

# European Union

## Basic Materials industry showed marked rebound in July

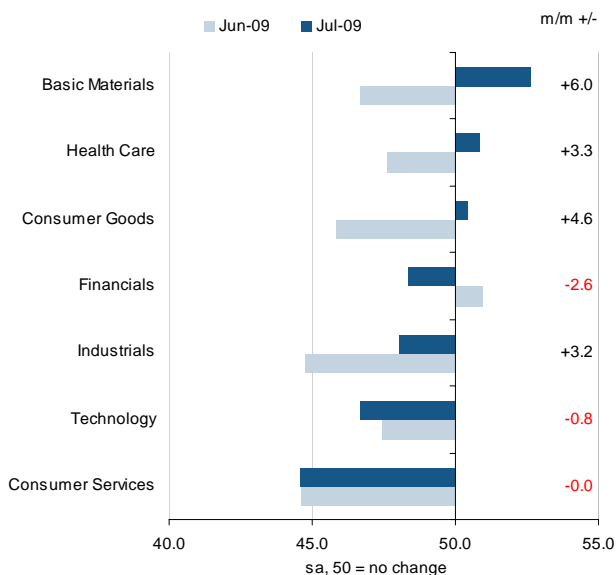
### Key findings

- Commodity-facing sectors performed well compared to other industries in July.
- Chemicals, forestry and metals series tracking official production data.

### Basic Materials industry rebounded

Detailed PMI sector data showed that three broad industry groups posted growth of business activity in July. The fastest rate of expansion was seen in Basic Materials, which includes chemicals, forestry & paper and metals. This industry also registered the largest one-month improvement in its Output Index of all industries covered in the latest period.

Chart 1: Output/Activity Index, Industry Tier



Basic Materials PMI data for the EU are based on responses from around 900 panellists drawn from Markit's eleven national EU manufacturing PMI survey panels. In July, output rose for the first time since April 2008. A return to new order growth ended a fifteen-month sequence of contraction. Firms continued to run down input inventories at a marked overall rate, while employment across the industry continued to contract

sharply. However, both respective indexes were at nine-month highs in the latest period.

The marked upward movement in the Output Index in Basic Materials was broadly reflected in the three sectors that constitute the industry, most notably in Industrial Metals & Mining. This sector saw the steepest one-month rise in the Output Index of all sectors covered by PMI data in July. The table below shows that the component sectors of Basic Materials have seen the steepest rebounds from recent lows across all sectors (with the exception of Automobiles & Parts).

Table 1: Change in Output Index since recent low

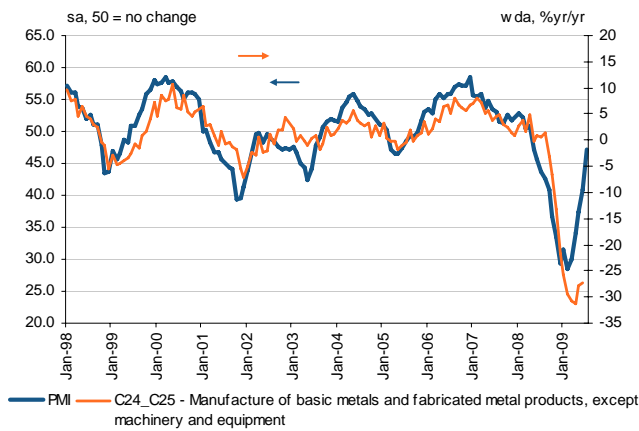
	Low (Jan-08 to Jul-09)	Jul-09	Change since low
Chemicals	25.0	55.8	+30.8
Automobiles & Parts	20.8	50.4	+29.6
Industrial Metals & Mining	23.7	50.5	+26.8
Forestry & Paper	29.4	53.6	+24.2
Electronic & Electrical Equipment	29.7	50.9	+21.2
General Industrials	31.9	51.6	+19.7
Industrial Transportation	28.9	48.2	+19.3
Beverages	37.4	54.9	+17.6
Household Goods & Home Construction	30.5	47.4	+16.9
Personal Goods	32.6	48.9	+16.3
Industrial Engineering	28.0	44.0	+16.0
Construction & Materials	31.1	45.6	+14.5
Travel & Leisure	32.6	45.8	+13.3
Pharmaceuticals & Biotechnology	42.6	55.3	+12.7
Health Care Equipment & Services	36.5	47.8	+11.2
Banks	36.4	46.0	+9.6
Support Services	40.6	49.5	+8.8
Financial Services	42.3	50.2	+7.9
Software & Computer Services	42.5	47.4	+4.9
Food Producers	46.1	50.2	+4.1
Media	40.4	43.7	+3.3

### Industrial Metals & Mining

Based on annual value added figures, the Industrial Metals & Mining sector accounts for around 56% of the Basic Materials industry in the EU. In July, output rose for the first time in fifteen months following an increase in new orders. However, the headline PMI remained slightly below the neutral 50 threshold as the employment, input stocks and suppliers delivery times components exerted negative influences.

Plotted against eurostat data on production, the PMI data perform well (see Chart 2). Since the series began in January 1998, the headline PMI has a correlation of 0.854 with the official annual rate of change. This improves to **0.907** with the PMI advanced by two months.

**Chart 2: Industrial Metals & Mining PMI vs Eurostat**



The chart above illustrates the relationship between the PMI and official series. The PMI understated the extent of the severe contraction in Q1, but has signalled in advance the softer declines of recent months.

**Chemicals**

Based on annual value added figures, the Chemicals sector accounts for around 33% of the Basic Materials industry in the EU. In July, output rose for the second month running. Moreover, the rate of growth was the strongest since February 2008 and the sharpest of all sectors covered by PMI data. The headline PMI was above 50.0 for the first time since May 2008, despite a further sharp fall in employment.

Plotted against eurostat data on production, the PMI data perform well. Since the series began in January 1998, the headline PMI has a correlation of 0.856 with the official annual rate of change. This improves to **0.893** with the PMI advanced by one month.

**Chart 3: Chemicals PMI vs Eurostat**

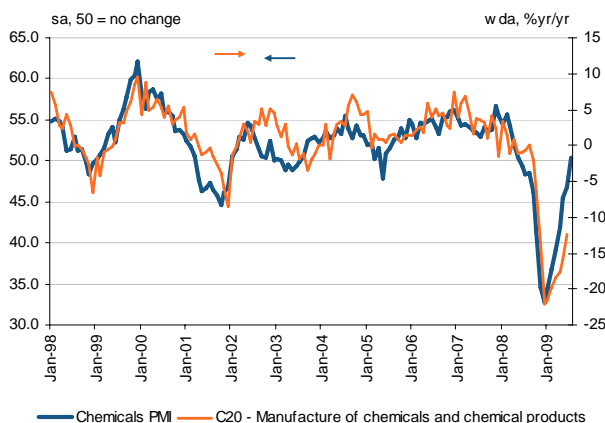


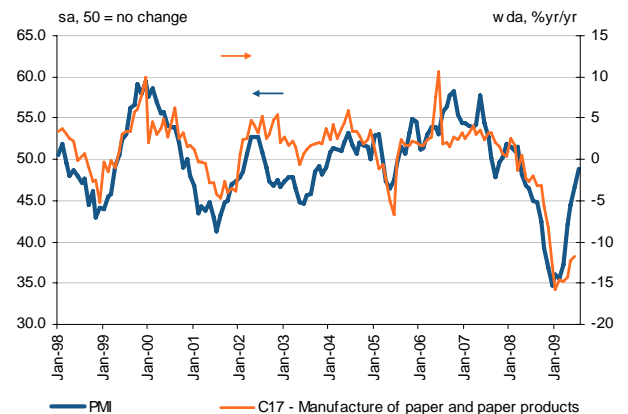
Chart 3 illustrates the relationship between the PMI and official series. The PMI has accurately tracked the sharp contraction in chemicals output over the second half of 2008 and the recent easing in the rate of decline.

**Forestry & Paper**

Based on annual value added figures, the Forestry & Paper sector accounts for around 11% of the Basic Materials industry in the EU. In July, output rose for the second month running. Moreover, the rate of growth was the strongest since March 2008 and the fourth-fastest of all sectors covered by PMI data. The headline PMI remained below 50.0, reflecting further sharp falls in employment and stocks of inputs.

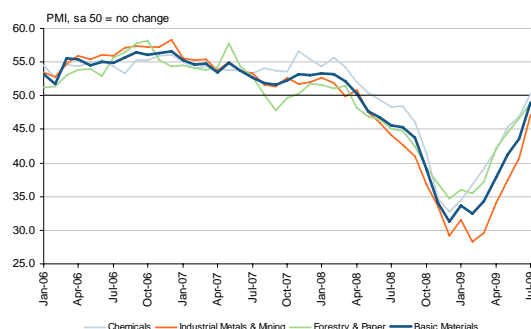
Plotted against eurostat data on production, the PMI data perform well. Since the series began in January 1998, the headline PMI has a correlation of 0.768 with the official annual rate of change. This improves to **0.795** with the PMI advanced by one month.

**Chart 4: Forestry & Paper PMI vs Eurostat**



The chart below illustrates the relationship between the PMI and official series. The PMI signalled the sharp downturn in late-2008 in advance of official statistics, and has recently indicated a near stabilisation of business conditions in the sector.

**Chart 5: Basic Materials PMI**



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EU sector data is released on the fifth working day of each month. August data will be available on 7 September. For more information please contact [economics@markit.com](mailto:economics@markit.com)

The EU Basic Materials industry is comprised of the following NACE Rev.2 codes:

Industrial Metals & Mining

- C24 Manufacture of basic metals
- C253 Manufacture of steam generators, except central heating hot water boilers
- C255 Forging, pressing, stamping and roll forming of metal; powder metallurgy
- C256 Treatment and coating of metals; general mechanical engineering
- C2572 Manufacture of locks and hinges
- C2573 Manufacture of tools
- C259 Manufacture of other fabricated metal products

Chemicals

- C201 Manufacture of basic chemicals
- C202 Manufacture of pesticides and other agro-chemical products
- C203 Manufacture of paints, varnishes and similar coatings, printing ink and mastics
- C205 Manufacture of other chemical products
- C206 Manufacture of man-made fibres
- C2219 Manufacture of other rubber products
- C2312 Shaping and processing of flat glass
- C2314 Manufacture of glass fibres

Forestry & Paper

- C161 Saw milling and planing of wood, impregnation of wood
- C171 Manufacture of pulp, paper and paperboard
- C1721 Manufacture of corrugated paper and paperboard and of containers of paper and paperboard
- C1723 Manufacture of paper stationery
- C1729 Manufacture of other articles of paper and paperboard not elsewhere classified

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