

European Union

Sustained contraction of EU banking sector in September

- **Banking activity declines for fourth month running, albeit at slower pace**
- **Confidence remains downbeat following August's collapse**
- **Total financials activity rose marginally**

European Union *PMI*TM sector data signalled a contraction of the EU banking sector for the fourth month running in September. The pace of contraction eased slightly, but confidence in the sector has failed to show any significant recovery from the near-record plunge seen in August, suggesting an ongoing contraction is likely in the coming months.

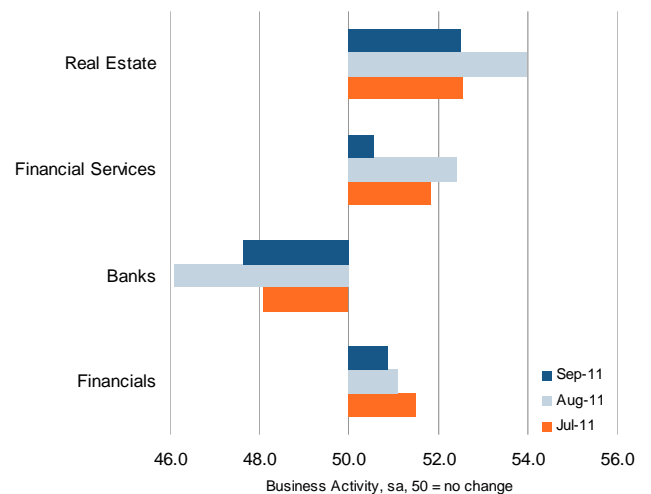
Banking is one of 22 industry sectors covered by EU PMI data, and is a constituent sector of the broader Financials PMI. The latter is based on responses from around 500 banks, real estate, insurance and financial services¹ companies in Germany, the UK, France, Italy, Spain and Ireland. These companies are drawn from the same survey panels that Markit uses to produce national service sector PMIs.

Financials posts marginal growth

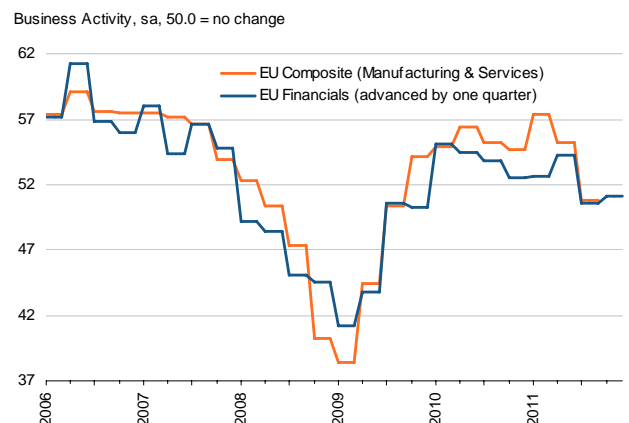
Other areas of the financials industry, namely non-bank financial services and real estate, continued to expand in September. Business activity rose for the third month running in both sectors, with real estate posting the sharper rate of expansion, offsetting the weakness in banking. However, growth of business activity across the broad financials industry rose only marginally, in line with the trend for the third quarter as a whole.

Historical comparisons indicate that the Financials sector tends to lead growth of the private sector as a whole, meaning the persistent weakness of the banking sector in particular suggests that overall manufacturing and services activity in the EU will remain lacklustre at best in Q4.

Financials: weakness at banks contrasts with growth elsewhere



Financials leads wider growth trends

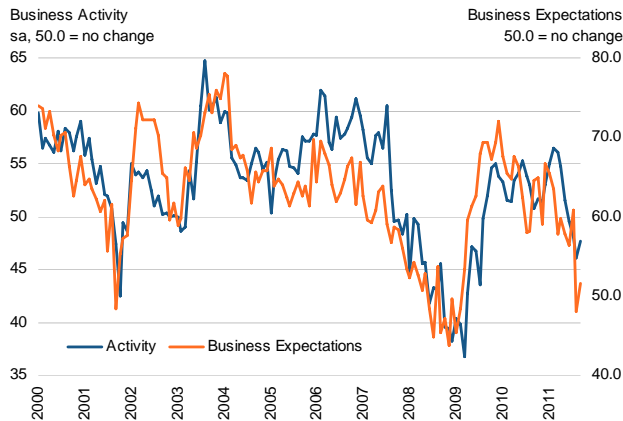


Banks' business expectations remain weak

The forward-looking EU Banks Business Expectations Index – which tracks banks' forecasted activity in 12 months' time – remained at an historically low level in September. The previous month had seen the steepest fall in the Index since September 2001, reflecting heightened fears surrounding the health of the US economy and the Eurozone debt crisis. The Index rose in September, but was still at the second-lowest level since February 2009.

¹ Includes asset managers, consumer finance, speciality finance, investment services, mortgage finance.

EU Banks: current activity vs expectations

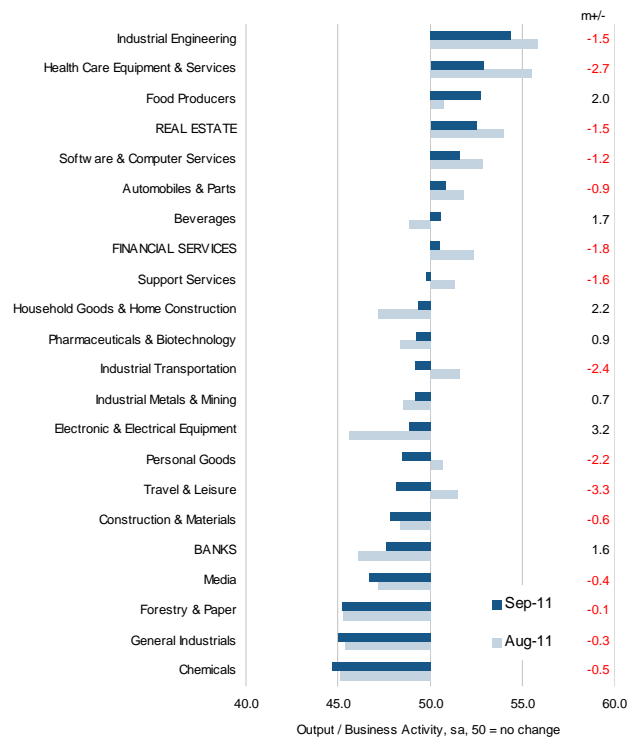


Historically, banking confidence has led the trend in total financial activity, which itself leads the trend in wider economic growth. The current downbeat mood in the banking sector therefore underscores the expectation of sustained economic weakness in Q4. The EU Composite Output Index fell just below the no-change mark of 50.0 in September, mainly reflecting a contraction in the Eurozone. Moreover, out of 22 sectors covered, only eight registered output growth in September. Four sectors registered steeper falls in activity than banks, namely chemicals, general industrials, forestry & paper and media.

Notes on data and forthcoming releases

EU sector data are derived from the same national manufacturing, services and construction panels used for the PMI surveys, which together cover around 6,000 private sector companies. The sectors are classified according to the **FTSE / Dow Jones Industry Classification Benchmark (ICB)**. The sector data track output, new and outstanding business, price trends, purchasing, stocks and supplier performance, and are released on the fifth working day of each month. October data will be available on 7 November.

EU Sectors: September 2011



Markit EU Sector PMIs

Industry	Supersector	Sector
1000 Basic Materials	1300 Chemicals 1700 Basic Resources	1350 Chemicals 1730 Forestry & Paper 1750 Industrial Metals & Mining 1770 Mining*
2000 Industrials	2300 Construction & Materials 2700 Industrial Goods & Services	2350 Construction & Materials 2710 Aerospace & Defence* 2720 General Industrials 2730 Electronic & Electrical Equipment 2750 Industrial Engineering 2770 Industrial Transportation 2790 Support Services
3000 Consumer Goods	3300 Automobiles & Parts 3500 Food & Beverage 3700 Personal & Household Goods	3350 Automobiles & Parts 3530 Beverages 3570 Food Producers 3720 Household Goods & Home Construction 3740 Leisure Goods* 3760 Personal Goods 3780 Tobacco*
4000 Health Care	4500 Health Care	4530 Health Care Equipment & Services*** 4570 Pharmaceuticals & Biotechnology
5000 Consumer Services**	5500 Media 5700 Travel & Leisure	5550 Media 5750 Travel & Leisure
8000 Financials	8300 Banks 8500 Insurance* 8600 Real Estate 8700 Financial Services	8350 Banks 8770 Financial Services
9000 Technology	9500 Technology	9530 Software & Computer Services 9570 Technology Hardware & Equipment*

*not currently published at sector/supersector level but included at supersector/industry level
 **excludes 5300 Retail
 ***excludes 4533 Health Care Providers

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