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Markit Economic Research

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Eurozone

Official data confirm surveys, as GDP shows largest fall since early-2009

- **Eurozone GDP drops 0.6% in Q4 2012**
- **Downturns seen in all major member states**
- **PMI suggests downturn likely to ease in Q1**

"The region's economy is contracting at a quarterly rate of over 0.5%", in a situation that is *"the gloomiest since early 2009"*. These quotes relate not to today's news from Eurostat that the eurozone's GDP fell by 0.6% in the final three months of last year, suffering the worst quarterly decline since the first quarter of 2009, but instead came from Markit's flash Eurozone PMI release issued almost four months ago, on 24 October.

It is therefore surprising that, according to Reuters, "*only two out of 61 economists polled by Reuters thought it would be as a low as -0.6%*".

The PMI has been sending a consistent message that the region was undergoing its steepest downturn since 2009 late last year, warning that the combination of sustained underlying weakness of business activity and a payback from odd-looking resilience in the official data for the third quarter was going to result in a miserable fourth quarter GDP reading.

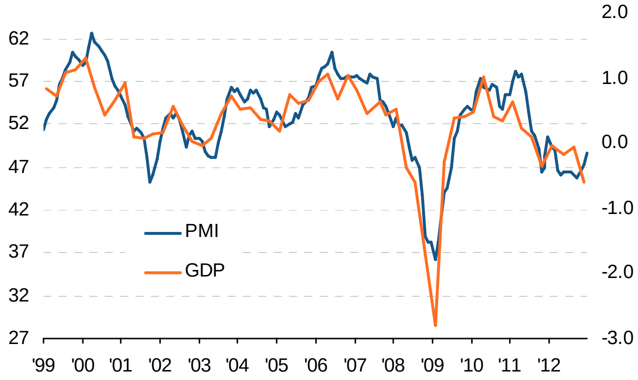
Worst likely to be over

The good news is that the same surveys which foretold the steep contraction in GDP so accurately are also already indicating that the downturn has eased. The fourth quarter looks set to be the worst that the single currency area will see in terms of contraction.

As noted in the flash Eurozone PMI release of 24 January, "*the economic downturn has eased at the start of 2013. While official data are likely to confirm that the region contracted at a stronger rate in the final quarter of last year, the outlook has since brightened with January seeing the smallest drop in business activity since last March.*

"Forward-looking indicators – such as business confidence and the new orders-to-inventory ratio – also suggest that the rate of decline will continue to slow in coming months, and a return to growth looks to be on the cards during the first half of 2013."

Eurozone GDP and the PMI



Sources: Markit, Eurostat.

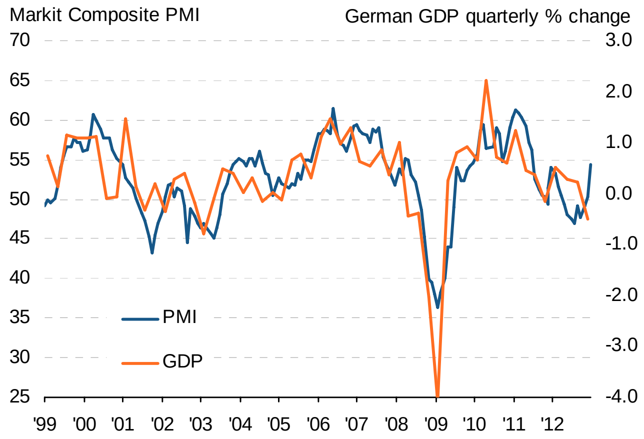
Contraction in all major euro countries

As predicted by the PMIs, GDP fell in all major eurozone countries in the fourth quarter. However, there are some notable divergences with the PMIs. The official data showed Germany's output falling 0.6% in the fourth quarter, contrasting with a more modest decline in France. The PMIs instead pointed to a far steeper downturn in France than Germany, suggesting that the provisional fourth quarter GDP estimate for France could be revised down, or that the first quarter will show a further steep decline. With the PMI for France falling further in January, these two possibilities should not be seen as mutually exclusive.

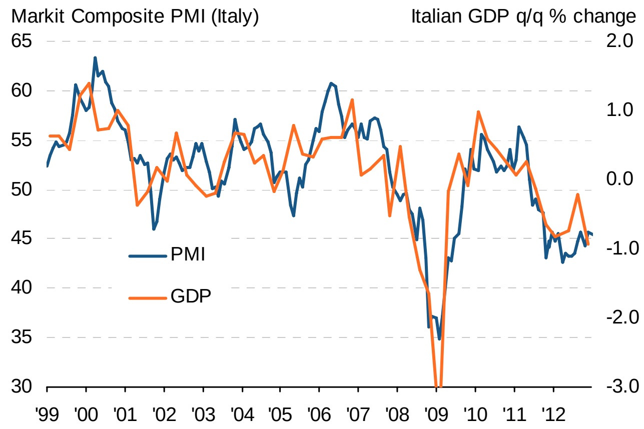
Germany, on the other hand, entered 2013 with the PMI rising strongly to a reading consistent with GDP growing at a quarterly rate of 0.5%.

Spain's economy contracted 0.7% while an even steeper drop of 0.9% was seen in Italy. These steep downturns were more or less in line with the signals from the PMI. However, the PMIs suggest that in both cases these rates of decline will have tempered at the start of 2013.

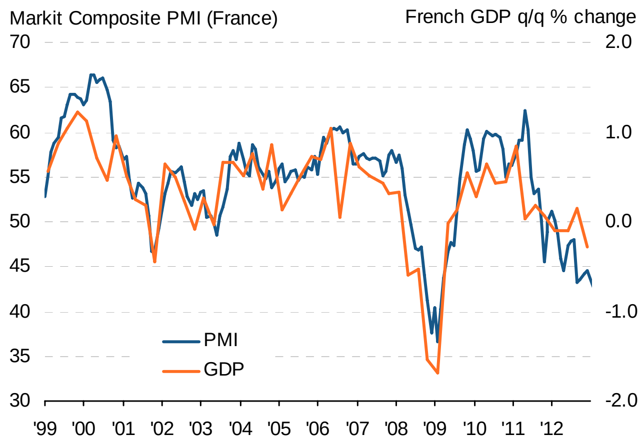
Germany



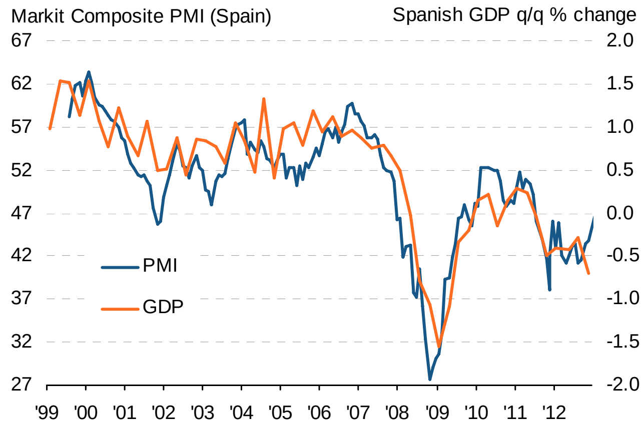
Italy



France



Spain



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