

European Union

Financial sector activity fell in August, led by banks

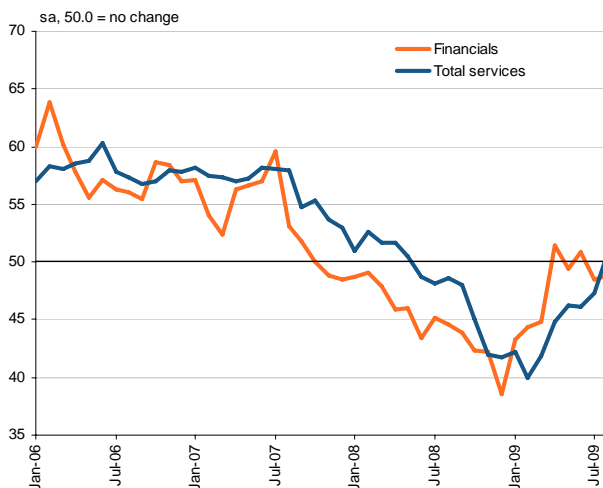
Key findings

- **Business activity in EU Financials fell for second month running in August.**
- **Sharp decline registered in Banking.**
- **But non-bank financial services activity rose further.**

Financial activity declined in August

PMI data compiled by Markit covering the EU Financials industry showed a month-on-month decrease in business activity for the second month running in August. The rate of decline was, however, only modest and much less severe than the series record posted last December. The volume of incoming new business declined for the twentieth successive month, at a rate unchanged from July's moderate pace.

Chart 1: EU Output/Business Activity Index



PMI Financials data are based on responses from Markit's six national EU services survey panels (Germany, UK, France, Italy, Spain, Ireland), with companies drawn from banking, financial services, real estate and insurance. Data sub-sets are also available for these sectors with the exception of insurance. The only financial sub-sectors not covered by PMI data are equity and non-equity investment instruments.

One of the strengths of PMI data is that, with consistent methodologies used across all sectors covered, it is possible to compare business conditions across sectors. Chart 1 plots the Financials Activity Index against an Activity Index for total EU services. It illustrates the earlier point at which Financials began contracting relative to the overall services economy. Financials dipped below the neutral index value of 50.0 in November 2007, seven months before contraction was first signalled in total services. As the chart shows, the rate of contraction in financial activity gained pace in the second half of 2008 as the credit crunch became front-page news.

The chart also shows that activity in Financials rebounded earlier than the total service sector as a whole. Over the series' history (see Chart 3, overleaf), 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. Therefore, the failure of the sector to sustain marginal gains in April and June suggests that the nascent recovery in the wider services sector in August could fail to gather further momentum in the latter part of 2009.

Banking sector acts as drag on recovery

Sub-sector data for August signalled that the Banking sector was the main drag on overall activity, posting the steepest drop in four months. New business at banks fell at the fastest rate in five months. While banking 'activity' is difficult to define, the latest findings suggest that the sector is still experiencing great difficulty almost one year on from the Lehman Brothers collapse.

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 fifth month running in August. Meanwhile, activity in Real Estate fell only marginally, adding to hopes that property markets may have begun to stabilise.

Chart 2: EU Activity Index, Financials industry

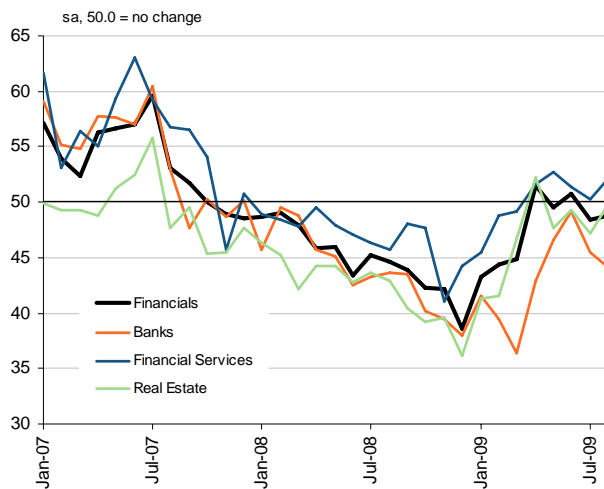
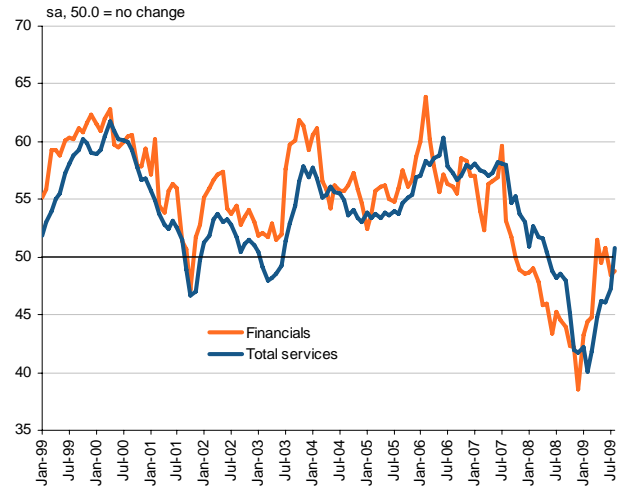


Chart 3: EU Activity Index, Financials industry



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

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