

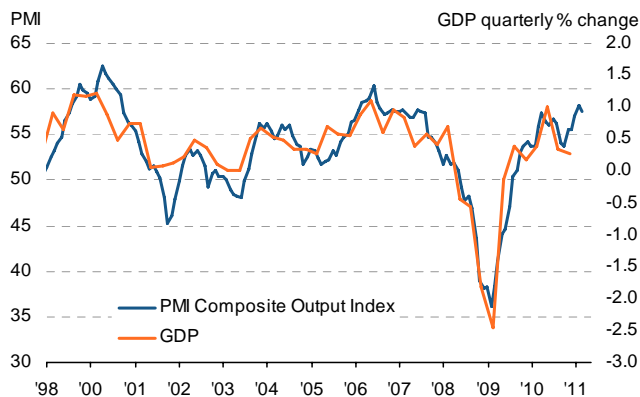
Eurozone economic growth

GDP set to rebound in Q1

- Eurozone PMI indicates 0.8% GDP rise in Q1.
- Employment growth rate set to accelerate.
- Germany and France continued to lead a subdued periphery.

Markit's Flash Eurozone PMI remained elevated in March, dipping only slightly from February's four-and-a-half year high. The latest data round off the strongest quarter since Q3 2006 and are consistent with GDP rising by 0.8%, well above the disappointing 0.3% increase seen in the final quarter of last year.

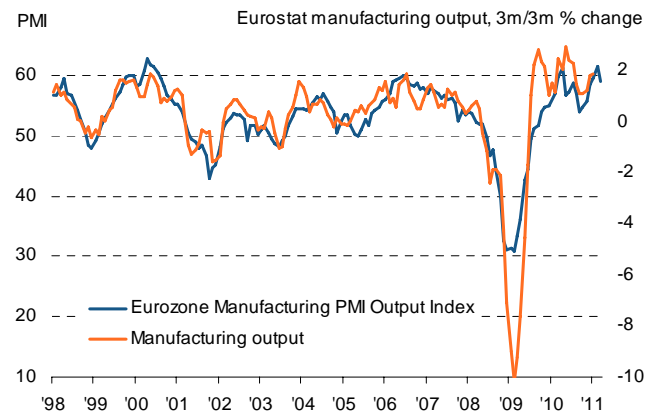
Eurozone GDP



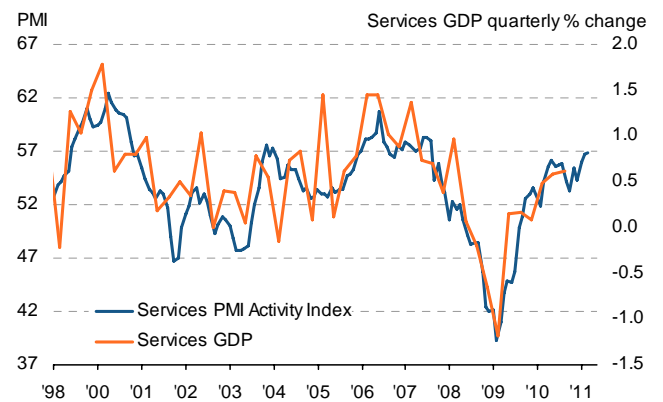
Manufacturing continued to lead the recovery, expanding at a quarterly pace of approximately 1.8%. The PMI Output Index for manufacturing fell to a three month low in March, but has not fallen substantially from February's ten-and-a-half year high.

Services growth has also gathered momentum in recent months, with activity rising in March at the fastest rate since August 2007. We estimate that this is comparable with service sector GDP rising by approximately 0.8% in Q1, providing a solid accompaniment to the manufacturing sector's strong performance.

Eurozone manufacturing output



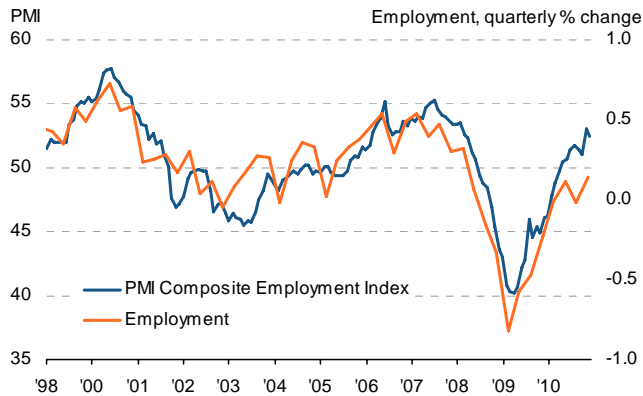
Eurozone services



Employment growth close to three-year high

The increase in output is generating more jobs. The Eurozone PMI Composite Employment Index, covering both manufacturing and services, fell only marginally from February's three-year high. We therefore anticipate the rate of employment growth to gather pace soon in the euro area as a whole, up from the lackadaisical 0.1% increase seen in Q4 to perhaps as much as 0.5% in Q1. Most notably, although the rate dipped slightly in March, the last two months have seen the strongest job creation in manufacturing since mid-2000.

Eurozone employment



Output growth and job creation led by Germany, but also evident in the periphery

One of the key features of the recent recovery has been the strength of Germany and, to a lesser extent, France. Together, the two countries grew at the fastest rate for five years in March.

By country, Germany continued to lead the pack in Q1, expanding by possibly as much as 1.5% – almost double the Eurozone average. France appears to be on course for a 0.8% rise, in line with the average, leaving the periphery trailing behind.

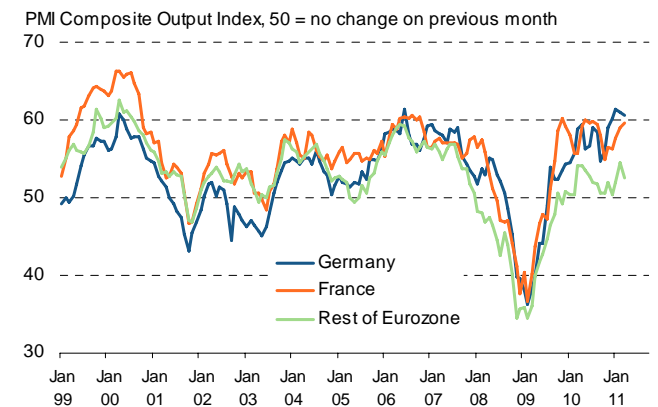
Other neighbouring countries to Germany have also shown strong expansions in recent months, but the region's 'periphery', including Spain, Ireland and Greece (PMI data are not available for Portugal), together with Italy, have continued to struggle. Outside of France and Germany, the flash PMI data for March show that output growth slowed again, having posted a surprising uptick in February, to register only very modest growth.

The weak growth outside of France and Germany can be largely linked to subdued domestic demand, which can in turn be traced to the combination of deficit-reducing austerity measures and high unemployment, plus deleveraging by households and businesses. While employment growth hit a record high in Germany in March, according to the flash PMIs, headcounts were cut once more outside of the two largest euro

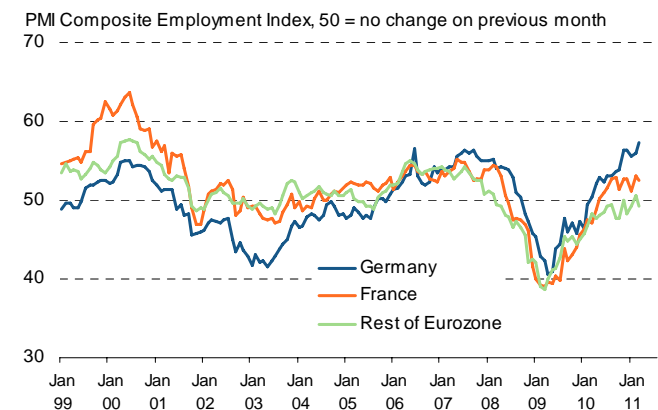
member countries, reversing a small rise seen in February.

The ray of hope for the periphery lies in export growth. Manufacturing exports have risen sharply so far this year, building confidence in the sector and helping to drive an increase in manufacturing jobs in the periphery for the sixth successive month, helping to offset public sector and services lay-offs.

Uneven upturn in output



Employment stagnating in the periphery



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