

Eurozone

Eurozone growth accelerates in November, but recovery looks fragile

- **Output rises at stronger pace, but new order growth slows.**
- **Eurozone lags in global recovery?**

Eurozone PMI at two year high...

Markit's Flash Eurozone PMI Composite Output Index rose further above the 50.0 no-change level in November, signalling the fourth consecutive monthly increase in private sector output. The rate of growth has accelerated over this period, hitting the highest for two years in November.

The latest reading adds further to the picture for Q4: over the first two months of the quarter, the Composite Output Index has averaged 53.4, up markedly from an average of 49.5 in Q3. Given that Eurozone GDP rose by 0.4% in Q3, this suggests that the rate of GDP growth will have picked up further in Q4.

...but new order growth slows

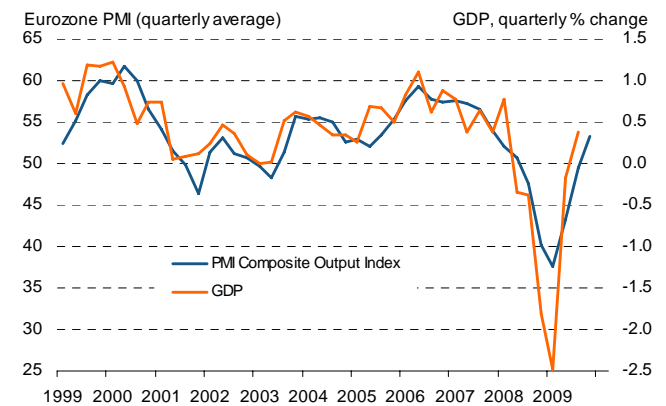
However, while the Output Index continued its rebound, the New Orders index fell for the first time since it sank to a survey low back in February. Although still indicating an increase in demand for goods and services, the rate of growth slowed to provide the first indication that the recovery may be losing momentum.

The main loss of traction in order book growth was seen in services, which have lagged manufacturing over the past six months. This has primarily reflected the boost that manufacturing has received from the need to rebuild inventories (the new orders to inventories ratio rose to the highest in over nine years in October), as well as rising exports (new export orders were higher for the fourth month running in November, although the rate of increase remained relatively subdued).

Stimulus measures have also boosted demand in the manufacturing sector, notably for autos¹.

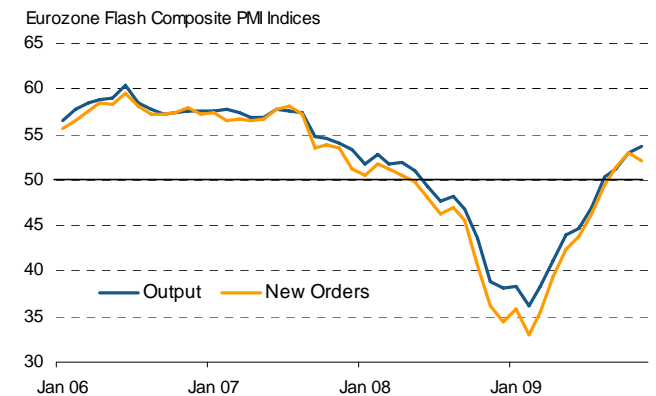
¹ http://www.markit.com/assets/en/docs/commentary/markit-economics/nov%2009/EU_ICB_09-11-06.pdf

Eurozone Flash PMI and GDP



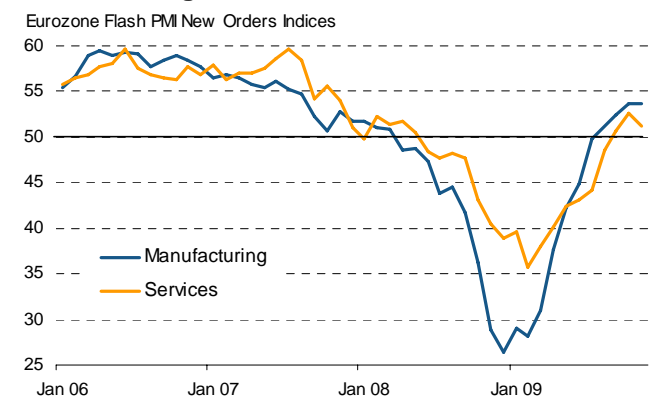
Sources: Markit, Eurostat.

Output and order books (manufacturing and services)



Source: Markit.

Manufacturing and services new orders

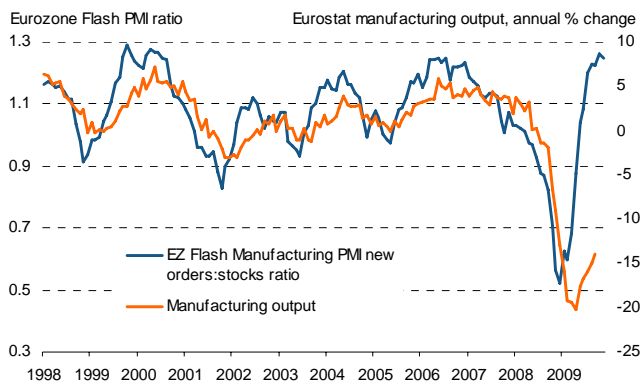


Source: Markit.

The easing in service sector new business growth has yet to translate into lower levels of activity, but expectations of future services growth slipped for the second month running in November, suggesting that the rate of activity growth will peak soon. This highlights the fragility of the recovery – especially as activity growth remains well down on the average seen in years prior to the financial crisis.

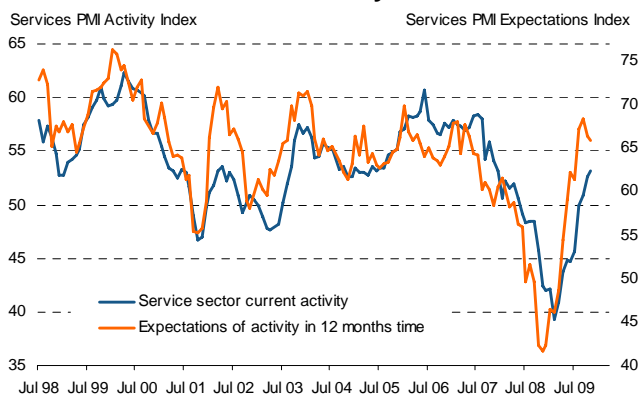
At the same time, an easing in the new orders to inventory ratio in manufacturing (albeit merely from October's high) suggests that the inventory rebuild stimulus may be beginning to fade.

Manufacturing inventory cycle



Sources: Markit, Eurostat.

Chart 3: Service sector activity and confidence

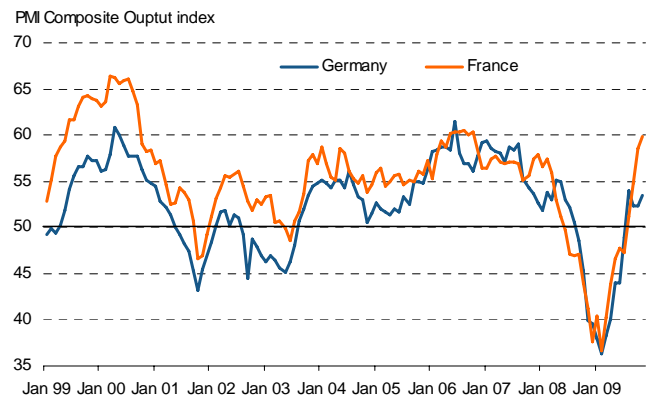


Source: Markit.

French growth continues to surge

A striking aspect of the November flash PMI data was the divergence in performance between France and Germany. The combined output of the French manufacturing and services sectors increased at a rate that, with the exception of a short-period in 2006, was the steepest in around nine years. In contrast, growth in Germany was more modest and below August's recent high.

Output in France and Germany



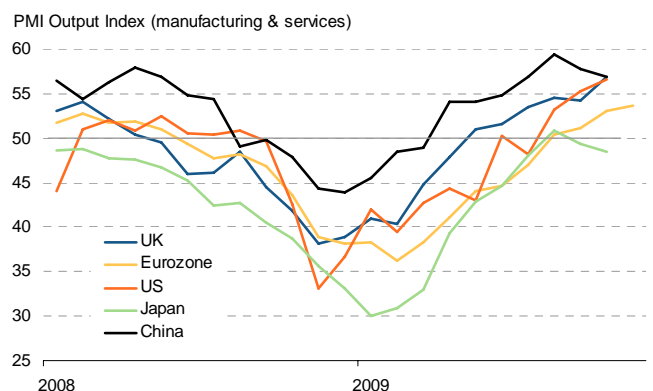
Source: Markit.

With manufacturing output growth again robust in both countries, the principal source of divergence remains in the performance of service sectors. German services growth was again very subdued as incoming new business fell for the first time in four months. In contrast, services growth in France accelerated to the fastest for over three years.

Eurozone still lags in global recovery

Despite the further improvement in output growth in November, growth of private sector manufacturing and output in the Eurozone still lags behind that recorded by equivalent PMI surveys in the US and the UK (note that PMI data for the US and UK are only available up to October at the time of writing). One explanation for this possibly lies with exchange rates. The strong euro has hit the competitiveness of Eurozone exports while simultaneously reducing demand for tourism and other related activities within the euro area. In contrast, the UK and US are benefiting from relatively weak currencies.

International comparisons



Sources: Markit, ISM.

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