

News Release

MARKET SENSITIVE INFORMATION
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Markit Eurozone Manufacturing PMI – final data

Eurozone PMI at two-year high in January. France and Germany leading the recovery, but Spain and Greece fall further behind

Key points:

- PMI above earlier flash estimate.
- Fastest expansions of production and new orders since 2007.
- Big-three all recorded growth of output and new orders, but Spain and Greece fell back further.

Summary:

Final PMI data confirmed that the Eurozone manufacturing sector started 2010 on a positive footing. The recoveries in production and new orders, which began at the end of Q3 last year, gained further traction in January. Rates of expansion for both variables were also faster than those signalled by their respective flash estimates.

The headline **final Eurozone Manufacturing PMI** – a composite index based on measures of production, orders, employment, inventories and supplier performance – posted 52.4 in January, its highest reading for two years. The index value was above both its earlier flash estimate of 52.0 and the final reading of 51.6 posted in December. The level of the PMI has risen in each month since hitting a record low last February and has now remained above the neutral 50.0 mark for four consecutive months.

Manufacturing production expanded for the sixth straight month in January, with the rate of increase the quickest since August 2007. However, noticeable disparities in performance were still apparent between national manufacturing economies. Countries reporting an increase in output (**Germany, France, Italy, Austria and the Netherlands**) all saw stronger rates of expansion than in December. In contrast, **Spain, Ireland and Greece** all recorded lower output and faster rates of contraction.

Growth hit a near nine-and-a-half high in France, was the fastest for around two-and-a-half years in Germany, Italy and the Netherlands and the quickest for 24 months in Austria. Sector data indicated that **capital** and **intermediate** goods producers fared best in January, with output in both sectors rising at the fastest rates since 2007. Although **consumer**

goods production also increased, growth was slower than in the previous month.

The level of **new work received** rose for the sixth month running in January. Growth of new orders was the strongest since June 2007 and faster than the earlier flash estimate. The gain in the index between its flash and final releases was the greatest since flash PMI data were first compiled at the start of 2006. New export orders rose at an above flash estimate pace that was the quickest since August 2007.

Germany (three-year high) posted the sharpest growth of total new orders, followed by France (38-month high) and the Netherlands (fastest for 28 months). Spain, Greece and Ireland continued to report lower intakes of new work, with the pace of contraction the fastest for eight and nine months in Spain and Greece respectively. Sector data signalled that the strongest gains in total new work and new export orders were both recorded at producers of investment products.

Job losses continued to mount at the start of 2010. Manufacturing employment declined for the twentieth successive month and at a faster pace than in December (but in line with the earlier flash estimate). All of the nations covered by the survey reported reductions to staffing levels, with the sharpest job cuts in Germany and Spain.

January data pointed to a further increase in cost inflationary pressures, as **purchase prices** rose at the fastest rate for 16 months. The greatest cost increases were signalled in the intermediate and investment goods sectors. Companies linked higher purchase prices to the increased cost of commodities (energy and metals) and supply-chain factors. This was highlighted by a further deterioration in **average vendor performance**, as low stock levels at suppliers continued to result in delivery delays. There were also signs that pressure on manufacturing operating capacity and stocks may also be increasing, as **backlogs of work** rose at the fastest pace since July 2007.

Strong competition prevented manufacturers from

passing on higher costs to their clients in January. **Average selling prices** fell for the 15th month in a row, although the rate of deflation was the joint-weakest during that period and slower than the earlier flash estimate. Reductions were reported by all of the nations covered by the survey, with the sharpest decreases signalled in Spain and Ireland.

Holdings of **raw materials** and **finished products** continued to fall in January, despite further increases in output and **purchasing activity**. Input buying was raised to the greatest extent since February 2008. Rates of decrease for input inventories and stocks of finished goods were the slowest for 15 and ten months respectively, and both were slightly weaker than the earlier flash estimates. Inventory depletion was most notable in the investment goods sector.

Comment:

Commenting on the PMI data, **Markit Senior Economist, Rob Dobson** said:

“The January final PMI readings confirm that the Eurozone manufacturing sector has built on its positive end to last year, with growth of output and new orders the fastest since mid-2007 and above the earlier flash estimates. However, the recovery is becoming two-track, with Spain and Greece in particular falling further into recession when growth in most of the other nations, led by France and Germany, is accelerating. Manufacturers are also continuing to focus on reducing headcounts and lowering stocks despite gains in output. This suggests that they retain a cautious outlook, especially while sales are still being supported by price discounting.”

-Ends-

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Note to Editors:

The Eurozone Manufacturing PMI (Purchasing Managers' Index) is produced by Markit and is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.

The final Eurozone Manufacturing PMI follows on from the flash estimate which is released a week earlier and is typically based on approximately 85-90% of total PMI survey responses each month. The January flash was based on 86% of the replies used in the final data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Eurozone Manufacturing PMI	0.0	0.2

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

About Markit

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About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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