

European Union

Basic Materials industry showed strong rise in output

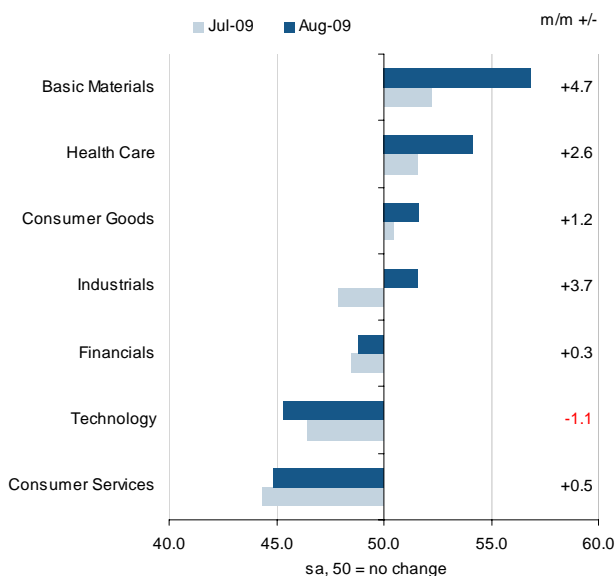
Key findings

- Production of basic materials rose at fastest rate since March 2007.
- Chemicals, forestry and metals all posted higher output in August.

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 August. Four out of seven broad industry groups posted higher business activity compared to one month previously, and all except Technology posted Output Index readings that were higher than one year previously. For the second month running, the fastest rate of output expansion was seen in Basic Materials (which includes chemicals, forestry & paper and metals). Moreover, Basic Materials has registered the largest one-month improvement in its Output Index of all industries covered in every month since June.

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 March 2007, driven by a faster increase in new orders. Employment in the industry continued to decline, but the rate of job shedding eased to the slowest since October 2008.

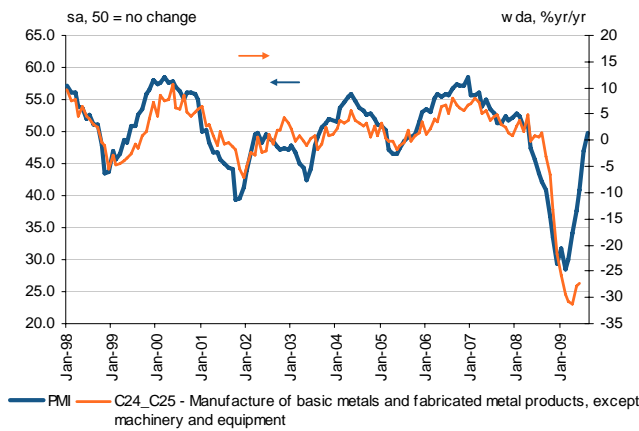
The rise in basic materials output in August was broad-based across the industry's three constituent sectors. The fastest rate of growth was in Forestry & Paper, which saw the strongest pace of all sectors covered by EU PMI data in the latest period.

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. In August, production rose for the second month running, and the rate of expansion accelerated sharply from July's weak pace to the fastest since May 2007. The headline PMI (a composite of five survey variables designed to give an overall single-figure snapshot of business conditions) was marginally below the neutral 50.0 level as, although new orders rose and suppliers' delivery times improved, employment and stocks of purchases both declined sharply. Of all sectors covered by PMI data, Industrial Metals & Mining posted the third-fastest rate of expansion in August.

Plotted against Eurostat data on production, the PMI data perform well (see Chart 2). Since the series began in January 1998, the headline PMI has a correlation of 0.854 with the official annual rate of change. This improves to **0.907** with the PMI advanced by two months.

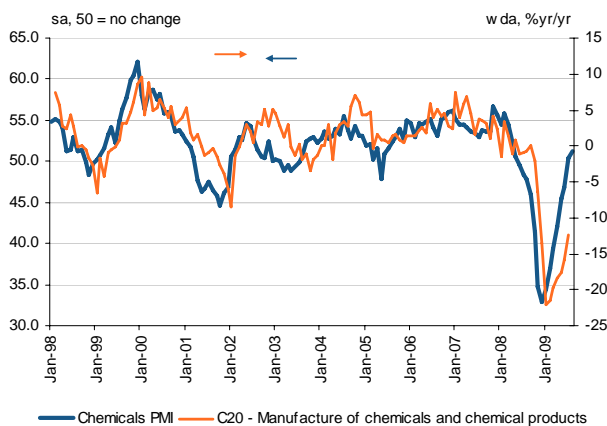
Chart 2: Industrial Metals & Mining PMI vs Eurostat



Chemicals

According to official data, the Chemicals sector accounts for around 33% of the Basic Materials industry in the EU. Chemical sector production rose for the third month running in August. The rate of growth eased slightly from July's seventeen-month high but was sharp nonetheless, registering the sixth-fastest rate of output growth of all sectors covered in August. New orders increased for the third month running, and at the fastest pace since February 2008. The headline PMI remained above 50.0 despite further falls in employment and stocks of purchases.

Chart 3: Chemicals PMI vs Eurostat



Plotted against official (Eurostat) data on production, the PMI data perform well (see chart 3). The PMI has accurately 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 0.856 with the official annual rate of change. This improves to **0.893** with the PMI advanced by one month.

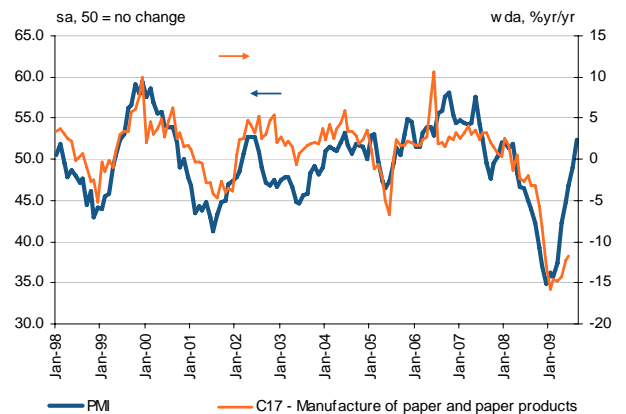
Forestry & Paper

Based on annual value added figures, the Forestry & Paper sector accounts for around 11% of the Basic Materials industry in the EU. Production in this sub-sector rose for the third month running in August, and at the fastest rate since May 2007. Of all sectors covered by PMI data, Forestry & Paper registered the sharpest rate of growth in the latest period.

New orders rose for the first time since March 2008, and at the fastest rate since May 2007. The volume of outstanding business declined only marginally as a result. The headline PMI was above the neutral threshold of 50.0 for the first time in 17 months, despite further falls in employment and stocks of purchases.

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 0.768 with the official annual rate of change. This improves to **0.795** 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 7 October. 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
- C2572 Manufacture of locks and hinges
- C2573 Manufacture of tools
- C259 Manufacture of other fabricated metal products

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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