

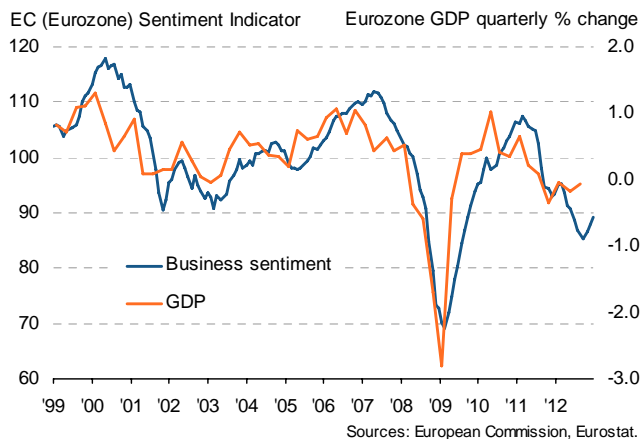
Eurozone

Business sentiment rises for third month running

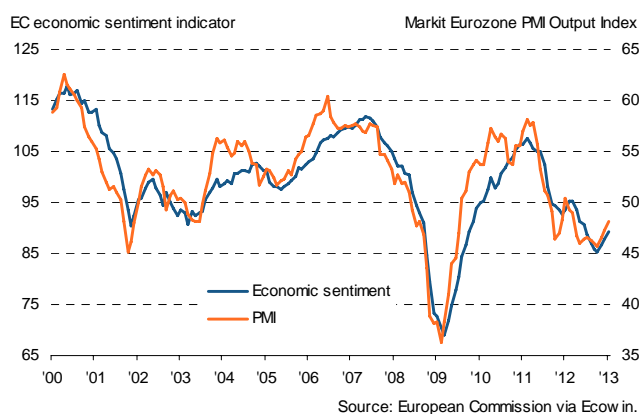
- **European Commission survey shows business confidence a seven-month high**
- **Confidence improves in all sectors**

An increase in business sentiment for the third month running in January provides further evidence that the Eurozone's recession is showing signs of moderating as we move into 2013.

EC survey and GDP compared



EC and PMI Eurozone surveys compared



The European Commission's survey-based economic sentiment indicator rose from 87.8 in December to 89.2 in January, exceeding analysts' expectations of a rise to 88.2. The index has now risen steadily since hitting 85.2 in October; its lowest for just over three years.

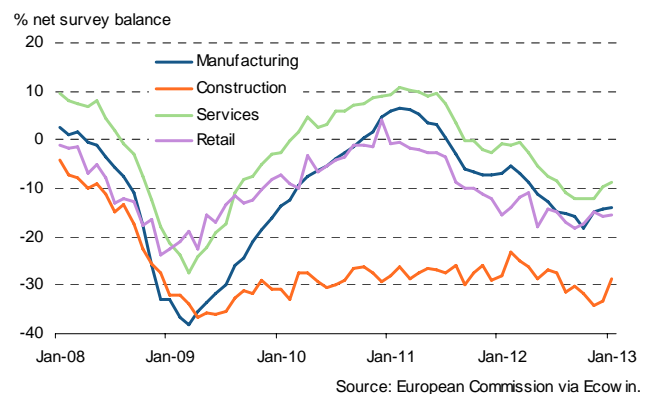
The increase in the EC indicator follows the release of the flash Markit Eurozone PMI last week, which likewise rose for a third successive month. Both

indicators remain at levels consistent with falling GDP at the start of 2013, but if conditions continue to improve at the speed which we have seen in recent months, the region could return to growth in the spring, barring any unwanted surprises.

Sentiment rose in all major sectors, with an upturn in the large service sector particularly welcome. Not only do services account for around two-thirds of the region's GDP, but improving business conditions in this part of the economy suggest that domestic demand – a key ingredient of a sustainable economic upturn – is showing signs of reviving.

However, only a marginal gain in the retail sector reminds us that consumers remain under pressure from high unemployment, squeezed incomes and uncertainty about the financial outlook, and that any substantial upturn in domestic demand, especially from households, is unlikely to occur any time soon and is therefore unlikely to help drive economic recovery.

EC survey of Eurozone sentiment by sector



This weakness of the retail sector is corroborated by Markit's Eurozone Retail PMI, which rose to a four-month high in January but nevertheless still showed retail sales falling at a steep pace.

The improving sentiment among businesses reflect growing indications that policymakers are at last making real headway into resolving the Eurozone's financial crisis. Improving global demand is also helping to drive an upturn in business confidence, especially in manufacturing.

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