

European Union

Sectors: further signs of recovery in output growth

Key findings

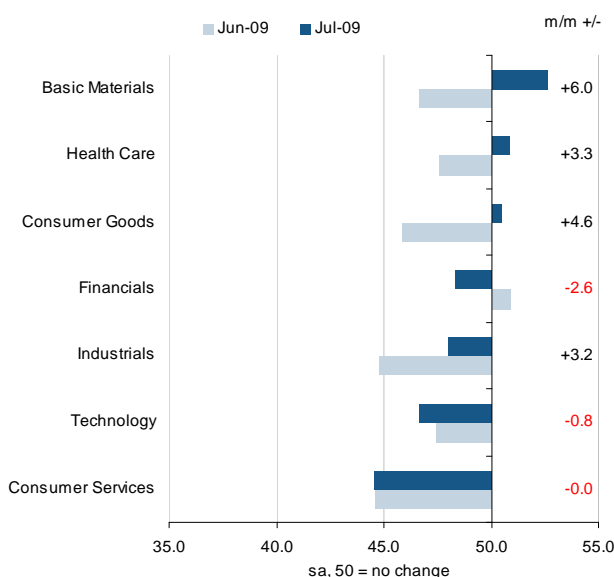
- Three industry groups show higher activity in July.
- But Financials slipped back into contraction territory.
- Autos & Parts posted higher production.

Trends by industry group

PMI data compiled by Markit covering the EU manufacturing and service sectors showed a further moderation in the rate of decline in activity in July. The EU Composite Output Index remained below the no-change mark of 50.0, but rose to indicate the slowest rate of contraction since activity began falling in June of last year.

Detailed sector data released on 7 August showed that three broad industry groups posted growth of business activity in July. Production rose in Basic Materials – which includes chemicals, forestry & paper and metals – Health Care and Consumer Goods.

Chart 1: Output/Activity Index, industry tier



However, other industries fared worse than in the previous month. Financials activity fell in July having increased slightly in June, while the rate of decline in Technology accelerated. Consumer Services remained the worst performing industry in July, while the pace of decline in Industrials – the largest broad industry which includes construction – slowed appreciably.

Growth increasingly broad-based

PMI data are also available at the more detailed sector tier. July data showed that ten sectors out of twenty-one in total registered higher levels of business activity, compared to four the previous month.

Chart 2 (overleaf) illustrates the best and worst performing sectors. Chemicals, Pharmaceuticals & Biotechnology, Beverages and Forestry & Paper recorded the fastest rates of output growth. Notably, production in the Autos & Parts sector rose slightly, ending a thirteen-month sequence of decline and marking a rapid turnaround since the end of 2008.

The steepest fall in business activity was posted in Media, followed by Industrial Engineering, Construction & Materials, Travel & Leisure and Banks. A number of sectors registered sharper declines in July than one month previously, including Media, Banks and Software & Computer Services.

When looking at which sectors have seen the greatest turnaround in business conditions since the severe slump late last year, the Chemicals and Autos & Parts sectors have registered the steepest gains in their respective output indexes from recent lows.

In July, the steepest one-month gain in the Output Index was shown for Industrial Metals. Having posted the second fastest rate of contraction in June, the sector registered marginal growth in the latest period.

Chart 2: Output/Activity Index, sector tier

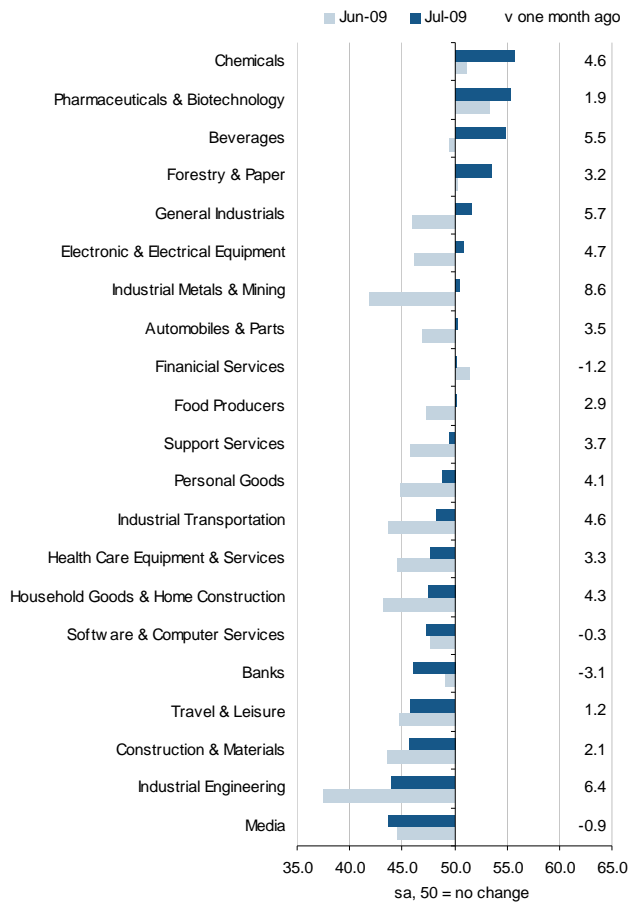


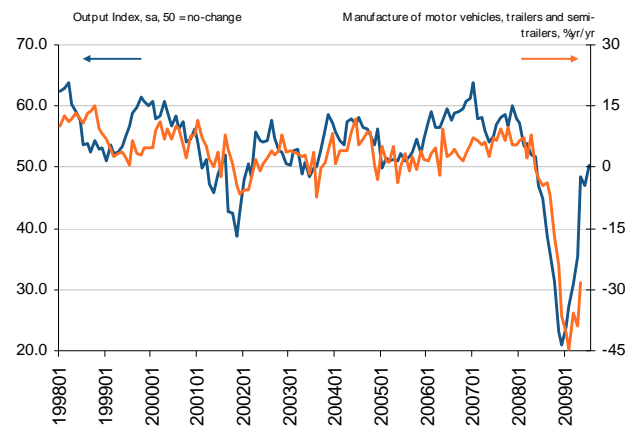
Table 1: Change in Output Index since recent low

	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

Autos sales boosted by incentives

The rise in car production was driven by a sharp increase in new orders. Of the nine sectors that posted higher new business volumes, Automobiles & Parts registered the sharpest rate of growth, suggesting that government scrapping incentives are having a real impact. New export business, which includes intra-European trade, also rose. Meanwhile, the volume of inputs purchased by autos & parts producers fell only marginally since June.

Chart 3: Automobiles & Parts



The PMI series has a good track record against official Eurostat data on autos production. Since January 1998, the PMI data have a correlation of 0.80 with the annual rate of change in production of motor vehicles and semi trailers.

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

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