Level 5
2 More London Riverside
London
SE1 2AP

tel +44 20 7260 2000
fax +44 20 7260 2001
www.markit.com

Markit Economics Research

08/06/2009

European Union

Sector PMIs show further broad-based improvement

Key findings

- **All major industry groups show either growth or slower declines in May.**
- **Autos sector revived by scrapping incentives.**
- **Labour market still very depressed.**

Further slowdown in pace of recession

PMI data signalled that the pace of decline in the EU private sector economy slowed further in May. Having registered its largest month-on-month gain in the near twelve-year series history in April, the Composite Output Index for the EU (which covers both manufacturing and services) rose further in May to its highest since September 2008.

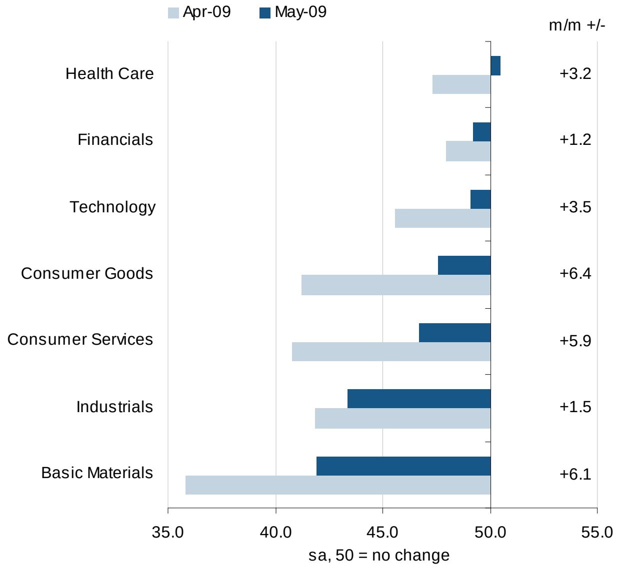
The broad-based nature of the softening in the rate of decline was well illustrated by the latest batch of detailed sector data compiled by Markit. Released on the fifth working day of every month, these series provide a unique analysis of detailed sector trends across the EU, something which is not possible with the national PMI surveys.

Trends by industry

Chart 1 plots the Output/Activity Indices for the major EU industry groups covered by PMI data. All industries saw indices rise on April, but in all cases except Health Care the rise merely pointed to an easing in the rate of contraction. Health Care, in contrast, registered an increase in output for the first time since August 2008.

The weakest rates of decline by industry were seen in Financials and Technology, and the current trajectory of the Output Indices for these sectors suggests that both could see a return to growth of activity before the third quarter. Meanwhile, the Consumer Goods & Services and Basic Materials industries all saw activity decline at substantially weaker rates than April.

Chart 1: Output / Activity Index, industry tier



Trends by sector

Data at the most detailed sector level (see chart 2, overleaf) provide further insight into the prevailing economic trends across the 27-member EU bloc. Two sectors – Pharmaceuticals & Biotechnology and Financial Services – registered growth of activity in May, while all remaining sectors saw rates of contraction moderate or stabilise.

One key finding from the latest data was a marked slowing in the rate of contraction of autos-related production. Automobiles & Parts registered the fifth-best performance of any sector in May, having posted one of the sharpest declines in April. This suggests strongly that the scrap subsidies introduced by governments across the EU is having an effect, at least on short-term car sales. Chart 3 tracks the relationship with official data on autos production. Since January 1998, the Output Index exhibits a correlation of **0.81** with the annual rate of change in production of motor vehicles and trailers.

Chart 2: Output /Activity Index, sector tier

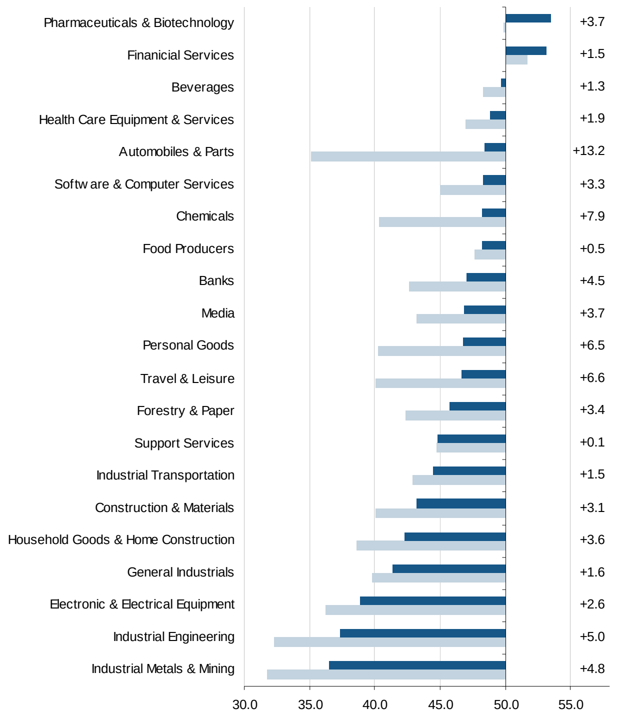
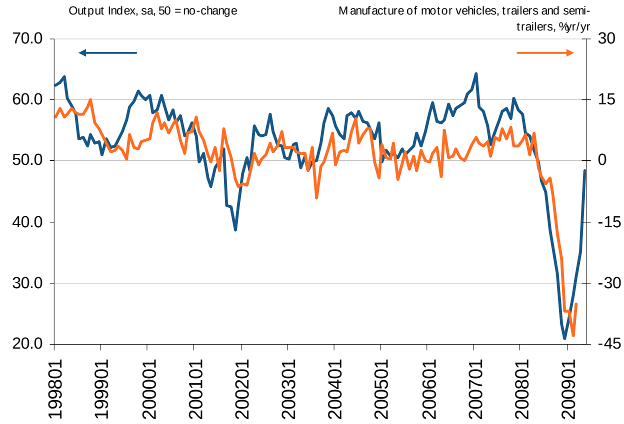


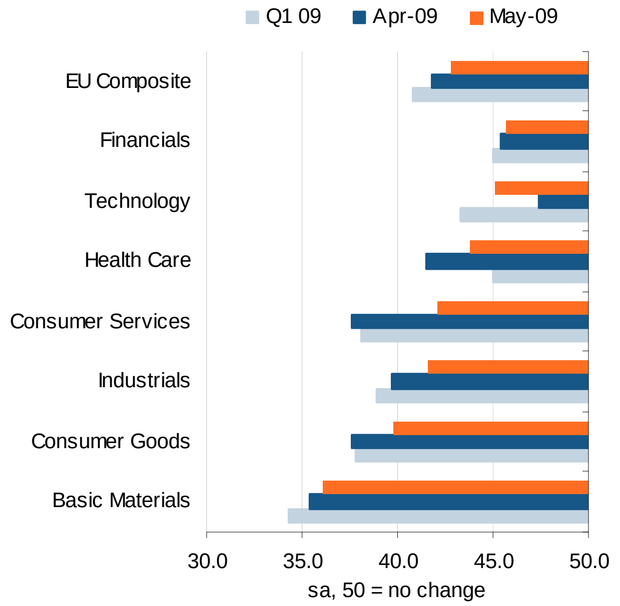
Chart 3: Automobiles & Parts Output Index vs Eurostat



Labour market remained very weak

PMI data suggest that a key downside risk to a full-blown recovery in the EU remains unemployment, and this is reinforced by the sector data. As chart 4 shows, the Employment Indices across all main industry groups have yet to pick up significantly from their historically low Q1 levels. Job shedding remained particularly severe in Basic Materials and Consumer Goods in May. However, Technology was the only sector to register a faster pace of workforce contraction than one month earlier.

Chart 4: Employment Index



May sector PMI data have underlined the earlier picture from the national and composite figures that Q2 could see a much slower rate of decline in EU GDP compared to Q1. The broad-based improvements in the sector output series were supported by similar trends for new orders. June is likely to see a range of industries returning to growth paths earlier than expected, notably in financials – with implications for credit conditions in the wider economy. However, rising unemployment remains a major threat to a "V" shaped recovery.

Forthcoming release date (June data):

EU ICB Sector PMIs: 7 July 2009

Trevor Balchin

Economist
Markit
Tel: +44 1491 461 065
Email: trevor.balchin@markit.com

For further information, please visit www.markit.com