

Eurozone manufacturing

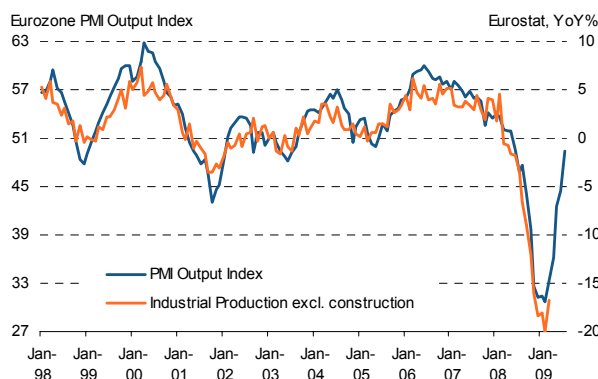
Rebound in PMI data raise hopes for upturns in consumer spending and business investment

- **Manufacturing output shows near-stabilisation in July.**
- **Household spending and business investment help drive recovery.**

Output falls at sharply reduced rate

The Eurozone Manufacturing PMI for July (final data) showed a further easing in the rate of contraction from the record reached in February. The pace of decline of output also weakened to the slowest for 13 months, consistent with only a marginal drop in production during the month. The turning point signalled by the PMI is reflected in the official data, which showed an easing in the annual rate of decline of manufacturing production from 20.0% in April to 16.8% in May, the latest month for which Eurostat data are currently available (see chart 1).

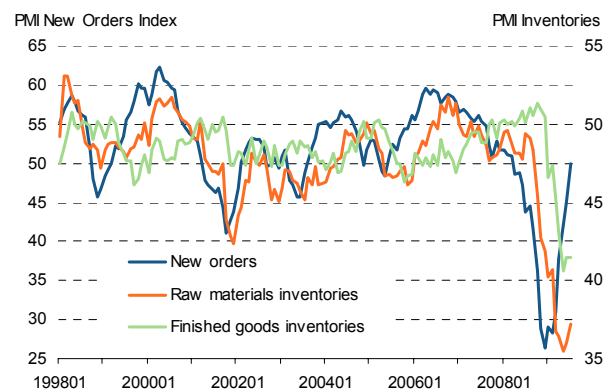
Chart 1: Eurozone manufacturing output



Furthermore, comparisons of order books and inventories suggest that output will continue to recover in coming months. As illustrated by chart 2, new orders at Eurozone manufacturers have almost stabilised in July, contrasting with the steep rates of decline seen earlier in the downturn. At the same time, inventories of both raw materials and finished goods at these companies continued to fall at a near record pace. This suggests that the majority of manufacturers have yet to

even commence the rebuilding of stock levels. In other words, the improvement in the Eurozone Manufacturing PMI Output Index cannot be simply explained by short-term inventory building.

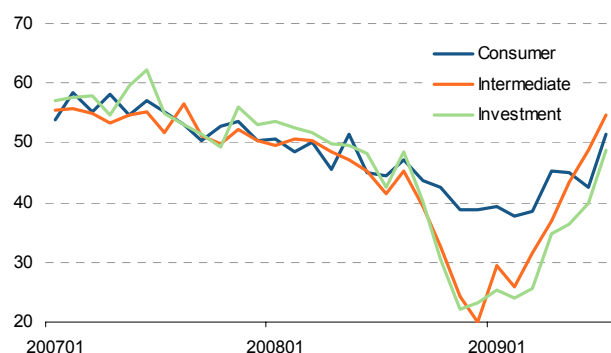
Chart 2: New orders and inventories



Not just stock building...

Looking at the trends for different product categories, the strongest rebound in the PMI New Orders Index has been evident among manufacturers of intermediate goods (those which supply manufactured inputs, such as car tyres, PCBs, etc., to other companies). Distinct recoveries were also evident among producers of consumer and investment goods, the latter including plant and machinery bought by other companies (see chart 3).

Chart 3: Eurozone Manufacturers New Orders PMI



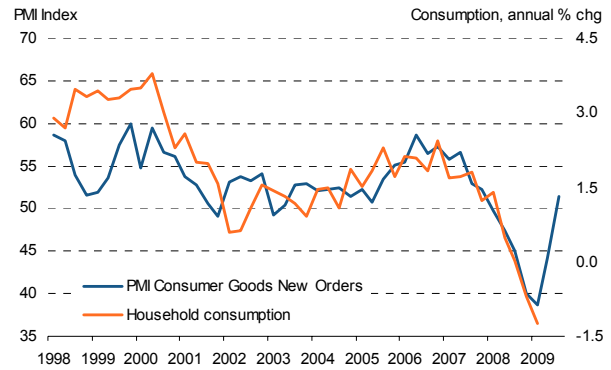
New orders for consumer goods in fact rose in July for the first time since May of last year, while new orders for investment goods fell at the slowest pace seen over the same period.

Hopes raised for household spending and business investment

Signs of improvements in the PMI data for consumer and investment goods are especially important at this stage of the business cycle. They will signal the recovery of “final” demand which many consider essential for any inventory-building led rebound in manufacturing to turn into a full-fledged and sustainable recovery.

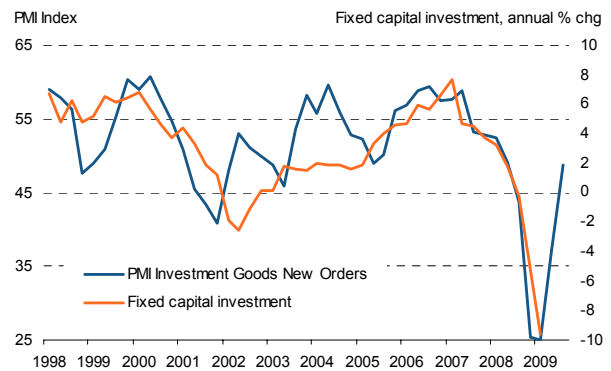
Household spending fell 1.2% on a year ago in Q1 while fixed capital investment plunged 9.6% – the steepest declines seen since both Eurostat data series began in 1995. Charts 4 and 5 demonstrate that the PMI New Orders Indices for consumer and investment goods producers have tracked the relevant official series well in the past, including the steep deterioration last year, but suggest that both series have recovered sharply in recent months as consumers and businesses have grown more confident that the worst is over in terms of the recession.

Chart 4: Household spending



Note: PMI series is a quarterly average with data for July only used for Q3 2009.

Chart 5: Business investment



Note: PMI series is a quarterly average with data for July only used for Q3 2009.

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