

# Eurozone

Eurozone industrial production fell at fastest annual rate in the history of the monetary union

## Key findings

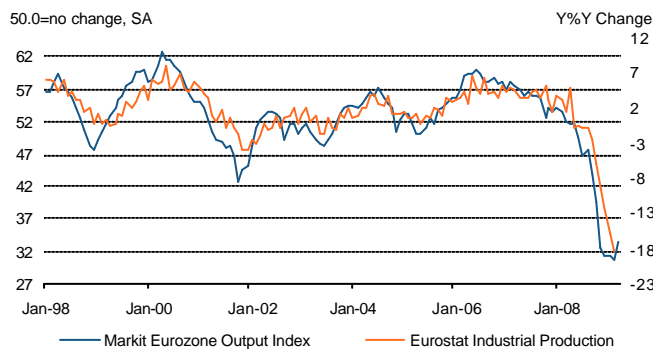
- February industrial production down 18.4% on last year.
- PMIs suggest similar pace of decline in March, but easing in sight.

## Production down at fastest pace on record

Industrial production (IP) across the sixteen nation euro area fell at the fastest pace since at least 1991 during February. Data from Eurostat – the European Union’s statistics bureau – estimated that IP slumped 18.4% in February compared to the same period in 2008. Measured on a monthly basis, IP fell 2.3%.

The Eurozone PMI Manufacturing Output Index, which has proven to be an accurate predictor of trends in the official data, with a correlation between the two series of 0.90, had pointed to the steepest fall in the history of the survey during February. In contrast, economists (according to a Reuters’ poll) had been expecting a lesser, 17.6%, year-on-year fall.

Chart 1: Eurozone PMI output and Eurostat IP



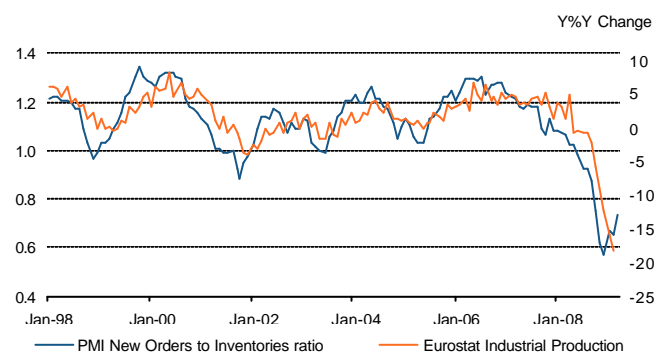
Sources: Markit, Eurostat

PMI output data for March continue to point to a historically steep decline in production volumes. The latest reading was only marginally above the survey-low recorded for February, suggesting that IP again fell

around 15%-20% year-on-year during the last month of Q1. Nonetheless, the index has tracked broadly sideways in recent months and any tentative signs that the rate of decline may be moderating will be welcomed by Eurozone manufacturers.

Further evidence that manufacturing production may be close to a nadir can be found in the cyclically-sensitive PMI new orders-to-inventories ratio (shown below). The series tends to move in advance of trends in official IP and, since bottoming in December, has shown a broadly upward trend. This suggests that the rate of decline of IP in Q2 will be weaker than seen in Q1. Nevertheless, the new orders-to-inventories ratio remains historically low and continues to point towards double-digit rates of contraction.

Chart 2: PMI new orders-to-inventories ratio

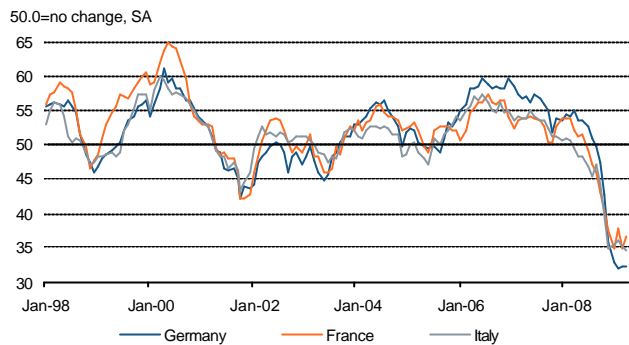


Sources: Markit, Eurostat

## Germany faces steepest downturn

PMI data by nation suggest that German manufacturers are facing the sharpest rate of decline of output of the biggest three euro area economies. The Eurozone’s largest economy’s reliance on exports has left it particularly exposed to the global slump in demand. That said, France and Italy both recorded near-record declines in production levels during February and March.

**Chart 3: Eurozone PMI by country**



Source: Markit

Latest official and survey data will put further pressure on the ECB to reduce rates when they next meet on 7<sup>th</sup> May. By then policy-makers will have a further insight into how sector performance is developing into Q2, with the next snapshot of Eurozone manufacturing activity set to be released via flash PMI data on 23 April 2009.

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