

Markit Flash Eurozone PMI

Eurozone sees heightened recession risk

Key findings

- **PMI data raise likelihood of Q3 Eurozone GDP contraction.**
- **Current consensus growth forecast for 2008 looks too optimistic.**

The September flash PMI data, published 23 September, allow an estimation of economic growth in the third quarter as a whole. Historically, the PMI output indices for the Eurozone and the main euro area countries correlate well with GDP growth statistics, but are published well ahead of the official data.

The average output index reading for the combined manufacturing and services economy in the Eurozone in Q3 was the weakest quarterly average since Q4 2001 and was the second-weakest seen over the survey's ten-year history. The index has fallen steadily since peaking in Q2 2006.

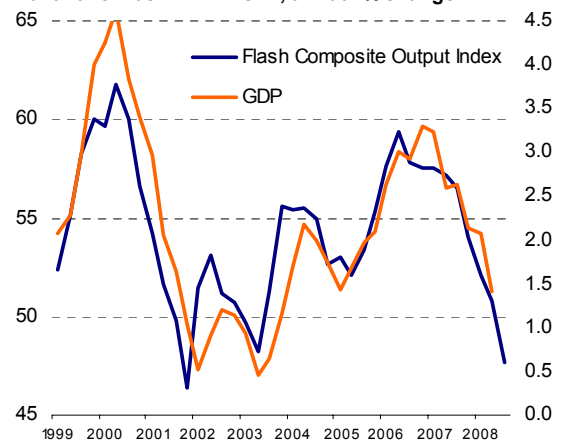
A simple regression of the PMI data against quarterly GDP growth indicates that the Q3 reading is broadly consistent with a stagnation of GDP compared Q2. This follows a 0.2% quarter-on-quarter contraction in Q2, according to official data. However, as the Composite Flash PMI excludes construction and retail – two sectors which are currently performing even worse than the manufacturing and service sectors – the flash PMI data raise the likelihood of the Eurozone entering a technical recession in 2008, defined as two consecutive quarters of falling GDP, if GDP contracts again in Q3.

In terms of year-on-year growth, the Q3 reading is consistent with GDP just 0.4% higher than a year ago.

The weakness of the Eurozone economy in Q3 calls into question the average growth currently being forecast for 2008 as a whole, the consensus for which, according to a Reuters poll of analysts on 11 September, was 1.3%. The European Commission is currently also forecasting 1.3% for 2008 while the ECB is slightly more upbeat at 1.4%.

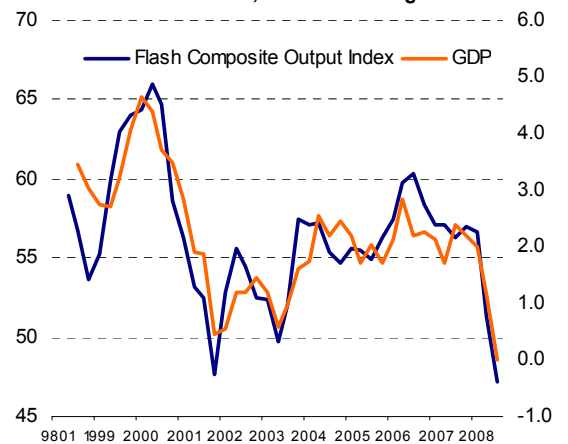
Eurozone

Eurozone Flash PMI v. GDP, annual % change



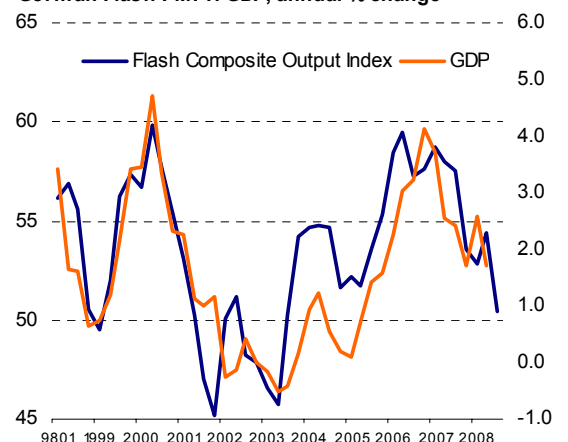
France

France Flash PMI v. GDP, annual % change



Germany

German Flash PMI v. GDP, annual % change



However, the Eurozone economy will need to see a remarkable rebound in Q4 to achieve such growth for 2008 as a whole. Given that a 0.7% GDP rise in Q1 was followed by a 0.2% contraction in Q2 and, according to the PMI data, stagnation at best in Q3, Q4 would need to see a quarterly rise of GDP in the region of 0.8% (consistent with an average composite PMI reading of approximately 56-57). Given the retrenchment in the corporate sector (see accompanying note on employment), the ongoing credit crisis and worsening property markets, such growth in Q4 looks hugely optimistic.

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