

European Union

Basic Materials remained fastest growing industry group in September

Key findings

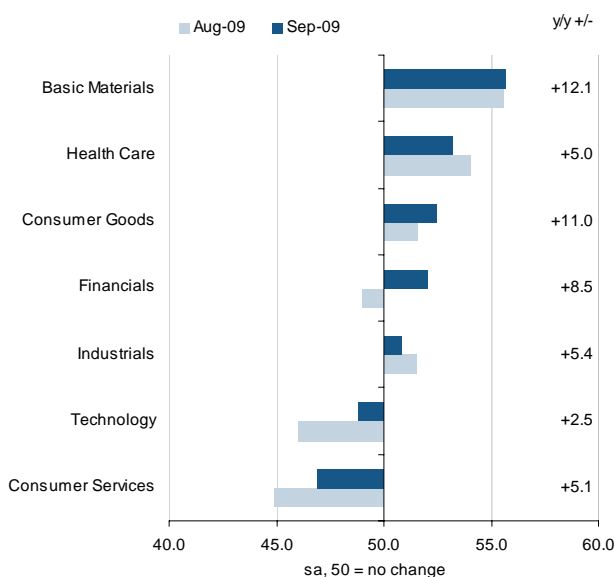
- Production of basic materials rose for third month running.
- Growth remained broad-based across chemicals, forestry and metals firms.

Basic Materials industry rebounded

The latest batch of detailed EU sector data from Markit provided further evidence that commodity-related sectors were among the best performers in September.

Five out of seven broad industry groups posted higher business activity compared to one month previously, and all have seen the rate of output growth recover to the pace seen prior to the global financial crisis of a year ago. For the third month running, the fastest rate of output expansion was seen in Basic Materials (which includes chemicals, forestry & paper and metals). Basic Materials also registered the biggest 12-month rise in the Output Index of all industry groups covered in September, followed by Consumer Goods.

Chart 1: Output/Activity Index, Industry Tier



Basic Materials PMI data for the EU are based on responses from around 900 panellists drawn from Markit's 11 national EU manufacturing PMI survey panels (Germany, UK, France, Italy, Spain, Netherlands, Austria, Poland, Ireland, Czech Republic and Greece).

In August, production of basic materials rose at the sharpest rate since May 2007, with new orders growth sustained at August's robust pace. New export orders – including intra-EU trade – rose for the first time in a year-and-a-half. Purchases of inputs rose for the second month running, causing suppliers' delivery times to lengthen further.

All three constituent sectors – Chemicals, Forestry & Paper and Industrial Metals & Mining – posted growth of output in September, as was the case throughout the third quarter.

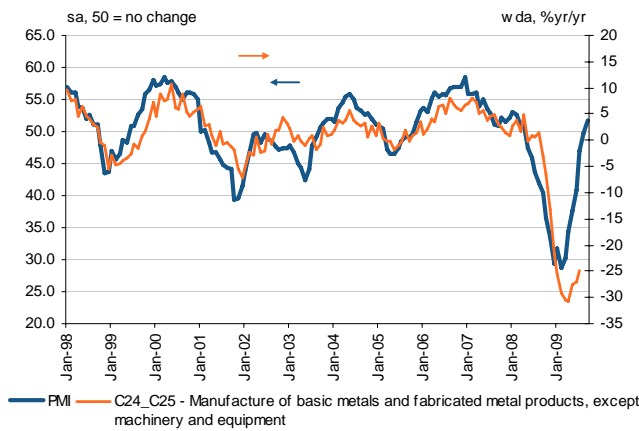
Industrial Metals & Mining

Based on annual value added figures, the Industrial Metals & Mining sector accounts for around 56% of the Basic Materials industry in the EU. Production and new orders increased for the third successive month in September, with both registering the fastest gains since March 2007. Purchases and new export orders both grew for the first time in nineteen months, reflected in a sharp rise in average input prices.

The headline PMI (a composite of five survey variables designed to give an overall single-figure snapshot of business conditions) rose above the neutral 50.0 level, despite further declines in employment and stocks of purchases. Of all sectors covered by PMI data, Industrial Metals & Mining posted the fastest rate of output expansion in September.

Plotted against Eurostat data on production, the PMI data perform solidly. Since the series began in January 1998, the headline PMI has a correlation of 0.828 with the official annual rate of change. This improves to **0.906** with the PMI acting with a lead of two months.

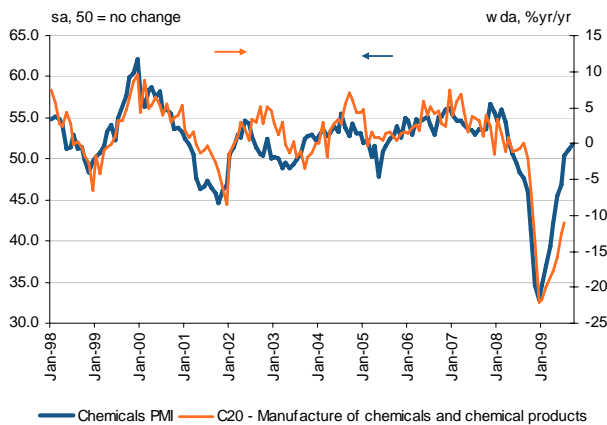
Chart 2: Industrial Metals & Mining PMI vs Eurostat



Chemicals

The Chemicals sector, which accounts for around 33% of the Basic Materials industry in the EU, saw production rise for the fourth month running in September as new order growth strengthened to a 19-month high. New export orders increased at the fastest rate since January 2007. The headline PMI remained above the no-change mark of 50.0 for the third straight month and rose to 51.8, its highest level since April 2008, as a result.

Chart 3: Chemicals PMI vs Eurostat



PMI data provide an accurate first indication of official (Eurostat) data on chemicals production. The PMI tracked the sharp contraction in chemicals output over the second half of 2008 and the recent easing in the rate of decline. Since the series began in January 1998, the headline PMI has a correlation of 0.843 with the official annual rate of change. This improves to **0.891** with the PMI advanced by two months.

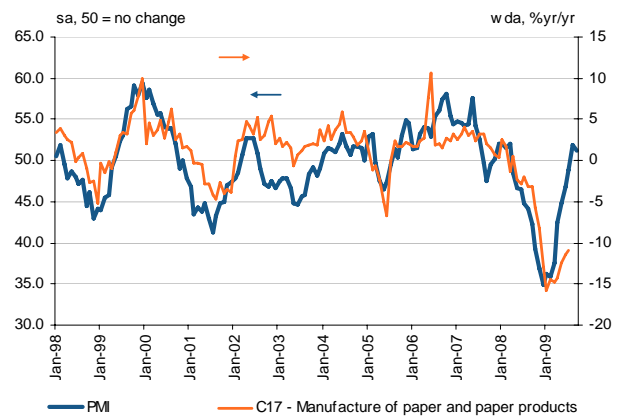
Forestry & Paper

Based on annual value added figures, the Forestry & Paper sector accounts for around 11% of the Basic Materials industry in the EU. Production rose for the fourth successive month in September albeit at a slower rate than one month previously. New orders rose at a softer pace, but new export business increased for the first time in a year-and-a-half. Of all sectors covered by PMI data, Forestry & Paper registered the fourth-fastest rate of output growth in the latest period.

Employment continued to fall, but the rate of job shedding was the slowest for over a year.

Plotted against Eurostat data on production, the PMI data perform well. Since the series began in January 1998, the headline PMI has a correlation of 0.751 with the official annual rate of change. This improves to **0.786** with the PMI advanced by one month.

Chart 4: Forestry & Paper PMI vs Eurostat



EU sector data are released on the fifth working day of each month. September data will be available on 6 November. For more information please contact economics@markit.com.

The EU Basic Materials industry is comprised of the following NACE Rev.2 codes:

Industrial Metals & Mining

- C24 Manufacture of basic metals
- C253 Manufacture of steam generators, except central heating hot water boilers
- C255 Forging, pressing, stamping and roll forming of metal; powder metallurgy
- C256 Treatment and coating of metals; general mechanical engineering

Chemicals

- C201 Manufacture of basic chemicals
- C202 Manufacture of pesticides and other agro-chemical products
- C203 Manufacture of paints, varnishes and similar coatings, printing ink and mastics
- C205 Manufacture of other chemical products
- C206 Manufacture of man-made fibres
- C2219 Manufacture of other rubber products
- C2312 Shaping and processing of flat glass
- C2314 Manufacture of glass fibres

Forestry & Paper

- C161 Saw milling and planing of wood, impregnation of wood
- C171 Manufacture of pulp, paper and paperboard
- C1721 Manufacture of corrugated paper and paperboard and of containers of paper and paperboard
- C1723 Manufacture of paper stationery
- C1729 Manufacture of other articles of paper and paperboard not elsewhere classified

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