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Markit Economics Research

08/05/2009

European Union

Sector PMIs: widespread softening of recession in April

Key findings

- **Pace of contraction slowed sharply.**
- **Sector data showed broad-based improvement.**
- **GDP to fall more slowly in Q2, but unemployment poses downside risk.**

Output Indexes rose across the board

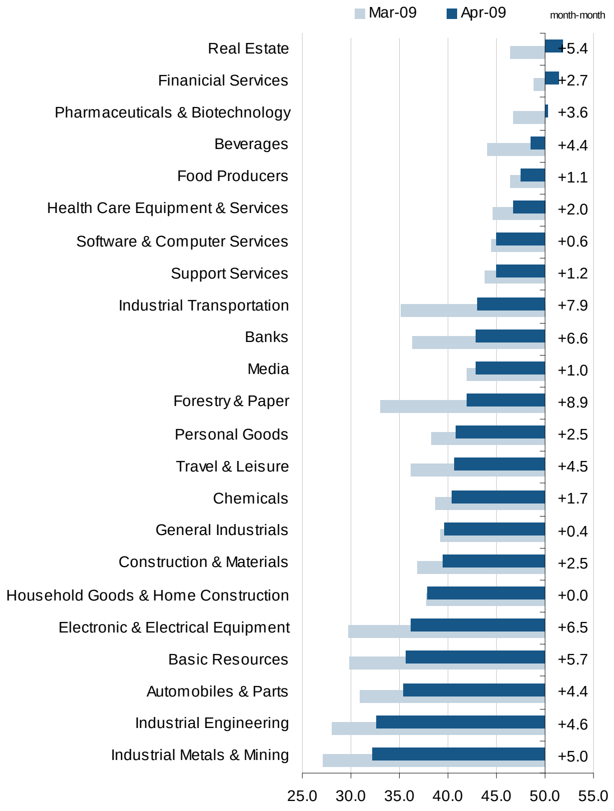
April PMI data signalled that the pace of decline in the EU private sector economy slowed markedly. Though still indicative of a sharp overall contraction, the composite output index for the EU registered its largest month-on-month gain in the near twelve-year series history.

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 enable analysis of detailed sector trends across the EU, something which is not possible with the national PMI surveys on which the overall EU data are based.

Chart 1 plots the output/activity index for all areas covered by PMI data at the most detailed sector tier. All stabilised or recorded upward movements since March. The most pronounced rebounds across all sectors were seen in Forestry & Paper, Industrial Transportation and Electrical & Electronic Equipment. Within consumer-oriented sectors, the largest gains were posted in Travel & Leisure, Automobiles & Parts and Beverages.

Three sectors – Real Estate, Financial Services and Pharmaceuticals & Biotechnology – registered index readings above 50 in April, indicating growth of activity. Of all the major industry groups covered, Financials showed the weakest decline in activity, and growth in this broad sector would have been registered were it not for a sharp fall in banking activity.

Chart 1: Output/Business Activity Index



Labour market remained weak

The EU composite employment index signalled a further marked rate of job shedding in the combined manufacturing and services economy in April. Moreover, the rate of decrease was slightly faster than the average for the first quarter of 2009 (the fastest on record).

ICB data indicate that workforces have declined sharpest in the Basic Materials and consumer-facing industries during 2009 so far (see chart 2, overleaf). Breaking the data down further into more detailed sectors showed that Automobiles & Parts suffered much steeper job cuts than all other areas. Industrial Engineering posted the next-sharpest workforce contraction.

Chart 2: Employment Index, industry tier

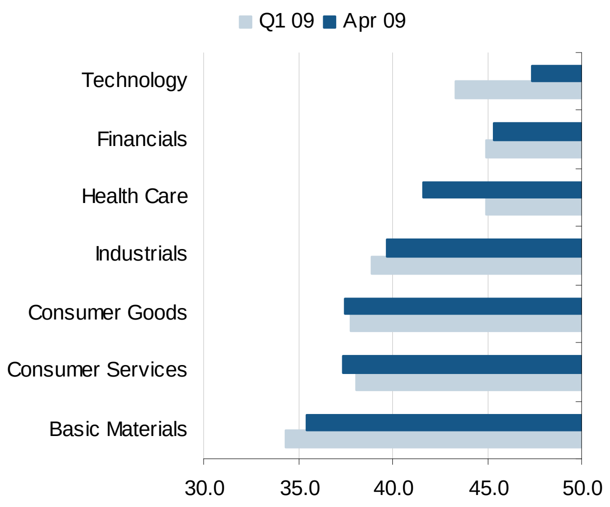
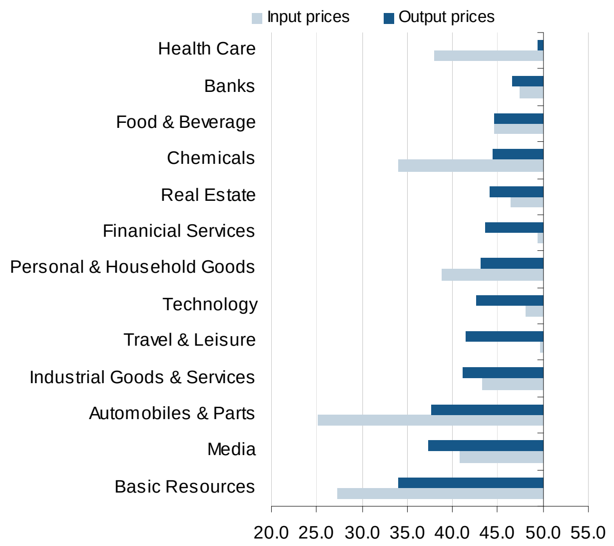


Chart 3: Price Indexes, supersector tier



Broad-based fall in charges

Data showed falling charges across all supersectors in April (chart 3). The strongest declines were posted in Basic Resources (including forestry and metals), Media and Automobiles & Parts. Health Care saw the weakest overall fall, mainly reflecting a marginal increase in pharmaceuticals charges.

Falling input costs were also signalled across all areas. The latest findings suggested that the greatest downward pressure on costs was in Automobiles & Parts, Basic Resources and Chemicals. Overall, the rate of decline in input prices across the EU private sector economy held steady at a survey-record pace in April.

Recession set to moderate in Q2

The latest PMI data provide an early signal that Q2 will see a moderation in the rate of decline in EU GDP. Not only did the output series register a record month-on-month improvement, but so did the New Orders Index. Moreover, the rebound in the data was broad-based across all sectors covered by PMI data. That said, the weak labour market remains a substantial downside risk to the strength of any recovery in Europe in the near term.

Forthcoming release date (May data):

EU ICB Sector PMIs: 5 June 2009

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