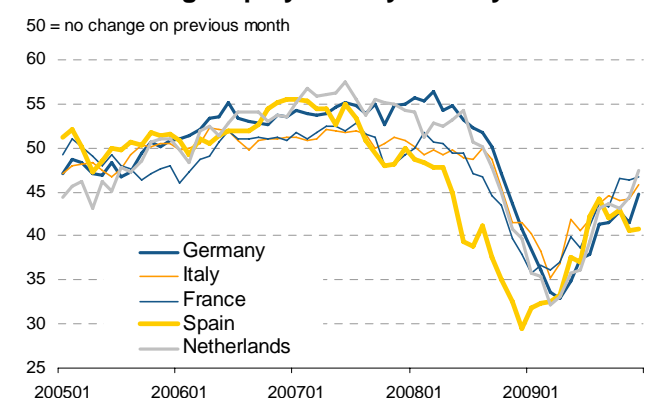
### Eurozone manufacturing output



### Manufacturing output by country



### Manufacturing employment by country

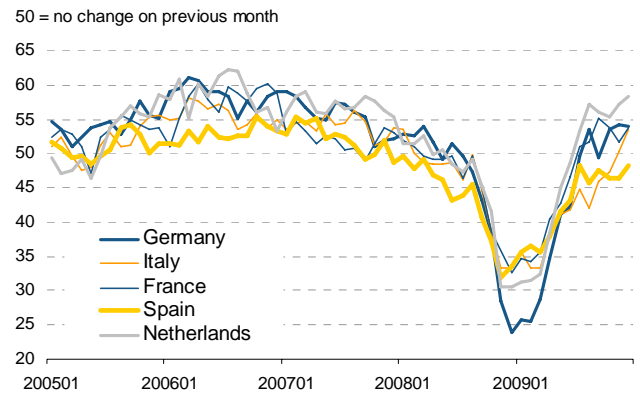


Sources: Markit, Eurostat.

The weaker-than-average performance in Spain is no doubt at least partly a reflection of the high level of unemployment in Spain, which at 19.3% is running at almost twice the Eurozone average. High joblessness will suppress consumer spending on manufactured goods.

However, differences in domestic employment do not explain why Spanish exports are also underperforming the Eurozone average. Spain was in fact the only one of the five largest Eurozone countries to see new export orders continuing to fall in December, according to the PMI surveys. From anecdotal evidence provided by PMI survey contributors, it seems that Spain's poor performance also reflects other issues such as credit constraints, a lack of working capital to invest in marketing, promotion and new stock as well as a lack of product development. However, these are factors which are affecting producers across the entire Eurozone. This suggests that Spain's problems also reflect the nature of the goods it produces and being uncompetitive.

### Manufacturing new export orders by country



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