

Eurozone Labour Market

Employment growth collapses in the euro area

Key findings

- Collapse in employment growth to trigger further sharp rise in unemployment.
- Spain leads job losses, but increased job shedding seen in other big-four countries.

Employment growth collapses

The Employment Index from the Markit Eurozone PMI survey sank to a record low in November, signalling the steepest rate of job losses since the survey began in July 1998. The survey covers manufacturing and services and provides a useful advance indication of changes in the labour market across the whole economy.

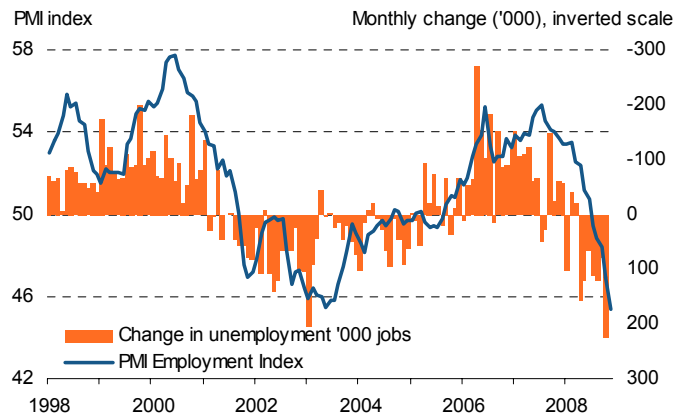
Charts in this note plot PMI Employment Indexes for the Eurozone against actual changes in the number of people unemployed according to official labour market data (charted using an inverted scale).

The Eurozone PMI Employment Index peaked in 2007 at a level consistent with employment growth of around 750,000 jobs per quarter across the region as a whole (official growth in fact peaked at 773,000 in Q1 2007). However, the PMI Employment Index has since fallen steadily and has been below 50.0 (meaning a month-on-month drop in total manufacturing and private sector services employment) in each of the five months to November, with the rate of job losses accelerating over this period. Official data show a sharp rising in unemployment, with the number swelling by 225,000 in October – the largest monthly rise since March 1993.

Rate of unemployment to surge

This pushed the Eurozone's unemployment rate up to 7.7% in October from 7.6% in September (up from a recent low of 7.2% seen in the first quarter of the year). A further rise is widely expected. The latest long-term economic poll by Reuters (conducted in October) suggests the average expectation amongst economists is for the unemployment rate to peak at 8.2% in the final quarter of 2009. However, the steep deterioration in the

Eurozone PMI and unemployment



PMI data in the past two months suggests a substantially higher rate will be seen, and well before the end of next year.

Job losses highest in Spain, but situation set to also worsen in Germany

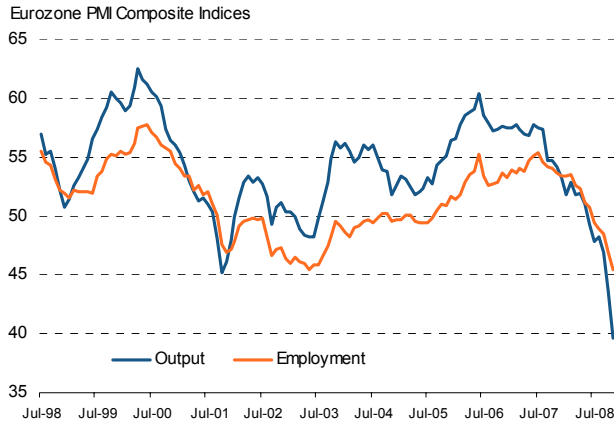
First, both PMI and official data indicate that Spain is currently providing the main source of job losses, with 364,000 added to the unemployment toll in just the two months of October and November (see chart on page 2). However, unlike official data, the PMI surveys also indicate that **official numbers on job losses will start to mount in all of the other big-four euro countries**, most notably Germany, where official data have yet to signal rising unemployment, even continuing to register falling unemployment in October as employers seemed slow to cut staff in the face of the falling orders.

Employment to follow output down further in coming months

Second, in addition a deterioration in the official unemployment numbers in November due to the increasingly broad-based spread of rising unemployment, **the PMI surveys suggest that the unemployment trend will continue to worsen in coming months as the recession deepens**. With the PMI signalling an acceleration in the rate of output contraction in November (to a survey record), and the labour market tending to lag changes in output, the

likelihood is that unemployment will continue to rise sharply, and at an increased rate, in Q1 2009.

Eurozone PMI Output and Employment

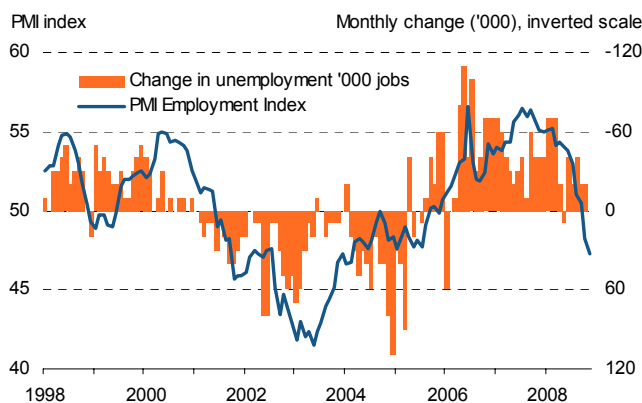


Given that the current rate of growth of unemployment in the Eurozone is already running at 225,000 per month, combined with the growing likelihood that German employers will soon need to start reducing headcounts to boost productivity, and the fact that the downturn shows no signs of bottoming out yet, an unemployment rate of 9% in the Eurozone is beginning to look not altogether unfeasible in 2009. To reach 9% would require a further increase of approximately two million unemployed, equating to an average of 175,000 per month – which is approximately the average rate seen in the early-1990s recession.

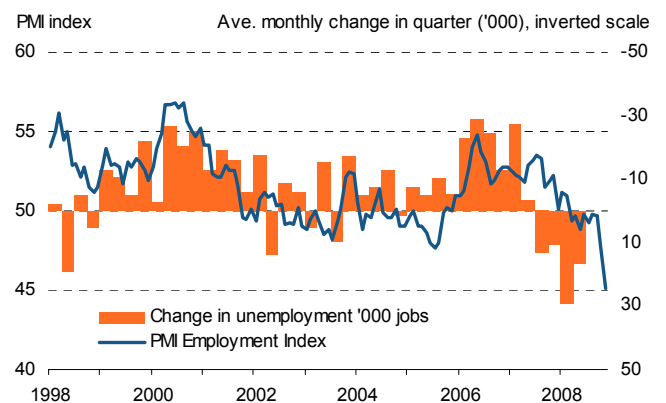
Unemployment trends in the big-four Eurozone countries

(Unemployment data shown using inverted scales)

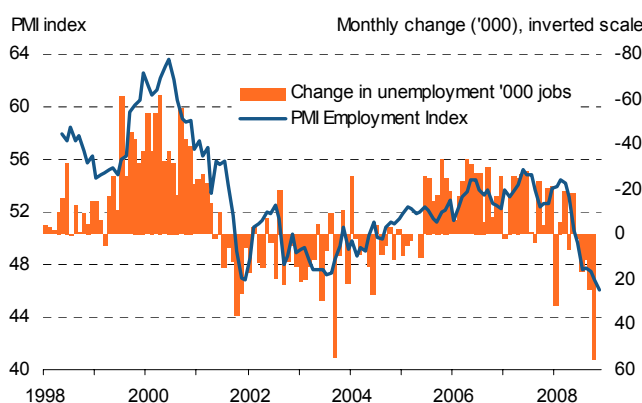
Germany



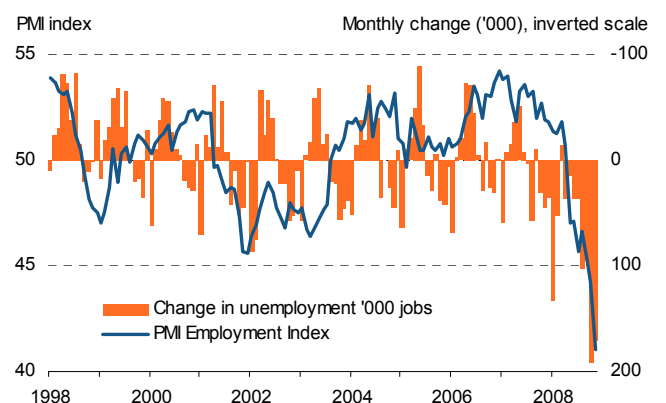
Italy



France



Spain



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