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Markit Economics Research

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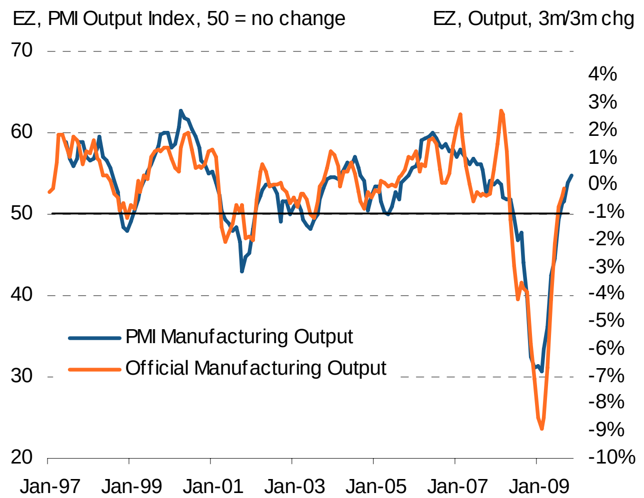
Eurozone Manufacturing

Eurozone manufacturing recovery still led by France and Germany

- **Final PMI data confirm growth of output at 26-month high in November.**
- **Expansions in France and Germany contrasted with weakness of Spain.**
- **Growth led by B2B and investment goods sectors.**

At 54.8 in November, up from the earlier flash estimate of 54.6, the final Markit Eurozone Manufacturing Output Index confirmed that production in the euro area rose at the fastest rate since Q3 2007. Based on its historical relationship against official manufacturing output data, the latest reading of the PMI Output Index is consistent with a rate of expansion of around 0.7% quarter-on-quarter[1].

Chart 1: EZ PMI Output vs Eurostat



Compared to the flash release, the final PMI release adds an analysis of the data by nation and sector, allowing for the main drivers of growth to be identified.

At the national level, it is becoming increasingly apparent that the recovery is characterised by uneven performances, particularly across the big-four industrial economies. According to PMI data, the rate of expansion of output in France was amongst the strongest recorded in the country since Q2 2006, while in Germany growth hit a 26-month high. There are also signs that a rebound is taking hold in Italy, with production rising for the second month running and at the quickest pace since September 2007. Growth in the Netherlands was the strongest in over two years, while output in Ireland rose for the first time since February 2008.

These performances sit in marked contrast to the situation in Spain, which is the only one of the big-four manufacturing sectors to have remained in recession, and Greece. Apart from a slight increase in July, PMI data indicate that production in Spain has fallen almost continuously since February of last year. Greek manufacturers reported back-to-back reductions in output in October and November, with the latest rate of decline the fastest for six months.

However, *actual levels* of manufacturing production in all Eurozone manufacturing sectors remain well below the peaks reached prior to the recession, suggesting that where growth is being recorded it is coming from a low base. Official data from Eurostat suggested that the size of the manufacturing sectors in Germany, France, Italy and Spain in September were still 17.0%, 15.6%, 24.4% and 25.5% smaller than their respective peaks achieved early in 2008.

Expansion led by business-to-business and investment goods sectors

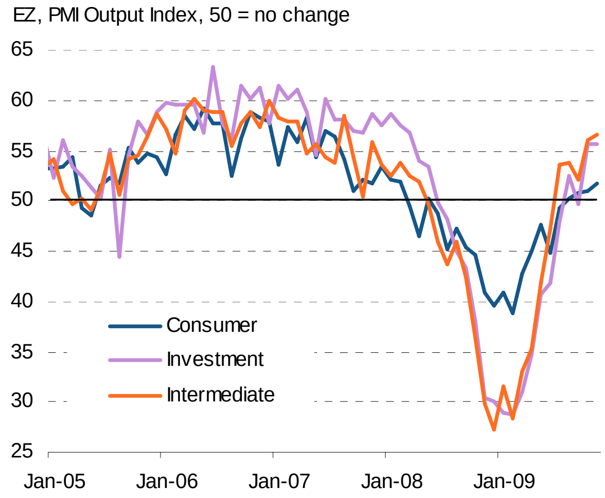
Production rose across the consumer, intermediate (products sold to other manufacturers) and investment (plant and machinery) goods sectors in November.

Growth of output at intermediate and investment goods producers – which were the hardest hit sectors at the worst of the downturn as business-to-business and capital spending were cut back sharply – was well above that signalled for producers of consumer products. This trend is likely to continue in coming

[1] Based on an OLS regression using the three-month on three-month rate of change in official data from Eurostat.

months, as a combination of rising new orders and leaner inventories at intermediate and investment goods producers contrasts with lower levels of new work and signs that stocks are starting to stabilise in the consumer goods sector.

Chart 2: Eurozone PMI Market Groups



Summary

The rebound of the Eurozone manufacturing sector is gaining traction, albeit from a low base, with production and new orders rising at their fastest rates since Q3 2007. Although France and Germany continue to lead the way, the base of the recovery is spreading to other nations, notably Italy and the Netherlands. Intermediate and investment goods producers have benefitted most in recent months, as capital and business-to-business spending start to recover after being cut back sharply during the downturn. However, Spain continues to be left behind, and coordinating monetary policy will be complicated if this continues.

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