

Eurozone

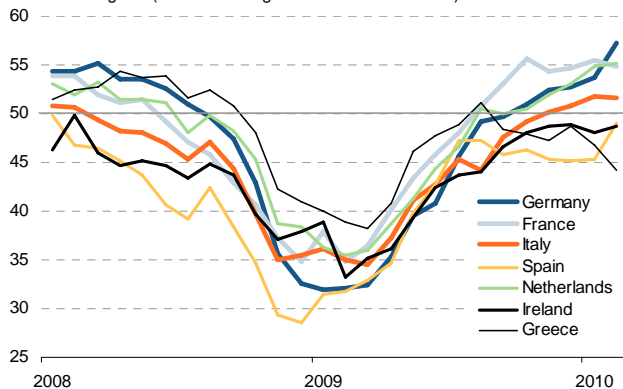
Productivity and pricing hold insights into national divergences

- **National divergences have widened within Eurozone manufacturing.**
- **Countries with the strongest recoveries have raised productivity and cut prices to the greatest extents.**

A worrying divergence has developed within the Eurozone economy, whereby strong growth of manufacturing in countries such as Germany, France and the Netherlands contrasts with ongoing downturns in Spain, Ireland and Greece. At the two extremes, Germany saw manufacturing output surge higher at the fastest rate for just over three years in February, while Greece saw an increased rate of contraction.

Manufacturing PMIs

Manufacturing PMI (50 = no change in business conditions)



Source: Markit

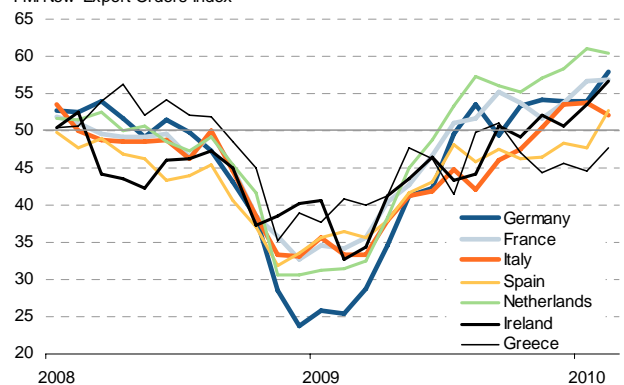
Export dependencies

Exports help explain much of the national divergences within the Eurozone, and the latest PMI data show that new export orders have been growing strongly in the fastest growing countries. Since last August, when the PMI surveys showed Eurozone exports to have returned to growth, export growth has been led by the Netherlands, followed by Austria, France and then Germany. With the exception of a marginal decline in Germany last September, all have seen continuous growth of exports over this period. In contrast, Ireland and Spain have only recently shown any meaningful

export gains, and Greece's exports continue to fall (although the rate of decline did ease in February).

Exports

PMI New Export Orders Index



Source: Markit

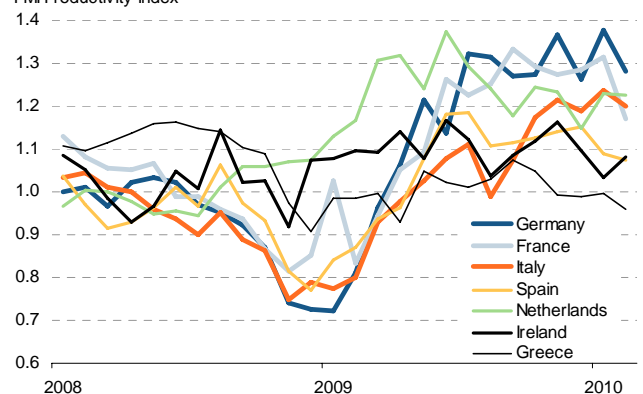
As all countries within the Eurozone operate with the same exchange rate, the cause of these divergences in exports must lie elsewhere. From the PMI data, we can see two key factors: productivity and pricing.

Productivity

First, comparisons of PMI Output and Employment Indices provide an early indication of trends in labour productivity. These comparisons show that since the height of the downturn in late-2008/early-2009, productivity has risen sharply in the Netherlands, Germany, France and – more recently – Italy.

PMI-derived productivity indices¹

PMI Productivity Index



Source: Markit

On the other hand, Greece has exhibited the weakest productivity growth, with the indices suggesting that productivity deteriorated again in February.

Pricing

PMI data can also be used to gauge the extent to which manufacturers are adjusting their prices to boost competitiveness. Greece again stands out from its peers. Greece has seen prices charged fall at a below average pace for the Eurozone since the onset of the financial crisis, and in fact saw by far the smallest average decline during 2009.

The evidence therefore suggests that the countries which are seeing the strongest recoveries in export-led manufacturing growth are those that have boosted labour productivity the most and cut their selling prices to the greatest extents.

Chris Williamson

Chief Economist

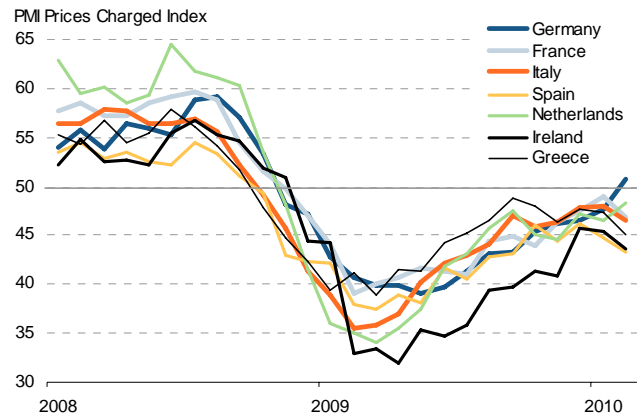
Markit

Tel: +44 20 7260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com

Prices charged



* Productivity Index based on Output Index divided by Employment Index. Source: Markit

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.