

Eastern Europe

Eastern European recovery suffers lack of momentum

Back in July we noted that the Composite PMI Output Index for Eastern Europe¹ signalled a near-stabilisation of manufacturing production in the region towards the end of the second quarter, following the severe rate of contraction seen earlier in the year². At the time, the latest available official economic data were still showing an acceleration in the annual rate of decline for the region to 25% in April (currently 22%).

Since then, the official data have followed the trend indicated by the PMI, with the annual rate of decline slowing to 11% in August (the latest month for which official statistics are available for the various countries).

More timely PMI survey data from Markit – including the Russian PMI produced for VTB Capital and the Czech, Polish and Turkish PMIs produced for HSBC – show the situation up to October. The PMI Output Index for the region recorded above the 50.0 critical no-change mark for the fourth successive month in October. This strongly suggests that future releases of official data will show a further easing of the manufacturing recession in the region, with a year-on-year increase in output possible by the end of the year (PMI data tend to move in advance of the annual rate of decline).

Output indices have risen in all Eastern European countries covered by the PMIs since earlier in the year. However, in all cases, the rate of growth has wavered, causing the overall rate of expansion for the region to slow slightly in October from a one-and-a-half year high registered in September.

Moreover, growth in the region is lagging substantially behind that seen in almost all other countries covered by the PMIs, both emerging and developed. The Global PMI, jointly published by JPMorgan and Markit, showed manufacturing output rising at the fastest pace for over five years in October. The Global Output Index

Chart 1: Eastern European manufacturing output

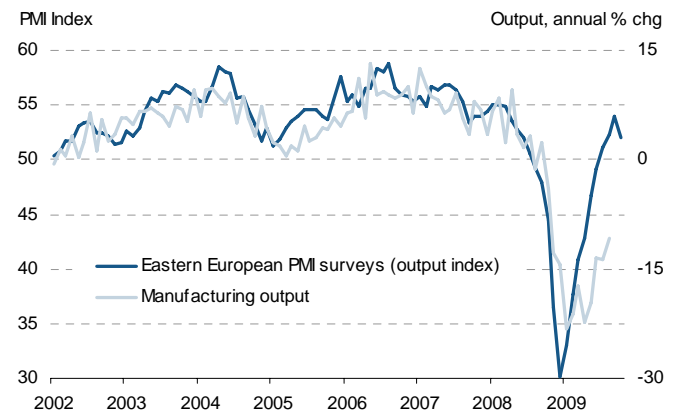


Chart 2: Manufacturing output by country

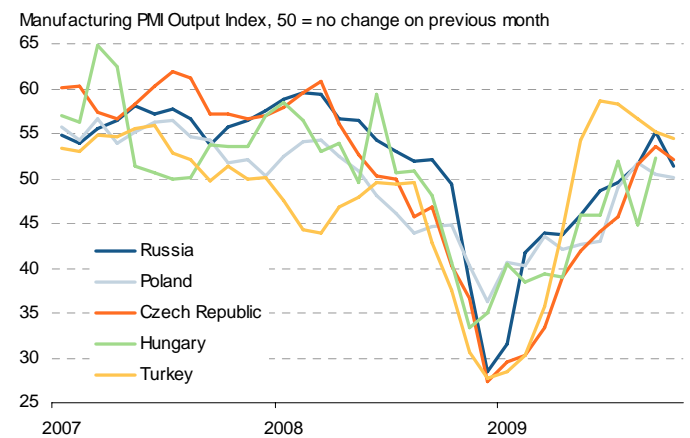
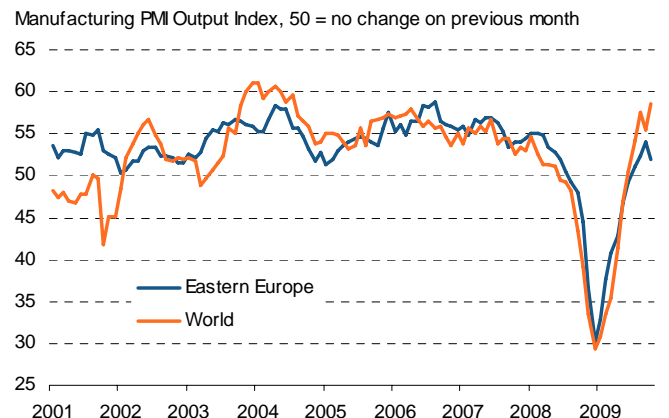


Chart 3: Eastern Europe lags in global recovery



Sources: Markit, ISM, Ecowin.

¹ derived from weighting together PMI survey data for Poland, the Czech Republic, Hungary, Russia and Turkey.

² http://www.markit.com/assets/en/docs/commentary/markit-economics/july%2009/EastEurope_Manu_09-07-03.pdf

reading of 58.5 was boosted by particularly strong readings in the US, Japan and the UK, combined with ongoing robust expansion in the other BRIC economies of China, India and Brazil.

Several factors explain the subdued recovery in Eastern Europe. These include the reduction of bank credit, withdrawal of foreign investment and a sluggish return to growth in the Eurozone, the most important export market for Eastern European manufacturers. Importantly, in addition to weak consumer spending in many euro nations – which has reduced imports of goods manufactured in Eastern Europe – the Eurozone manufacturing sector has seen only a modest expansion in recent months despite surging growth in France. Subsequently, as low-cost suppliers of inputs to Eurozone manufacturers, many Eastern European companies continue to suffer from ongoing severe inventory reductions within Eurozone manufacturing. The Stocks of Purchases Index from the Eurozone PMI survey, which tracks warehouse inventories of raw materials and components, continued to signal an historically steep rate of destocking in October.

As long as Eurozone countries continue to cut input inventories, growth in the Eastern European manufacturing sector looks likely to remain subdued.

Chart 4: Eastern Europe and Eurozone output

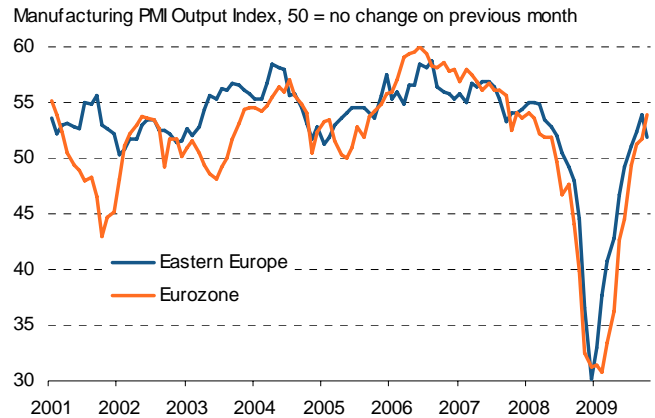
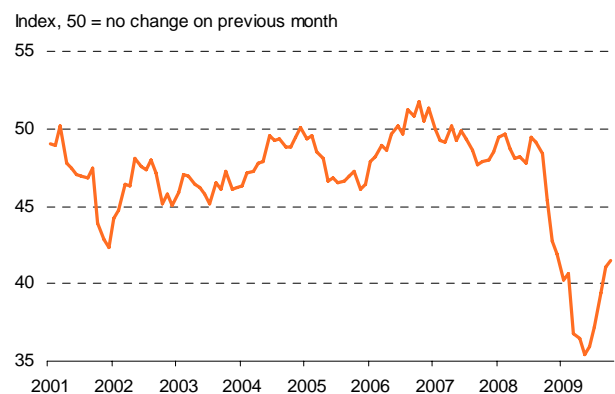


Chart 5: Eurozone Stocks of Purchases Index



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