

European Union

Financial sector provides clues to future trends in the wider economy

Key findings

- **Financial industry grew at fastest pace since August 2007.**
- **Banking activity continued to fall.**
- **Non-bank financial services and real estate both posted stronger rises in activity.**

Financial activity rose in September

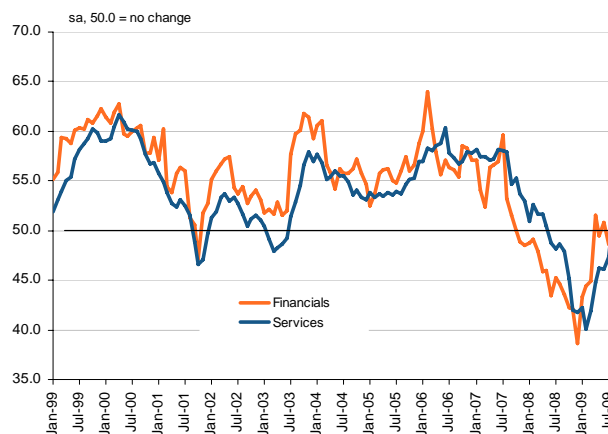
PMI data compiled by Markit covering the EU Financials industry showed a month-on-month rise in business activity at the end of the third quarter. Activity has grown three times in the past six months, a sign of stabilisation following the market crisis of the past year. The rate of growth in September was moderate compared to the long-run series average (since January 1998), but still the fastest since August 2007. Moreover, the volume of incoming new business increased for the first time since December 2007, signposting sustained expansion into October. Meanwhile, employment continued to fall, but at the slowest pace for a year.

PMI Financials data are based on responses from Markit's six national EU services survey panels (Germany, UK, France, Italy, Spain and Ireland), with companies drawn from banking, financial services, real estate and insurance. Data are available for each of these sectors with the exception of insurance. The only financial sector for which PMI data are not available is equity & non-equity investment instruments (these activities are covered but small sample sizes prevent the publication of PMI indices).

One of the strengths of PMI data is that, with consistent methodologies used across all sectors, it is possible to compare business conditions across sectors. When the Financials Activity Index is plotted against an Activity Index for total EU services, the comparison illustrates the earlier point at which Financials began contracting relative to the overall services economy at the onset of the recession.

Financials dipped below the neutral index value of 50.0 in November 2007, seven months before contraction was first signalled in total services. The rate of contraction in financial activity gained pace in the second half of 2008 as the credit crunch became front-page news.

Chart 1: EU Output/Business Activity Index



The comparison also shows that activity in Financials rebounded earlier than the service sector as a whole. Over the series history, the Financials Activity Index has the best correlation with the Total Services Activity Index when advanced by two months. This possibly reflects the role the financial sector plays in providing credit to the wider economy (and the associated time delays from credit flows), and also the effect of financial market performance on consumer and business confidence.

Over Q2 and Q3 as a whole the Activity Index for Financials has signalled marginal growth, which looks set to underpin the gradual recovery of the wider services economy in Q4.

Banks remained source of weakness

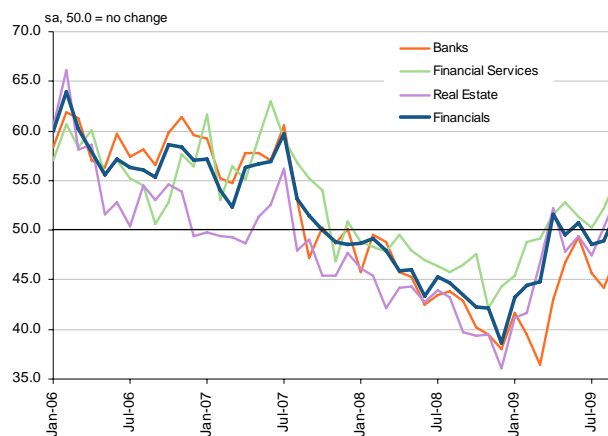
The sector data for September signalled that Banking remained the main drag on overall Financials activity, posting a further decline. This suggests that the sector is still experiencing great difficulty one year on from the Lehman Brothers collapse. However, the rate of

contraction in September eased to the slowest in three months.

In contrast, activity in Financial Services – which includes asset managers, consumer finance, mortgage finance, investment services for securities and commodities and speciality finance – saw activity rise for the sixth month running in September. Meanwhile, activity in Real Estate rose at the strongest pace since July 2007, adding to hopes that property markets may have begun to stabilise.

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

Chart 2: EU Activity Index, Financials industry



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