

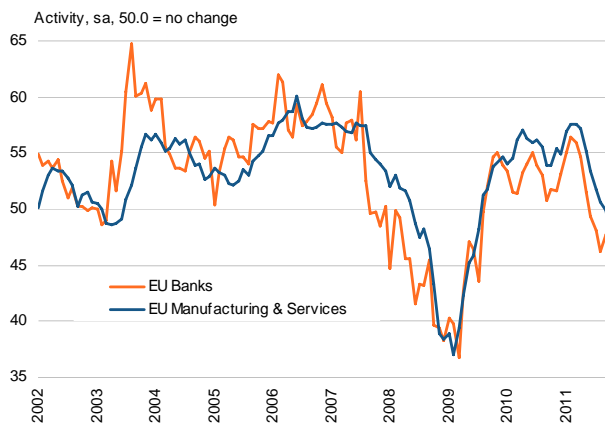
European Union

Banking sector activity falls at fastest rate since mid-2009

- **Banking activity declines for fifth month running, showing steepest fall since July 2009**
- **Confidence rebounds... but hinges on events surrounding debt crisis**

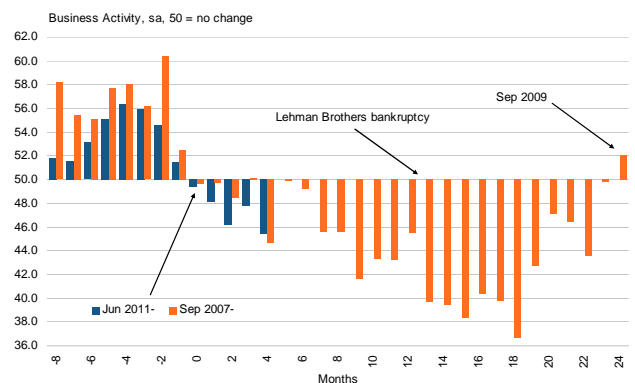
European Union *PMI™* sector data signalled a contraction of the EU banking sector for the fifth month running in October. The rate of decline accelerated to the fastest since July 2009, driven by a fall in inflows of new business for the fifth successive month. The Business Expectations indicator improved for the second successive survey from August's collapse, but remains far below its historic trend level.

Banking sector activity trend leads total output



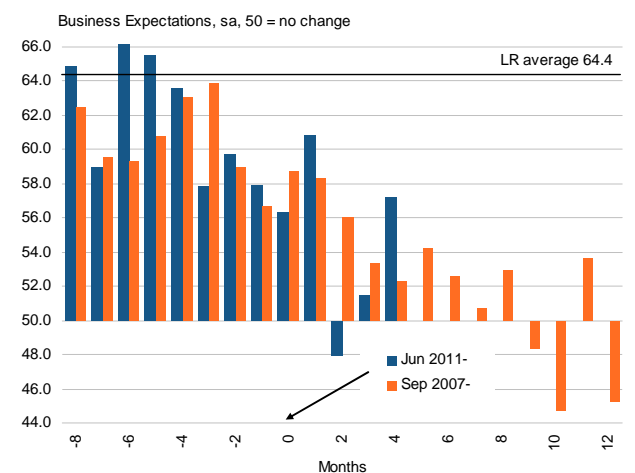
Comparing the recent trend in the banks PMI data with the pattern seen at the onset of the credit crunch in mid-2007 underlines the crucial juncture the sector and wider European economy find themselves in during the final quarter of 2011. Aligning the Index at the points where it first fell below the no-change mark of 50.0 in both 2007 and 2011 indicates a slightly steeper decline so far this time around. The trend in the banks activity series leads that for total manufacturing and services output, so the latest data suggest that the wider economy will continue to deteriorate towards the end of the year.

EU Banks Activity Index 2011 v 2007



The Banks Expectations Index rose for the second month running in October, recovering almost ten points since plummeting in August. This offers some hope that banking activity will recover in the coming months, given that the expectations series historically leads that for activity.

EU Banks Business Expectations Index 2011 v 2007



Euro debt crisis crucial to outlook...

But the rise in the Expectations Index represents only a bounce from a very low base, with October's print still well below the long-run average. And confidence of course remains hostage to events. Back in August 2008 the Index had risen sharply from July's then-record low, but subsequently retreated following the

collapse of Lehman Brothers and the ensuing chaos. Similarly, the latest data for October were collected prior to the renewed political turmoil following the bungled referendum announcement and forthcoming change of government in Greece, and new worries about Italy as its borrowing rate for 10-year government bonds hit a new euro-era high this week, approaching the 7% yield which is considered an unsustainable borrowing rate.

Output fell in most sectors in October

Banking is one of 22 industry sectors covered by EU PMI data, and is a constituent sector of the broader Financials PMI. The latter is based on responses from around 500 banks, real estate, insurance and financial services¹ companies in Germany, the UK, France, Italy, Spain and Ireland. These companies are drawn from the same survey panels that Markit uses to produce national service sector PMIs.

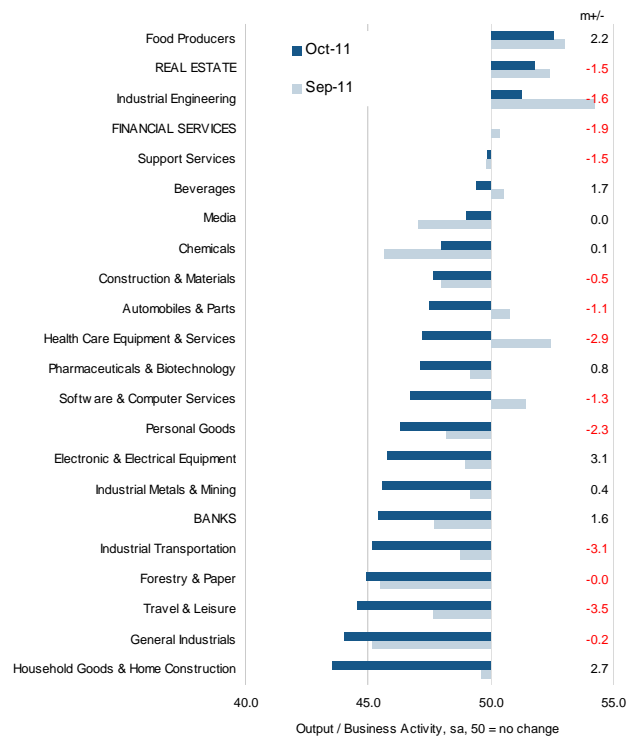
The two other financial sectors for which PMI data are available were among the best-performing sectors in October. Only food producers registered faster growth than real estate, while activity was unchanged in financial services.

All other sectors bar industrial engineering posted falls in business activity at the start of the fourth quarter. The steepest falls in activity were registered in household goods & home construction, general industrials, travel & leisure, forestry & paper and industrial transportation.

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 sectors are classified according to the **FTSE / Dow Jones Industry Classification Benchmark (ICB)**. The sector data track output, new and outstanding business, price trends, purchasing, stocks and supplier performance, and are released on the fifth working day of each month. November data will be available on 7 December.

EU Sectors: October 2011



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

¹ Includes asset managers, consumer finance, speciality finance, investment services, mortgage finance.

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