

Eurozone

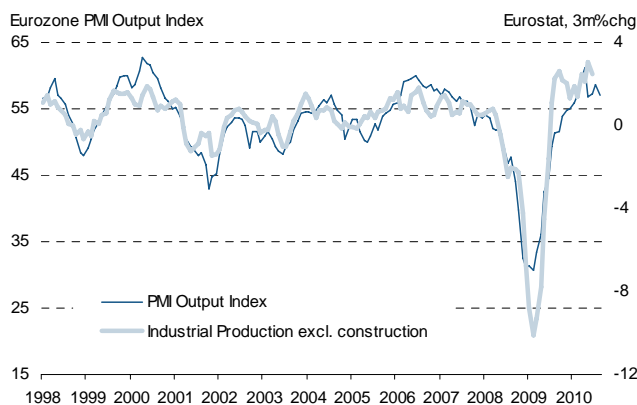
Manufacturing expansion slows in August, but shows ongoing resilience despite national variations. Growth exceeds average for the rest of the World.

Output growth slows but stays strong

The (final) **Markit Eurozone Manufacturing PMI** survey's Output Index fell in August and is now just over four points lower than the near-record peak seen in April. While the index suggests that the rate of expansion has slowed from the surging pace earlier in the year, the August reading remains consistent with still strong production growth of approximately 1.5% on a quarterly basis. According to Eurostat data, quarterly growth hit 3.1% in May (a record for the single currency area) before slowing to 2.5% in June, the latest month for which data are available.

Some reassurance can also be gleaned from the fact that, at 57.1, the August PMI Output Index was exactly in line with the average recorded in 2006 and 2007 and well above the pre-Lehman collapse trend of 54.2.

Eurozone manufacturing output

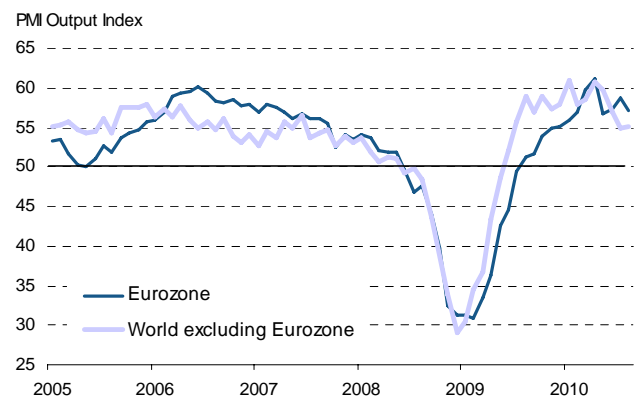


Eurozone growth above rest of World

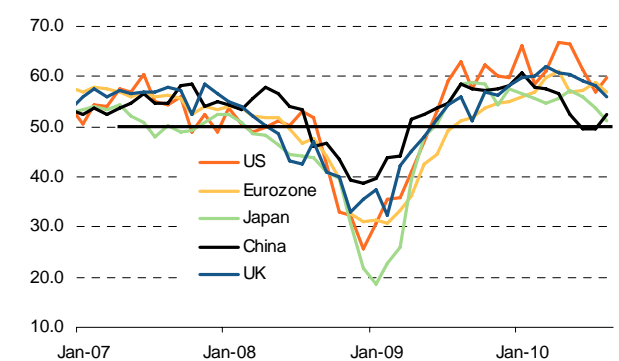
Despite the slowing in growth in the Eurozone, the rate of expansion has now exceeded the weighted average seen in the PMI surveys for the rest of the World, which cover all main developed and emerging nations, for three successive months (although it must be borne in mind that the authorities in China are deliberately cooling their pace of expansion).

In terms of other major developed economies, manufacturing output growth in the Eurozone was exceeded in August only by the US, with Germany even leading the developed country growth table (the only other faster-growing countries were India and the Czech Republic).

Manufacturing output



PMI, Manufacturing Output Index (50.0 = no change on previous month)



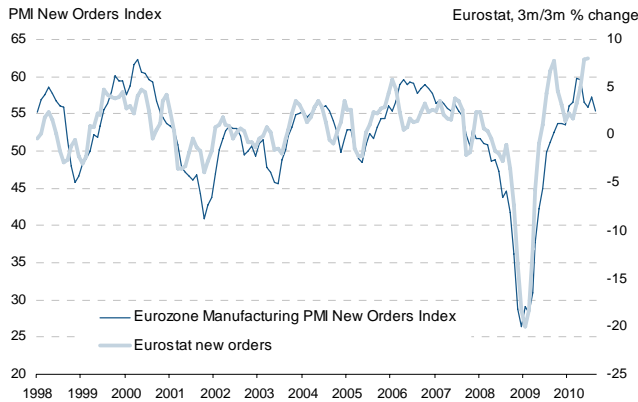
Inflows of new orders on easing trend

The slower pace of growth in the rest of the World compared to that seen earlier in the recovery is already having an impact on Eurozone growth, most visibly in relation to export sales.

Growth of total new orders continued to moderate in the Eurozone from March's peak, rising at the slowest rate since December. This suggests the quarterly rate of growth of industrial orders will have weakened to

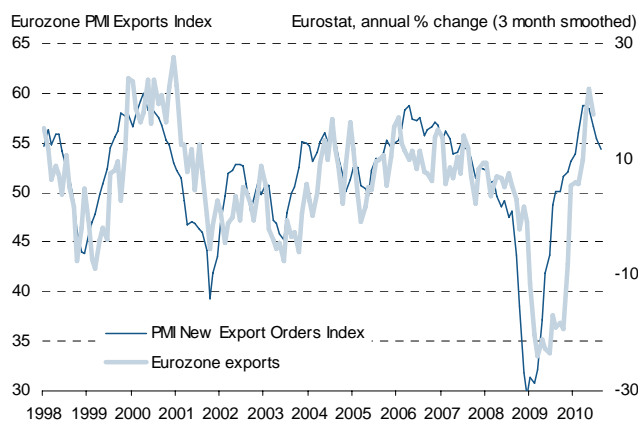
2%-3% in August – well below the 8.0% record pace seen in the latest official data for June but nevertheless still above the average rate of 0.8% seen between 1995 and the collapse of Lehman.

Eurozone manufacturing orders



The easing in growth of order book inflows is in part linked to slower export sales, which the PMI showed to have risen in August at the slowest pace since January. But, again, the easing needs to be put in the context of the growth spurt seen earlier in the year. Exports to countries outside of the Eurozone surged 31.7% on a year ago in March, and the latest reading of the PMI is still consistent with double-digit growth.

Eurozone manufacturing export orders



Core-periphery divergence

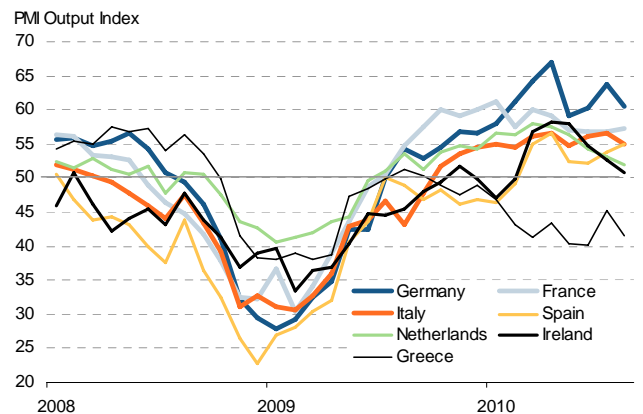
While the overall situation of Eurozone manufacturing remains one of relative resilience and above-par performance compared to the rest of the World, the situation remains very different between euro member states.

Germany continued to exhibit the strongest growth of manufacturing output in August, followed by France, and both countries also led growth of new orders. In contrast, both output and orders fell again in Greece, with the rates of decline gaining momentum. This was despite the glimmer of hope offered by the first rise in Greek new export orders since last September, which was only the second such increase since the collapse of Lehmans and all the more encouraging given the slower growth of world trade in recent months.

Marked downward trends in the rates of expansion of output are also increasingly evident in Ireland and the Netherlands, driven largely by weaker growth of exports compared to the highs reached earlier in 2010. Output rose only marginally in Ireland (the smallest increase since output began rising in March), while growth in the Netherlands was the weakest since last September.

More reassuringly, Italy and Spain showed similar reasonably robust rates of growth of manufacturing output and, in both cases, the rates of expansion were above the historical averages seen prior to the financial crisis. However, both countries also saw slower growth of new orders in August.

Manufacturing output

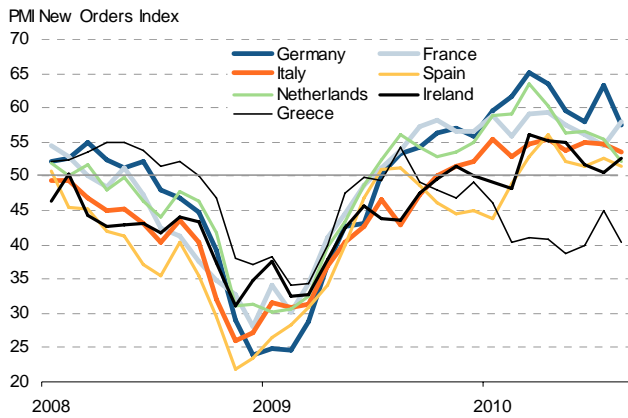


While a divergence persists between growth of output and new orders for Germany (in particular) and France compared to the rest of the Eurozone, the divergence has disappeared for export orders, suggesting that differences in performance can be at least in part traced to divergences in domestic demand.

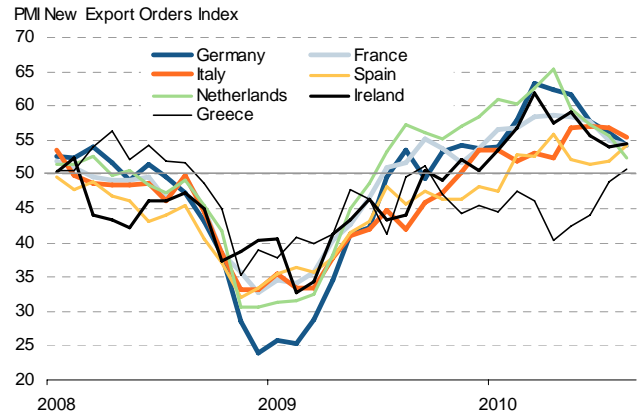
Lop-sided job creation

National divergences are still very apparent in employment trends, with strong job creation in Germany, the Netherlands and Austria contrasting with falling employment in all other countries covered by the Eurozone PMI surveys. Job losses in Greece are approaching levels seen at the height of the financial crisis. A concern is that divergent employment trends are likely to lead to further differences in consumer spending and service sector growth rates, exacerbating existing economic growth variations.

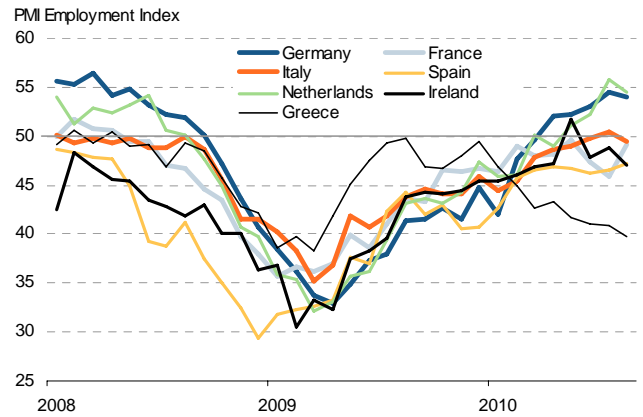
Manufacturing new orders



Manufacturing new export orders



Manufacturing employment



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