

# Eurozone

## Eurozone manufacturing saw record contraction of output in February

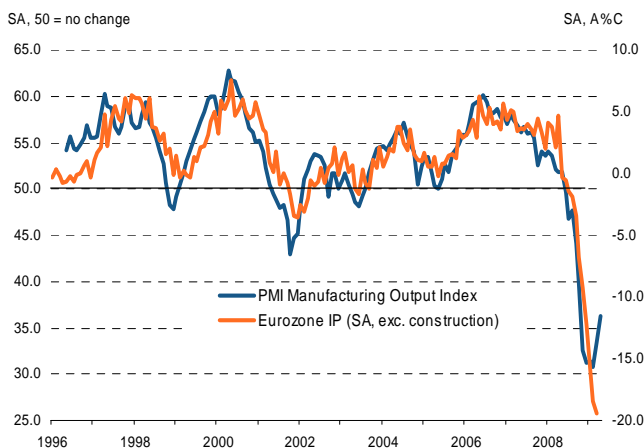
### Key findings

- Eurostat data indicated record fall in IP.
- Eurozone PMI suggests worst of manufacturing recession has passed.

Data released on 13 May highlighted a record drop in Eurozone industrial production during March. Compared to a year ago, industrial output excluding construction was down by nearly a fifth at 19.5% – the steepest contraction since comparable records began in 1991.

The magnitude of the decline was stronger than expected, and even worse than signalled by the Eurozone PMI Manufacturing Output Index, which is usually an extremely accurate predictor of trends in the official data, with a correlation between the two series of 0.89 (see chart 1).

**Chart 1: PMI data & Eurozone Industrial Production**

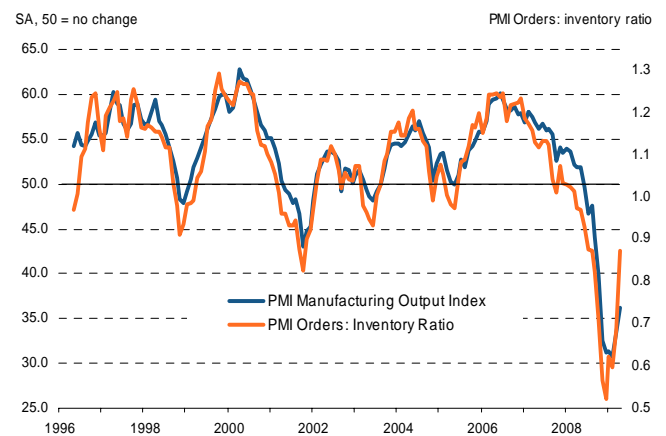


Sources: Markit Economics, Eurostat

The latest survey data nonetheless suggest that the very worst of the manufacturing sector's recession has passed. In April, the Eurozone manufacturing output PMI rose further from February's record low, reaching a six-month high. The forward-looking new orders balance also improved, rising substantially to its highest level since last October. Moreover, manufacturers are likely to

benefit from the substantial destocking that has taken place in recent months. A ratio of orders to stocks of finished goods indicates that the output index is likely to continue its recent ascent in the immediate months ahead (see chart 2). Germany, as the world's largest exporter, looks particularly well placed to benefit from any shift to re-stocking of the world's warehouses.

**Chart 2: PMI Orders: Inventories**



Source: Markit Economics

It should be acknowledged, however, that the output and new orders indicators remain well inside contraction territory and a concern is that any fledging recovery could stall once inventories have returned to more normal levels. But improvements in business and consumer confidence, as well as the synchronised worldwide upturn in the PMIs seen in April, provide hope that domestic and external demand growth will return and sustain the recent rises in the output and new order indices.

The next guide to whether recent signs of recovery in the Eurozone manufacturing economy are gaining further traction will be via flash PMI data on May 21<sup>st</sup> 2009.

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