

European Union

EU banking sector confidence evaporates in August

- **Banks' Business Expectations Index suffers steepest fall since 9/11**
- **Banking activity contracts at fastest rate for two years**
- **Financial sector downturn bodes ill for wider economy**

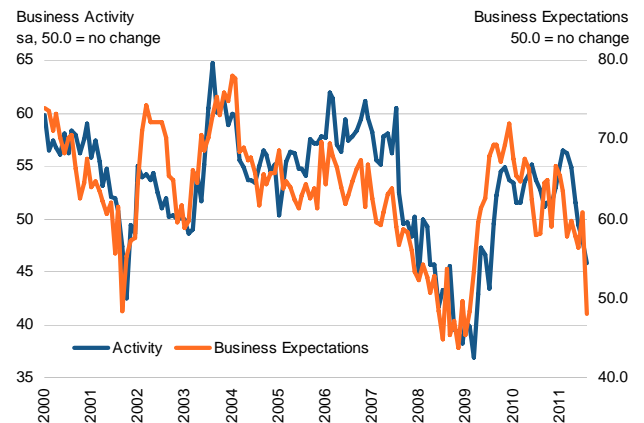
European Union *PMI*TM sector data, based on the FTSE/Dow Jones Industry Classification Benchmark (ICB)¹, signalled a further decline in business activity at EU banks in August. The current sequence of decline now extends to three months, and the pace of contraction accelerated to the fastest since July 2009.

More worryingly, the forward-looking indicator for the EU banking sector – which tracks business expectations over the next 12 months – **suffered its largest one-month drop since September 2001**. The banking sector's Business Expectations Index was its lowest since January 2009, approaching the territory last visited during the late-2008 global financial crisis.

Banking is one of 22 industry sectors covered by EU PMI data, and is a constituent sector of the broader Financials industry PMI. The latter is based on responses from around 500 banks, real estate, insurance and financial services² 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.

Other areas of the financials industry, namely non-bank financial services and real estate, performed better in August, with activity growth picking up to six- and five-month highs respectively. Real estate posted the third-fastest increase in business activity of all sectors covered, behind healthcare equipment & services and industrial engineering. Financial services was the sixth-best performing sector.

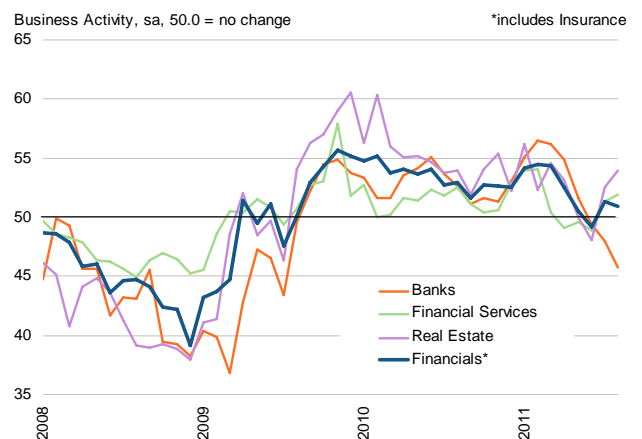
EU Banks: current activity vs expectations



Banks Business Expectations Index: Largest one-month falls

Points fall in Index	Period	Major events
-13.1	September 2001	Terror attacks in US
-12.9	August 2011	Eurozone debt crisis, US recession fears, UK riots
-9.2	March 2004	Terror attacks in Madrid
-8.6	February 1999	Launch of euro (January 1999)
-8.4	September 2008	Collapse of Lehman Brothers

Broad financials industry maintains weak growth

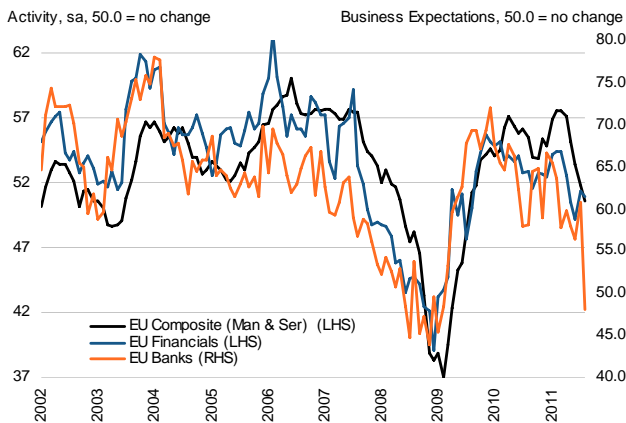


¹ <http://www.icbenchmark.com>

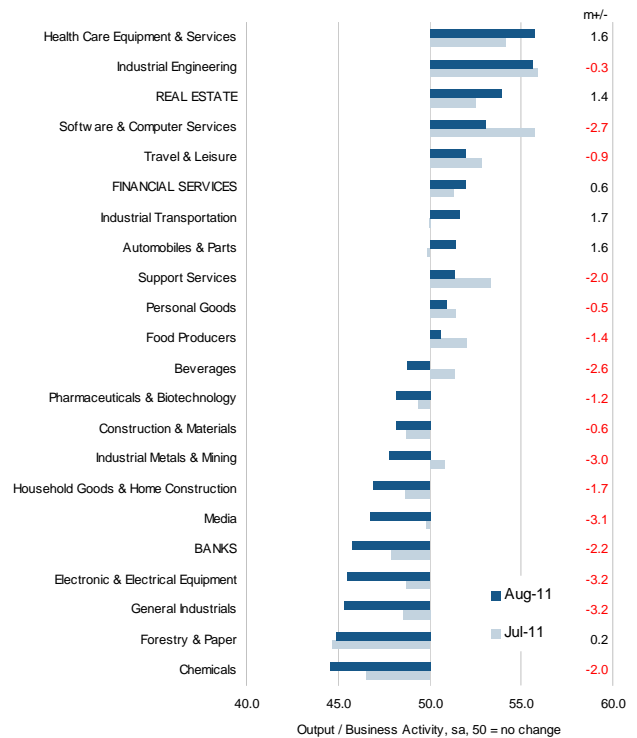
² Includes asset managers, consumer finance, speciality finance, investment services, mortgage finance.

Historically, banking confidence has led the trend in total financial sector activity, which itself leads the trend in wider economic growth. The EU Financials Business Activity Index has a best-fit against the EU Composite Output Index when it is advanced by two months. Therefore the steep fall in the Banking sector Business Expectations Index in August could translate into the EU Financials and all-sector Composite PMI Output Indexes both falling into contraction territory towards the end of the year.

Banking confidence leads wider growth trends



EU Sectors: August 2011



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. September data will be available on 7 October. For more information, please contact economics@markit.com.

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

Trevor Balchin

Senior Economist

Markit

Tel: +44 1491 461065

Email: trevor.balchin@markit.com

For further information, please visit www.markit.com

The intellectual property rights provided herein are owned by Markit Economics 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. *Purchasing Managers' Index™* and *PMI™* are trade marks of Markit Economics Limited. Markit and the Markit logo are registered trade marks of Markit Group Limited.