

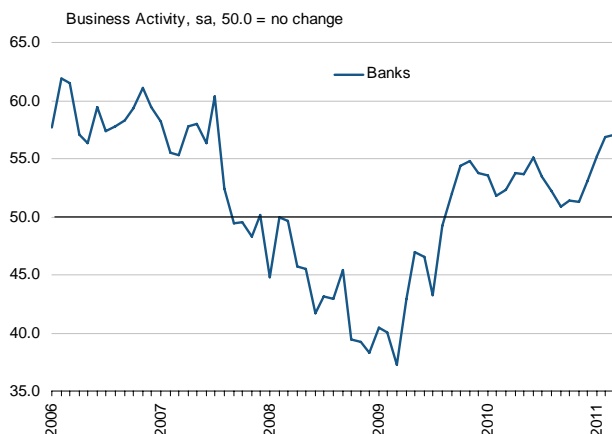
European Union

Stronger services growth offsets manufacturing slowdown

- **Manufacturers still head sector growth table, but stronger gains seen in business services.**
- **Banks show strongest growth since pre-credit crunch.**
- **Many sectors seeing substantial pressure on margins.**

The latest European Union sector PMI data provide further clues as to the key growth drivers of the EU private sector economy at the end of Q1. The March data showed further strong output growth in the leading manufacturing sectors, despite the pace easing from recent highs. Other notable trends included faster growth from business-facing service sectors and the strongest rise in banking activity since the eve of the credit crunch. Meanwhile, input price inflation remained elevated in most sectors, leading to near-record pressure on margins in many areas.

Banks



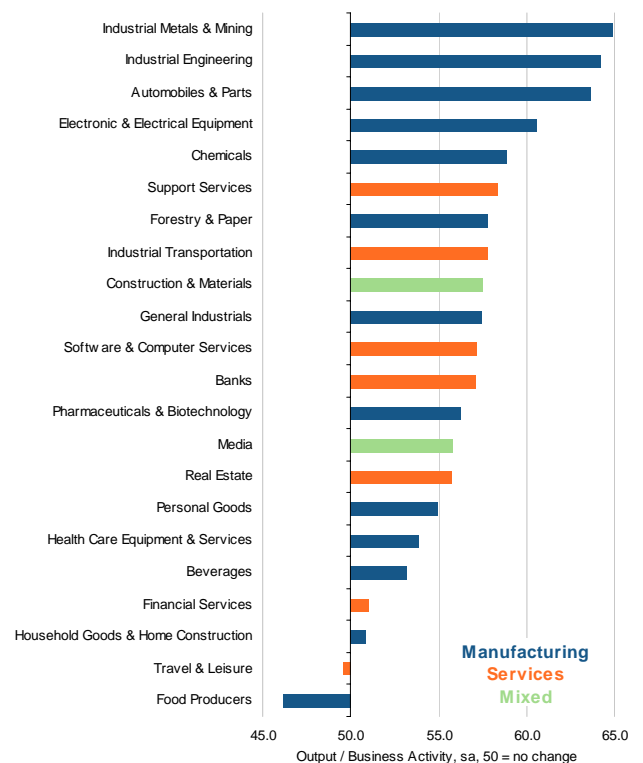
Services growth accelerating

The overall rate of growth in EU manufacturing and services output was maintained at February's three-and-a-half year high in March. The difference in growth rates between manufacturing and services narrowed since February, and this is reflected in the latest

detailed sector PMI data. Of nine sectors to record faster growth in business activity, five were services-related. The strongest-performing service sectors were business-facing, including **Support Services**, **Industrial Transportation** and **Software & Computer Services**.

The top-five fastest-growing sectors were unchanged from February, although the top-three exchanged places. **Industrial Metals & Mining** posted the steepest output growth, having been third in February, followed by **Industrial Engineering** and **Automobiles & Parts**. **Electronic & Electrical Equipment** and **Chemicals** made up the top-five.

EU sectors: March 2011



Two out of twenty-two sectors registered falling output in March. **Food Producers** posted a decline for the first time since last October, while **Travel & Leisure** registered a marginal fall.

Inflationary pressures remained intense in many sectors

Input price inflation remained at or close to record highs in many sectors in March, with the latest data providing some justification for the European Central Bank's recent decision to raise [interest rates](#).

Commodity-facing sectors continued to bear the brunt of rising input prices. Reflecting the recent increases in oil prices, **Chemicals** companies recorded the sharpest rise in input prices of all sectors for the second month running, followed by **Forestry & Paper**. **Personal Goods** – which includes clothing and footwear – saw the third-fastest rate of input cost inflation.

The top-five sectors all registered either the highest or second-highest rate of input price inflation in their series' histories. Two sectors suffered record highs during the month, including **Household Goods & Home Construction** and **Electronic & Electrical Equipment** – the latter possibly influenced by the crisis in Japan.

Chemicals and Forestry & Paper also recorded the steepest increases in output prices in March. Moreover, five sectors in total have seen record rates of output price inflation in the latest period:

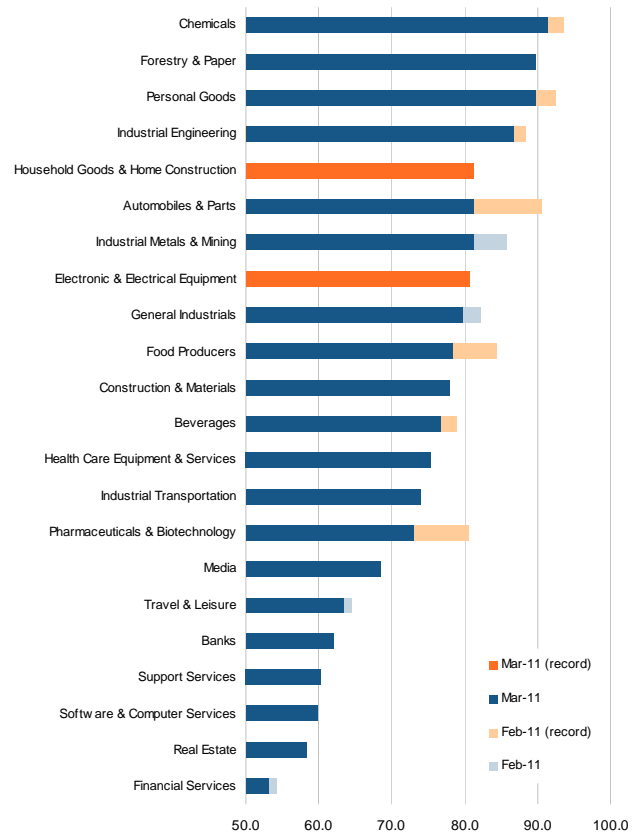
- Chemicals
- General Industrials
- Electronic & Electrical Equipment
- Automobiles & Parts
- Industrial Engineering

Providing some comfort to policymakers, rates of input and output price inflation have at least eased in many sectors since February. Eleven sectors registered weaker rises in input prices in March, while ten posted slower rates of output price inflation.

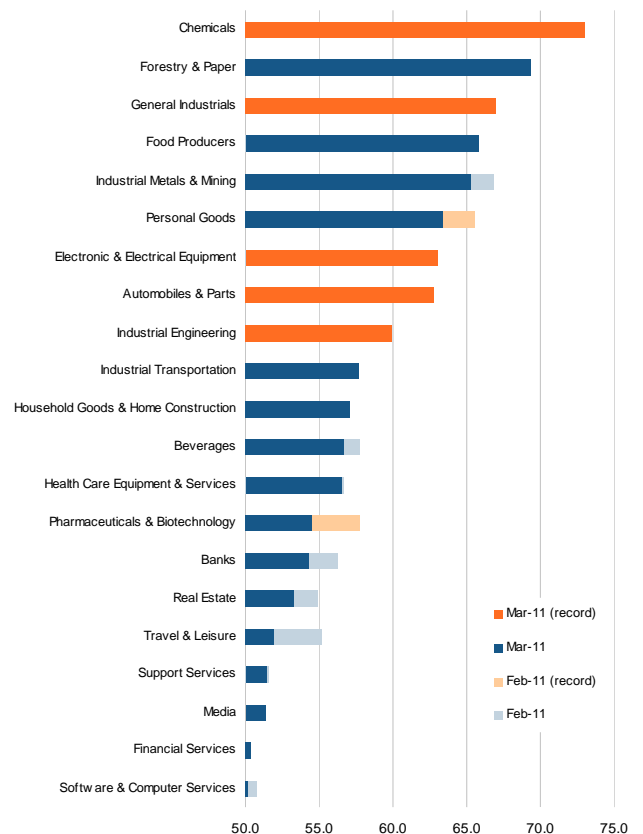
Margins squeeze

But the data nevertheless indicate ongoing substantial pressure on firms' margins, as the differences between the Input Prices and Output Prices Indexes remain at near-record levels in many areas. March data indicated that **Industrial Engineering**, **Personal Goods** and **Household Goods & Home Construction** suffered the greatest margins squeeze in March (and relative to their historic trends), while **Financial Services**, **Real Estate** and **Banks** experienced the weakest pressures.

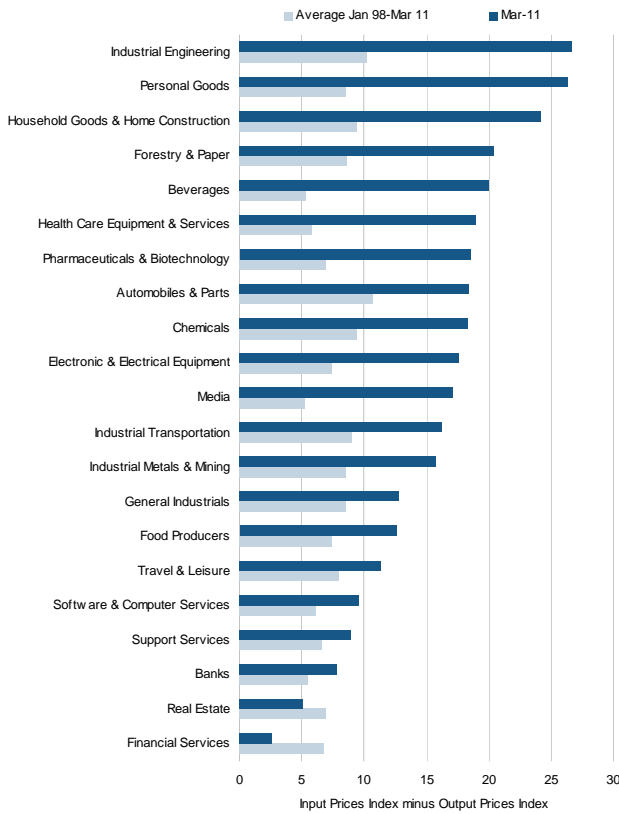
Input Prices Index



Output Prices Index



Substantial pressure on margins in most sectors



Notes on data and forthcoming releases

EU sector data are derived from the same national manufacturing, services and construction panels used for the PMI surveys, which together cover around 6,000 private sector companies. The sector data also track new and outstanding business, price trends, purchasing, stocks and supplier performance, and are released on the fifth working day of each month. February data will be available on 9 May. For more information, please contact economics@markit.com.

Markit EU Sector PMIs

Industry	Supersector	Sector
1000 Basic Materials	1300 Chemicals 1700 Basic Resources	1350 Chemicals 1730 Forestry & Paper 1750 Industrial Metals & Mining 1770 Mining*
2000 Industrials	2300 Construction & Materials 2700 Industrial Goods & Services	2350 Construction & Materials 2710 Aerospace & Defence* 2720 General Industrials 2730 Electronic & Electrical Equipment 2750 Industrial Engineering 2770 Industrial Transportation 2790 Support Services
3000 Consumer Goods	3300 Automobiles & Parts 3500 Food & Beverage 3700 Personal & Household Goods	3350 Automobiles & Parts 3530 Beverages 3570 Food Producers 3720 Household Goods & Home Construction 3740 Leisure Goods* 3760 Personal Goods 3780 Tobacco*
4000 Health Care	4500 Health Care	4530 Health Care Equipment & Services*** 4570 Pharmaceuticals & Biotechnology
5000 Consumer Services**	5500 Media 5700 Travel & Leisure	5550 Media 5750 Travel & Leisure
8000 Financials	8300 Banks 8500 Insurance* 8600 Real Estate 8700 Financial Services	8350 Banks 8770 Financial Services
9000 Technology	9500 Technology	9530 Software & Computer Services 9570 Technology Hardware & Equipment*

*not currently published at sector/supersector level but included at supersector/industry level
 **excludes 5300 Retail
 ***excludes 4533 Health Care Providers

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