

# Eurozone

## Eurozone emerges from recession in Q3

- Eurozone GDP up 0.4% in Q3.
- Germany leads upturn; Spain remains in recession.
- PMI points to further improvement in Q4.

### Eurozone GDP returned to growth, though Spain remained in recession

Eurozone GDP increased by 0.4% in Q3 signalling a return to growth following five consecutive quarters of decline. The rise was less than the 0.5% increase that economists had been expecting but nonetheless represented the strongest quarterly gain since Q1 2008. The improvement left GDP 4.1% down on the same period a year ago (compared to 4.8% in Q2).

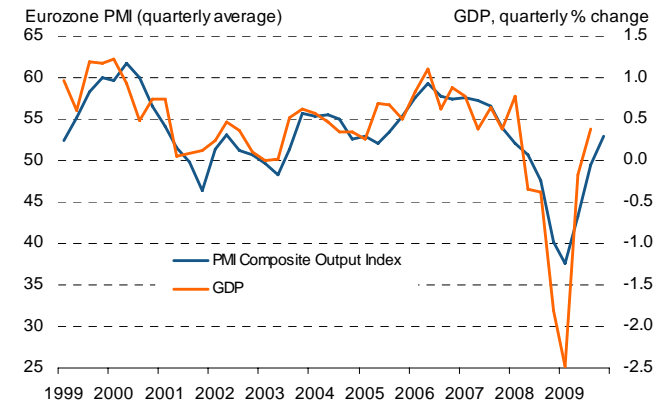
Looking at the four largest Eurozone countries, Germany reported the strongest gain, with GDP rising by 0.7% – the strongest gain since Q1 2008 and largely in line with expectations, followed by Italy, where a surprisingly strong 0.6% increase indicated the best performance since Q4 2006.

Where Italy surprised on the up-side, France disappointed, with a 0.3% gain coming in below economists' expectations of a 0.6% increase.

Spain was the only big-four nation to remain in recession, with a 0.3% contraction, though this represented a marked easing on the 1.1% decline seen in Q2.

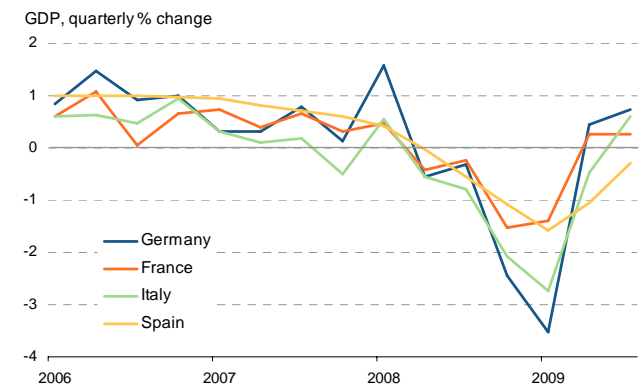
The Markit Eurozone PMI had signalled the return to growth in advance (our press release of 5 October noted that the surveys "raise hopes of a tentative return to growth of GDP for the region in Q3"). However, the PMI and GDP differ somewhat in terms of national performances, with the PMI data indicating that France has recorded the strongest gain in private sector economic activity in recent months, followed by Germany, and that Italy continued to contract. Divergences between PMI and GDP may be explained by differences in sector coverage (the PMIs presented in this note exclude retail and government sector).

Chart 1: Eurozone PMI and GDP



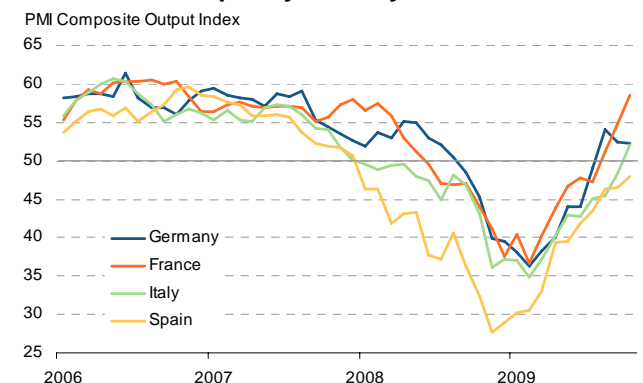
Sources: Markit, Eurostat.

Chart 2: GDP by country



Source: Ecwin.

Chart 3: PMI output by country



Source: Markit.

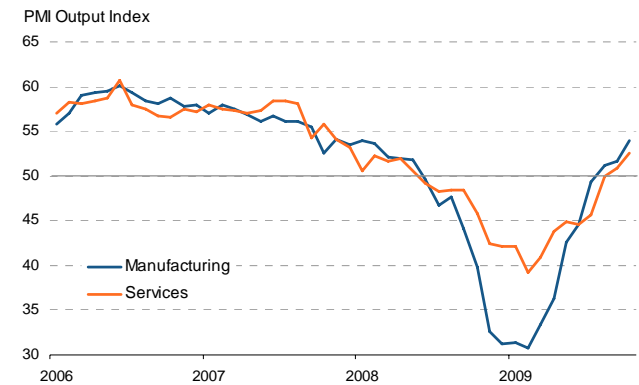
However, the divergence may also reflect an under-recording of service sector growth in the official GDP data. With official data showing manufacturing expanding at a quarterly rate of around 2% in Q3, the implication is that services contracted, which is very much at odds with the PMI data. A detailed breakdown of GDP data is not yet available.

### Q4 prospects

The PMI surveys have already provided an insight into business trends at the start of Q4, with the composite PMI Output Index rising to a 22-month high in October. Manufacturing output rose for the fourth successive month, growing at the fastest pace since January of last year, while services grew for the second month running, expanding at the strongest rate since December 2007.

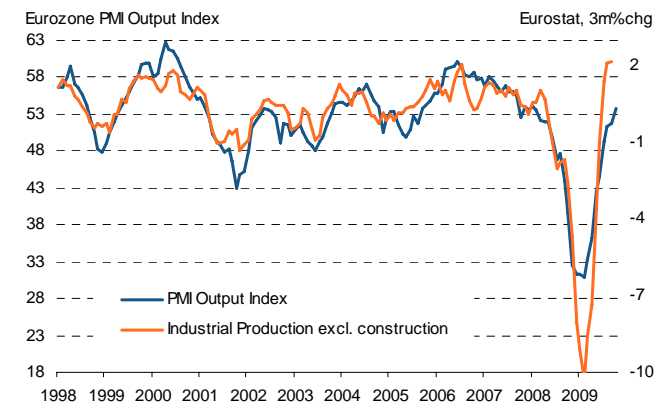
Furthermore, the ratio of manufacturers' new orders to inventories, which acts as a guide to the extent to which any imbalances between stock levels and demand will affect production, rose to the highest for just over nine years, suggesting manufacturers will continue to boost output in coming months.

**Chart 4 Eurozone manufacturing and services**



Sources: Markit.

**Chart 5: Eurozone manufacturing**



Sources: Markit, Eurostat.

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