

News Release

MARKET SENSITIVE INFORMATION
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Markit Eurozone Services PMI – final data

Growth of Eurozone service sector moderated at start of 2010

Key points:

- Expansions of activity and new business eased from December highs.
- Business optimism continued to rise.
- Employment fell at weakest pace since November 2008.

Output and demand

At 52.5 in January, the final **Eurozone Services Business Activity Index** signalled an expansion of the service sector for the fifth consecutive month. Although the index was down from the 25-month high of 53.6 posted in December, it was slightly above the earlier flash estimate of 52.3.

France (which recorded the strongest growth), Germany and Italy all reported increased levels of business activity in January, but rates of expansion eased in each of these nations. Meanwhile, the downturns in the Spanish and Irish service sectors continued. Ireland was the weakest performer overall, with its rate of decline accelerating sharply to the quickest since last July. The contraction in Spain was the least marked during the current 25-month period of decline.

Levels of **incoming new business** increased for the fifth successive month in January. The rate of expansion was weaker than in December and slower than that signalled by the earlier flash estimate. New work received rose to the greatest extents in France and Italy, but in both cases at slower rates. Growth of new business remained negligible in Germany. Although Spain recorded a further reduction, it was the least marked since November 2007. Ireland saw the sharpest decrease, with the rate of contraction the steepest for four months.

Confidence

Confidence regarding levels of business activity in one year's time improved again in January, reaching a four-month high. Optimism increased in all of the nations covered by the survey. Confidence rose in Italy (44-month high), France (three-month peak), Spain (five-month high), Ireland (22-month peak) and Germany (four-month high), with these nations

ordered according to their respective levels of optimism. Companies reported expectations that the economic recovery would continue and that clients were generally more positive. However, the degree of optimism in the Eurozone service sector during January was lower than that indicated by the earlier flash data.

Capacity and employment

Eurozone service providers reduced **employment** for the nineteenth successive month in January. Although the rate of job losses was slightly faster than that signalled by the earlier flash data, it was still the weakest since August 2009. Staffing levels fell in each of the national service sectors covered by the survey, but rates of decrease also moderated in all cases. The least marked job cuts were reported by Germany, whereas employment fell markedly in Ireland and Spain.

January data pointed to a 23rd successive month-on-month reduction in the level of **outstanding business** at Eurozone service providers. The further decline in backlogs of work indicated that current capacity was still sufficient to satisfy the dual needs of work on new and existing contracts. The rate of reduction was slightly sharper than both the earlier flash estimate and that signalled during December.

Germany, Italy, Spain and Ireland all reported lower levels of outstanding business. The pace of reduction accelerated in Germany and Ireland, but eased to its weakest since the end of 2007 in Spain. France bucked the Eurozone trend, recording the fastest rise in backlogs since March 2008.

Prices

Average costs rose for the second month in a row in January, reflecting higher fuel and energy prices. There were also some reports linking the increase to higher staff salaries and commodity prices. Moreover, the rate of cost inflation signalled by the final data was marginally above the flash estimate. Germany reported the sharpest rise in input prices overall, with the rate of increase reaching a 15-month peak. Cost inflation eased to a three-month low in Italy, while costs in France rose for the first

time since December 2008.

Service providers in Spain and Ireland reported lower input prices. Although the rate of cost deflation in Ireland eased to a one-year low, it was much faster than that signalled for Spain.

Service providers reported that strong competition had prevented them from passing on higher costs to their clients in January. Subsequently, **average charges** declined for a 15th month running and at a faster pace than in December. The rate of decrease was also sharper than January's flash estimate.

Charges fell at the fastest pace in Ireland and Spain (sharpest for seven months). The weakest reduction was recorded in Germany, while charge deflation eased to 14- and 15-month lows in France and Italy respectively.

Comment:

Commenting on the final Eurozone services PMI data, **Markit Senior Economist, Rob Dobson** said: *"The recovery in the Eurozone service sector continued at the start of 2010. Levels of new business and confidence in the sector are also still improving. However, the rate of overall growth of business activity has slowed since December, suggesting that the manufacturing-led rebound is still struggling to fully transmit through to service providers. There are also marked disparities between the performances of the national service economies. France, Germany and Italy continued to record growth, but Spain and Ireland are still in recession."*

-Ends-

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Notes to Editors:

The Eurozone Services PMI (Purchasing Managers' Index) is produced by Markit and is based on original survey data collected from a representative panel of around 2000 private service sector firms.

The **final** Eurozone Services PMI follows on from the **flash** estimate which is released a week earlier and is typically based on approximately 75-85% of total PMI survey responses each month. The January flash was based on 76% 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 Services Business Activity PMI	0.0	0.3

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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