

# Eurozone

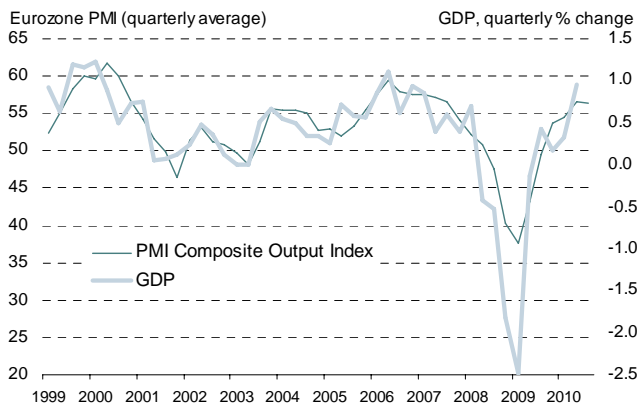
## France and Germany surge while Spain and Italy struggle

### Eurozone shows good momentum in Q3

The Markit Eurozone PMI Composite Output Index dipped slightly in August, from 56.7 in July to 56.2. Despite the fall, the reading signals the ongoing resilience of the Eurozone economy and, although the rate of economic expansion is likely to slow from the 1.1% surge in gross domestic product (GDP) seen in Q2, growth is likely to remain close to the long-run trend rate.

PMI data for July and August are so far consistent with quarterly GDP growth of approximately 0.6%-0.7% in Q3, although it is likely that growth may come in weaker than this estimate as GDP data are showing greater volatility than the PMI so far this year.

### Eurozone GDP

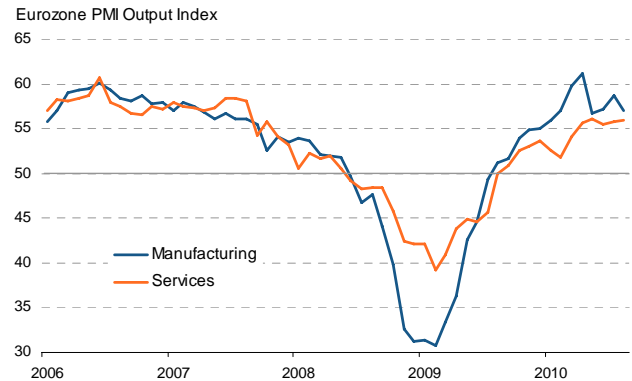


### Recovery spreads from manufacturing to services

Manufacturing continued to lead the recovery ahead of services, but the divergence between the two sectors has narrowed compared to earlier in the year. Service sector growth accelerated to show the second largest monthly rise over the past three years, while manufacturing growth slowed to a three-month low.

While the slowdown in manufacturing largely reflects an easing in global trade flows since the post-recession surge seen earlier in the year, the improvement in services reflects a welcome broadening out of the recovery as consumer spending and business spending pick up.

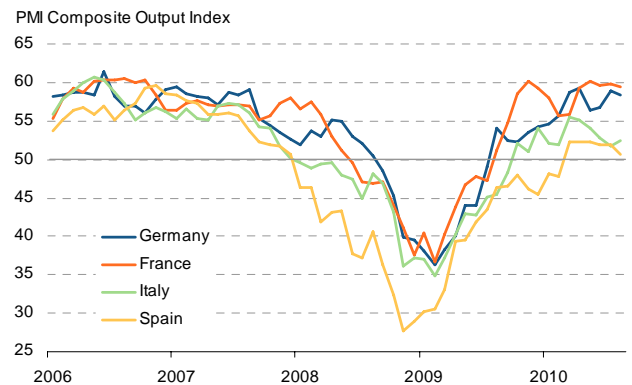
### Eurozone manufacturing and services output



### France and Germany surge

Although the recovery is showing signs of spreading from manufacturing to services, divergences have widened among the major national economies.

### Manufacturing and services output



The strongest pace of expansion, as measured across manufacturing and services, is currently being seen in France, followed closely by Germany. Despite the rate of increase slipping slightly in both cases, the rates of expansion in France and Germany remain close to the post-recession highs seen earlier in the year and are indicative of sustained strong GDP growth in Q3 (possibly in excess of 1% in Germany and around 0.7%-0.8% in France, although – as with the Eurozone growth estimate – comparisons are made difficult by the volatility of the GDP numbers so far this year).

The German service sector expanded at the fastest rate for three years, helping to limit the impact of slower growth in manufacturing (which nonetheless continued to grow at a rapid pace). But France saw the strongest growth of service sector activity, easily outpacing all other major countries again.

### Spain and Italy struggle

In contrast, growth in Italy and Spain was only very modest in August. Spain has seen a particularly weak recovery so far, and the rate of output growth slipped back to near-stagnation in August as its service sector fell back into contraction. Spanish GDP growth has come in below that signalled by the PMI in recent months, most likely reflecting weakness in sectors not covered by the PMI (notably construction, government and retail). However, the dip in the PMI between Q2 and Q3 does little to raise hopes that the economy will expand any faster than the 0.2% rate seen in Q2.

In Italy, it was manufacturing which grew at a slower pace in August, while the service sector recovered from contraction in July. However, services remain close to stagnation. The PMI data are signalling a possible easing in GDP growth from the 0.4% increase seen in Q2 to perhaps 0.2% in Q3.

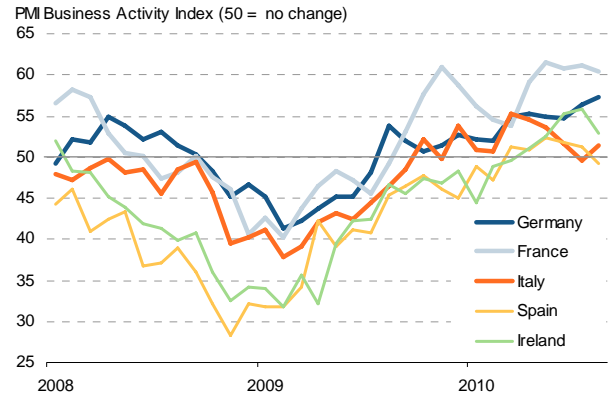
### Labour markets diverge

The August PMI surveys also showed Eurozone job creation running at the fastest rate since April 2008. Jobs were gained in both manufacturing and services, although in both cases the rates of increase were only very modest. Again, however, marked divergences were apparent among the largest member nations, with strong job creation in France and Germany contrasting with only a marginal increase in Italy and a further loss of jobs in Spain.

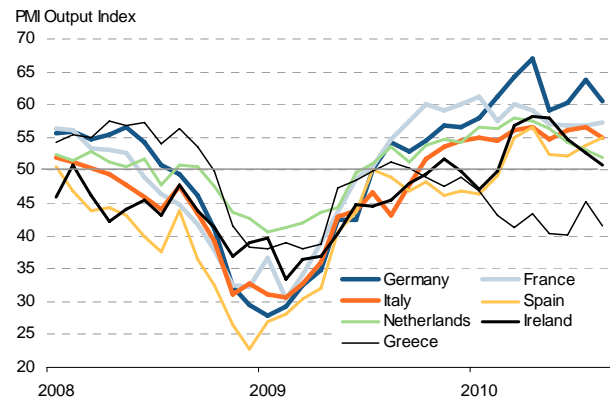
Employment rose at the fastest rate since April 2008 in France. In Germany, the rate held steady on July's post-recession high, which had seen the strongest gain in jobs for two years. Italy saw the first, marginal, rise in employment since February 2008, but the recent downturn in output growth suggests that companies may soon begin to cut workforces again unless demand picks up.

Spain saw employment fall for the thirty-first month, suggesting little hope of an improvement in the country's 20% unemployment rate in the near future.

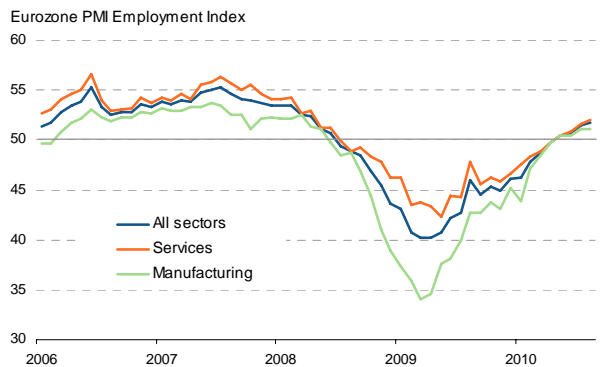
### Service sector activity by country



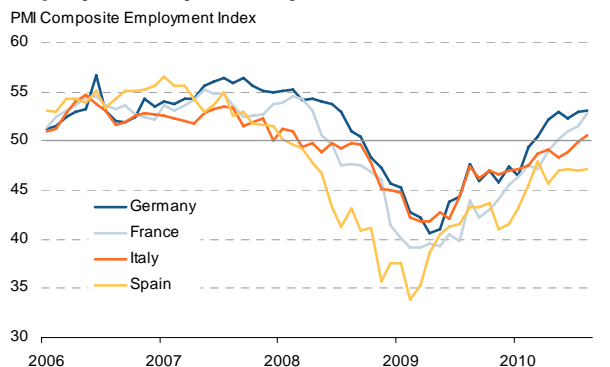
### Manufacturing output by country



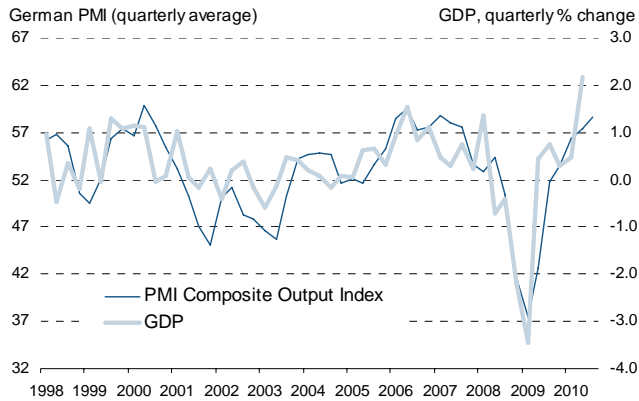
### Eurozone employment



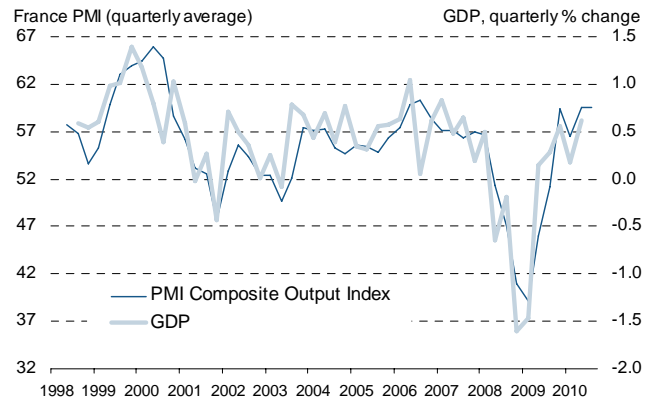
### Employment by country



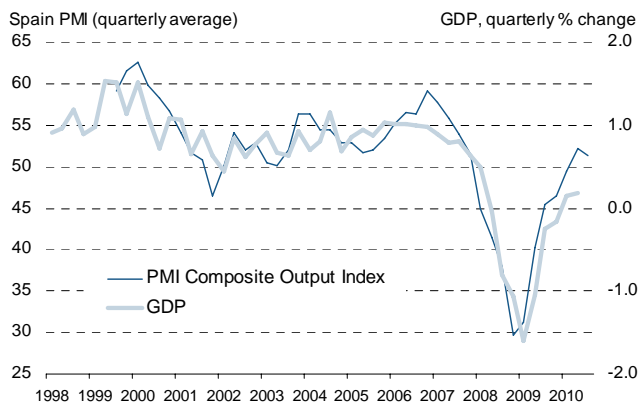
### German GDP



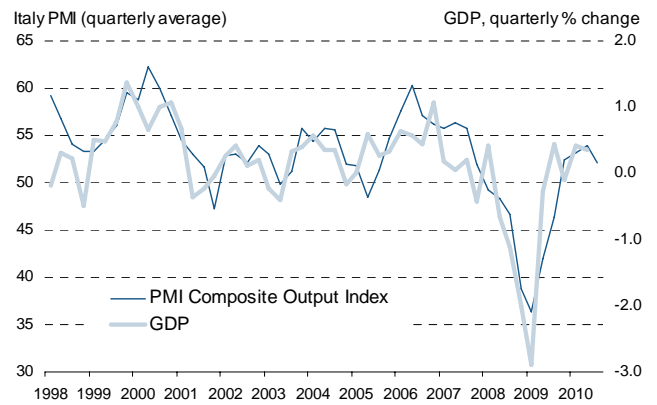
### French GDP



### Spanish GDP



### Italian GDP



For all above charts, Q3 2010 PMI figure is based on July and August data only.

## Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

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