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Markit Economic Research

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Greece

Manufacturing PMI 'double-dip' signals deepening economic woes

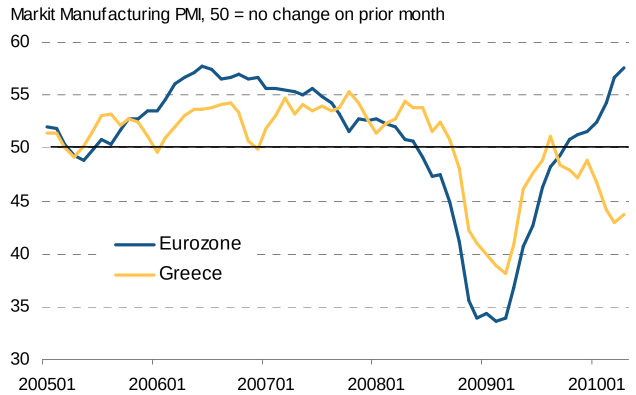
PMI data reveal that Greece has fallen further behind other Eurozone nations in the manufacturing-led economic recovery, with the difference in performance between German and Greek manufacturing reaching an all-time high in April. With Greece's export trend deteriorating sharply in April, intra-Eurozone divergences may widen further in coming months and Greek industry will struggle to compensate for a shrinking public sector. As a result even the IMF's newly-revised forecast that the economy will contract by 2% this year may yet prove optimistic.

Greek contraction contrasts with strong Eurozone upturn

The Markit Eurozone Manufacturing PMI rose to 57.6 in April, its highest level since June 2006. The Eurozone PMI – which is a weighted average of indices for new orders, output, employment, stocks and supplier performance – has remained above the neutral 50.0 mark for seven consecutive months.

In contrast, the Manufacturing PMI for Greece registered 43.6 in April, well below the 50.0 neutral level, to indicate a further marked deterioration in business conditions. The Greece PMI has now been below 50.0 since October 2008 with the exception of a one-month spell in expansion territory last August.

PMIs signal divergent business conditions

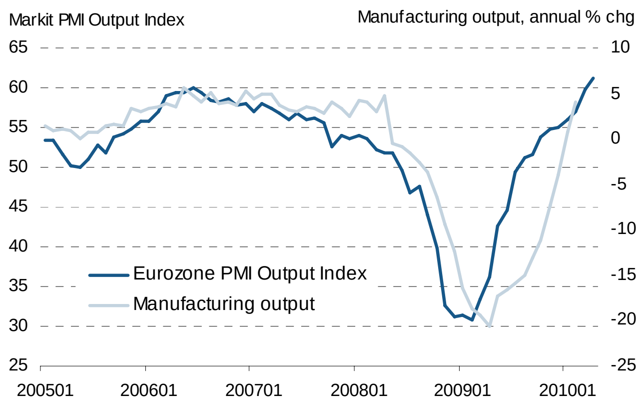


Source: Markit.

For the Eurozone as a whole, the PMI data showed that manufacturing production expanded at the fastest pace since June 2000, but the divergence between the fastest growing country Germany – where a record rate of increase was seen in April – and the worst performer Greece – the only nation to report a contraction – was the widest in the Eurozone PMI's 12-year survey history.

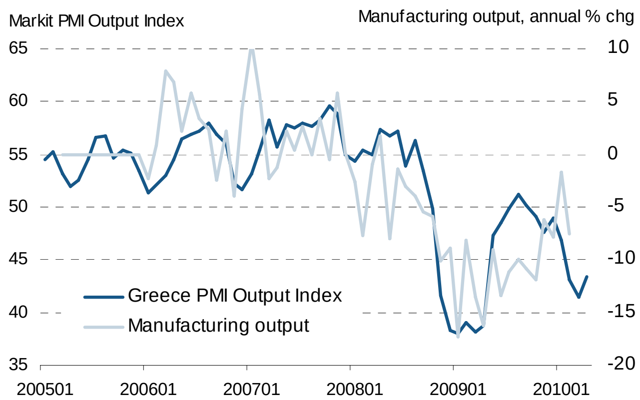
Comparing the PMI survey's manufacturing Output Indexes for Greece and the Eurozone against official data illustrates the extent of the divergence. While the Eurozone's PMI Output Index is signalling an annual rate of growth of production of approximately 6%-7%, the index for Greece is signalling an annual rate of contraction of around 12%.

Eurozone growth



Sources: Markit, Eurostat.

Greek contraction



Sources: Markit, Eurostat.

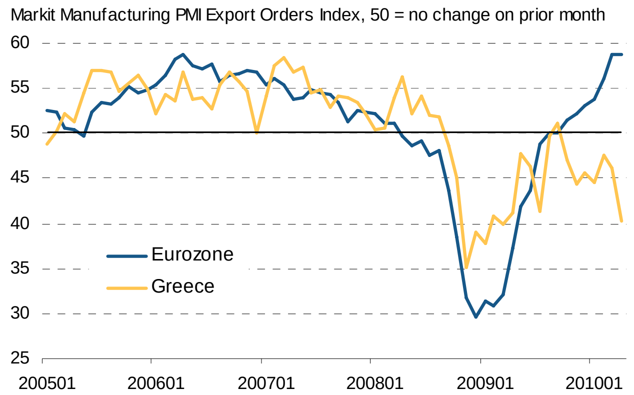
Not just a domestic demand problem

The PMI data therefore raise concerns that the Greek economy is undergoing a 'double-dip' downturn, with recent developments regarding the Greek government's ability to finance its debt affecting the real economy. Not only have lending conditions deteriorated and business and consumer morale been hit, but day-to-day business has been disrupted by strikes and transport delays.

However, it is not just weakening domestic demand that has caused the manufacturing sector to show a renewed deterioration. PMI respondents in Greece reported that new export orders fell at the fastest rate for over a year in April, with the rate of decline accelerating sharply during the month to approach that seen at the height of the recession last year.

A very different picture is seen for the Eurozone as a whole, where new exports rose at a pace only marginally below March's near 10-year high, led by Germany.

Greek export trend worsens



Forecasts in jeopardy

Although manufacturing only accounts for just over one-tenth of GDP in Greece, it is a highly cyclical sector and therefore acts as a timely and reliable indicator of trends in the wider economy. The unexpected acceleration in Greece's downturn therefore supports the view from the International Monetary Fund of a worsening outlook for 2010: the Fund recent cut its forecast for GDP in 2010 from -0.1% to -2.0%. However, without a sharp improvement in both the manufacturing PMI and its Exports Index in coming months, even this revised estimate may prove to be too optimistic.

Greek GDP

Sources: Markit, Eurostat.

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