Impact of the economic crisis on key sectors of the EU – the case of the manufacturing and construction industries June 2009 update

29 June 2009

1. SUMMARY

This June/July update shows that the fall in manufacturing output in EU 27 has once again slowed down in May 2009. Business expectations in May have recovered for the third month in a row, and incoming orders in March/April seem to have stabilised at their (very low) February level.

On the other hand, the note shows that access to finance for the real economy is still hampered both by a relatively gloomy business outlook and by borrowing conditions that do not reflect the sharp easing of monetary policy since autumn last year in Europe, while lending conditions do. Also, manufacturing employment and labour markets in Europe exhibit the expected worsening, with Ireland, Spain and the Baltic States being especially hard hit by soaring unemployment rates.

However, the note also shows that the fall in output seems to have overshot dramatically, with output levels having fallen back to 1997/8 levels, i.e. far beyond that what one would have expected if it had been limited to a correction of excesses having occurred since the onset of the global financial and regional housing market bubbles in the earlier years of this decade.

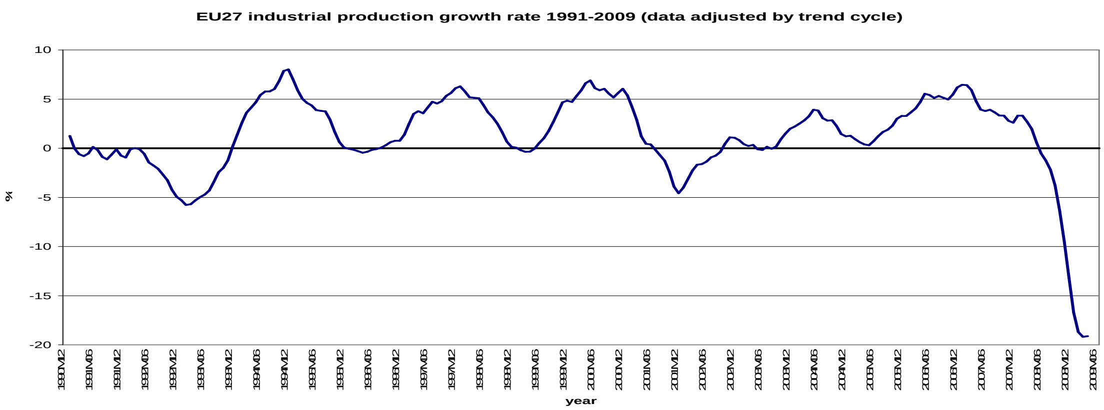
Thus, while Europe is heavily suffering from the fallout of the excesses of global and financial markets that have built up until 2008 it now also seems to be in the midst of another excess, i.e. an excessive undershooting of economic activity, an excess first of all having been triggered by large-scale uncertainty in the aftermath of the collapse of Lehman Brothers. However, after the dust (of the financial-market implosion) has settled and a stabilization of the financial system had been achieved, the undershooting could give place to a solid correction and a V-shaped crisis with a dynamic recovery ahead.

However, the crisis has been aggravated by a financial system that tries to recover past losses and hardly fulfils its genuine role of risk transformation and matching individual and aggregate savings and investment preferences, by this making both monetary policy and public intervention in favour of easing access to finance largely ineffective. This behaviour of the banking sector might also have been inspired by both market and regulators' expectations for balance-sheet features that might have emerged over the golden boom-years and that – through their pro-cyclical features – now work as impediments to a quick and dynamic correction of the undershooting economy.

2. RECENT DEVELOPMENTS IN LAGGING INDICATORS (OUTPUT, EMPLOYMENT, TRADE)

2.1. Aggregate developments

The latest monthly data for EU **industrial production** in April 2009 show output 19.1% lower than a year earlier, with **manufacturing output** 20.3% lower over the same period[1]. In the **construction sector,** output was 5.1% lower than a year earlier over the same period. EU **manufacturing exports** to non-EU countries were 24.3% down in value terms in the first quarter of 2009 compared to the previous year, whilst **intra-EU trade** was 29% lower over the same period. Overall real GDP was 4.5% lower in the first quarter of 2009 than a year earlier and 2.4% lower than in the fourth quarter of 2008. Lower manufacturing activity has negatively affected services, although as in earlier slowdowns the impact of the downturn on services is likely to be later and less strong than in manufacturing.

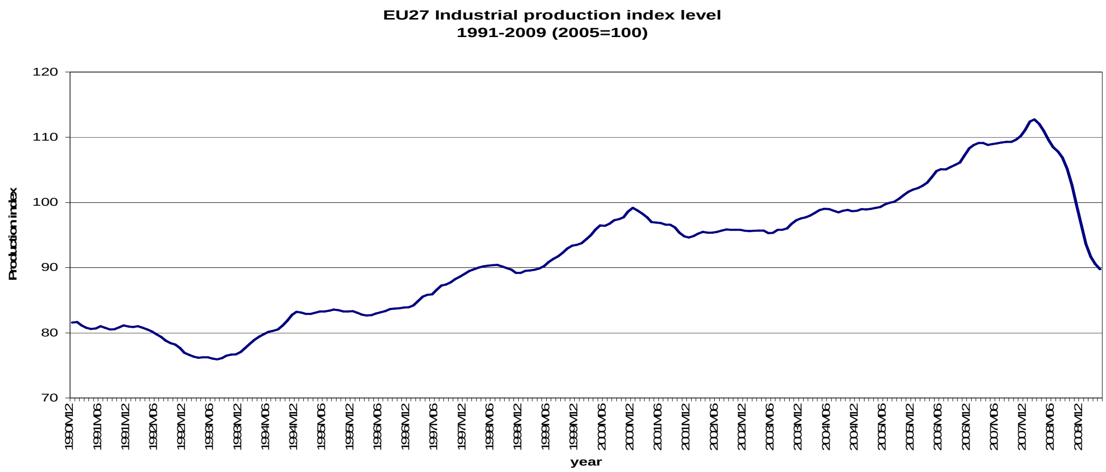


Source: Eurostat

There are further signs that the pace of decline of industrial production is moderating. In seasonally adjusted terms, the month-on-month fall in EU27 in industrial production (0.9% in April) has been numerically smaller each month since last December. However, due to a sharper fall in production in Germany (partially offsetting the very positive development in March), the corresponding fall in the Euro area was 1.9% in April. Production in some sectors is now beginning to stabilise or even recovers somewhat (see table in annex 2). Also output in construction industries increased in April, led by an increase in civil engineering output.

Nevertheless, looking at the output performance in absolute terms (see next chart), it has fallen back to levels last time seen in late 1997/early 1998, thus, triggering significant idle capacities and indicating that the output decline might have been more than a correction of an excess having materialised as a consequence of the bubble economy of the earlier years of this decade.

[1] The headline Industrial production number includes both manufacturing and energy industries.



Source: Eurostat

2.2. Sector specific development

The crisis has affected all manufacturing sectors although not evenly. The largest sectoral reductions in output[2] have occurred in motor vehicles, metals, machinery, electrical equipment, and textiles (see graph on next page). In April 2009, output in the motor car industry was 39.5% lower than a year earlier, whilst production in the basic metal sector was 38.4% lower over the same period.

There is evidence of a stabilisation of output in some sectors. The annual rate of change in April for some sectors such as chemicals and motor vehicles was lower than that experienced in the first quarter (see graph). This is confirmed by month on month data. In contrast, in basic metals, electrical equipment, and machinery and equipment output continued to fall at a high rate. Production in the latter sectors tends to respond more slowly to changes in demand.

Extra-EU exports of several sectors have contracted sharply in recent months. The trend continued in April. Exports of coked and refined petroleum, motor vehicles, communication equipment, and metals have been affected the most. Exports have fallen particularly fast in relation to Russia, Turkey, and Asian destinations (except China).

According to the European Restructuring Monitor, announced total job losses in May continue to outnumber announced job gains, but the number of net job losses has been lower in the last two months than in previous months. In May, manufacturing accounted for 46 % of announced job losses recorded. Proportionately, the retail sector has been the most affected, accounting for four times its previous average share of announced job losses. The car making industry accounted for 14 % of the total number of recent job losses compared to a long-run (2002-8) average of 8 %.[3]

[2] Note that from January 2009 onwards, Eurostat industrial production data are published according to a new classification (NACE rev. 2).
[3] DG EMPL: EU employment situation and social outlook, June 2009

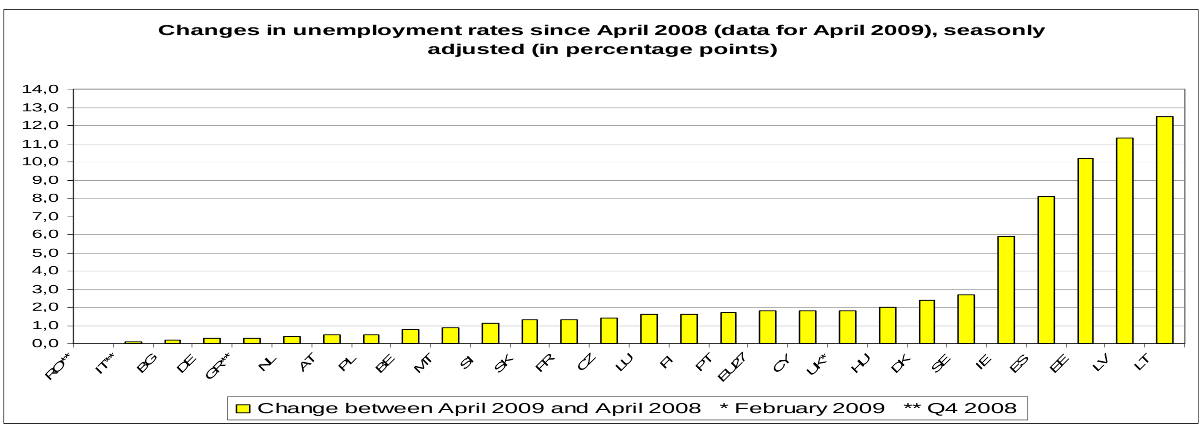
Source: Eurostat

2.3. Country specific development

The April industrial production figures (for more details see annex 2) show that compared with a year earlier, industrial production declined in all Member States for which data are available. The largest decreases were registered in Estonia (-33.7%), Slovenia (-24.9%), Lithuania (-24.5%) and Italy (-24.2%), and the smallest in Poland (-6.9%), Romania (-7.8%), Portugal (-11.1%), Greece (-12.2%) and the United Kingdom (-12.3%). However the indications of some stabilisation in month on month changes in industrial production continue to be visible in some Member States. Compared with March, industrial production rose in six and fell in twelve. The highest increases were registered in Latvia (+4.8%), Spain (+2.0%) and Italy (+1.1%), and the most significant falls in Slovenia (-3.8%), Finland (-3.4%) and Estonia (-2.8%).Given the uncertainties relating to seasonal adjustment, these fluctuations should still be interpreted with caution.

Employment tends to be a lagging indicator in the economic cycle. The latest available data show overall employment falling by 0.8% (1.9 million) in the first quarter of 2009. The sectoral breakdown is not yet available.

The unemployment rate in EU27 increased in April by 1.8 percentage points compared with the same period last year. However, there have been significant differences in the fluctuations of the unemployment rates among the Member States. In ten countries the unemployment rate rose by less than 1, in thirteen by less than 5, and in five by more than 5 percentage points. Unemployment in the Baltic states and in Spain were in particular negatively affected. In contrast, unemployment has risen only slowly in Germany, Netherlands, and Austria. The developments in unemployment partly reflect policy impacts as well as other economic factors (e.g. the degree of use of short-term working).

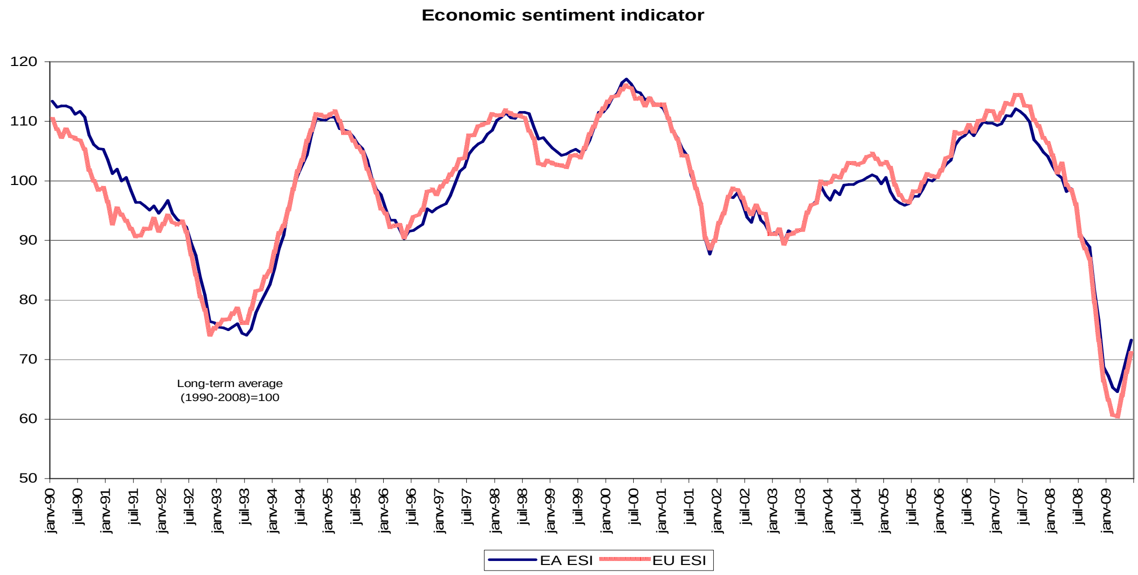


Source: Eurostat

3. RECENT DEVELOPMENTS IN LEADING INDICATORS (ECONOMIC SENTIMENT, INCOMING ORDERS)

The signs of a more positive outlook indicated by a slower rate of decline of production are reinforced by recent confidence surveys. These show notably the beginnings of a reduction in unsold inventories and a mild recovery in production expectations. Consumer, retail, and other services confidence has also improved somewhat. However all of these indicators are still at historically low levels that would indicate further falls in GDP and industrial production are likely.

The Commission’s **EU Economic Sentiment Indicator**[4], an economy-wide measure of economic sentiment, improved in June for the third month in a row, albeit from a very low level (see chart). However the indicator still remains below the trough of the previous 1992/93 recession indicating that GDP will continue to contract in the second quarter. Of its components, confidence in industry, retailing, and other services have all begun to recover since March. Consumer confidence has also improved. Construction confidence however has remained at its historically very low level. Standardising the series for the relative size of fluctuations, the improvement in retail and consumer sentiment has been notably stronger than that of manufacturing and services. This is significant, not least since these components of the index actually deteriorated before industrial confidence declined at the beginning of the financial crisis.



Source: DG ECFIN

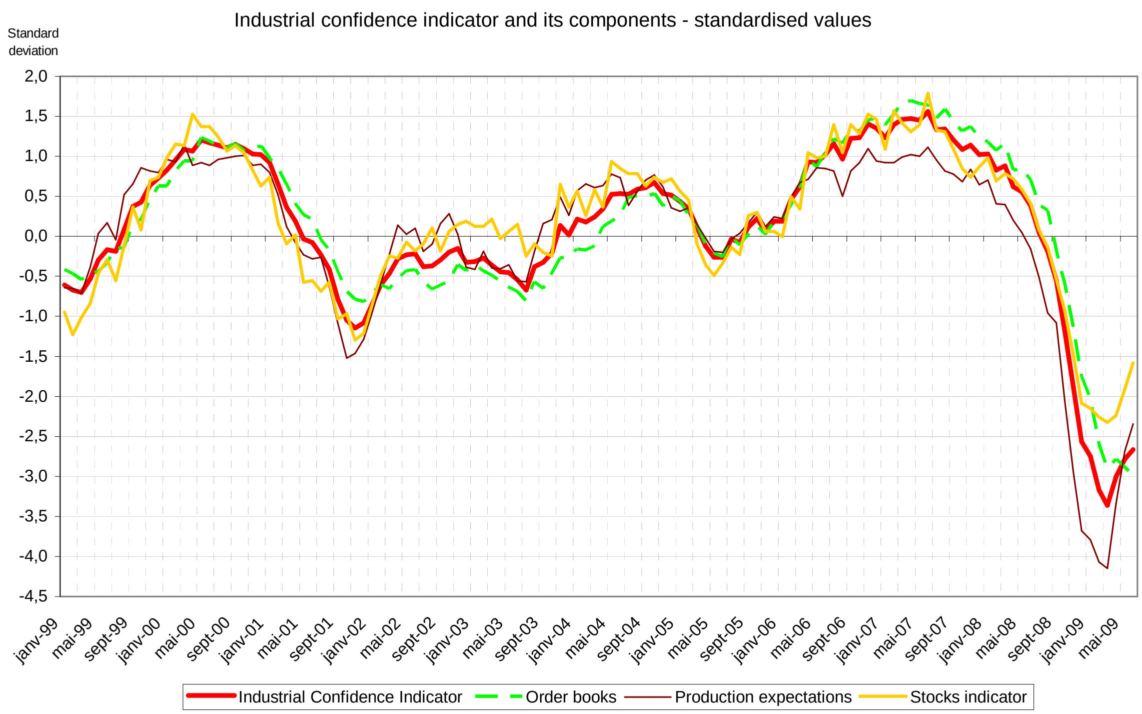
The **index of industrial confidence** continues to indicate further declines in manufacturing output, while suggesting that the largest contractions may be over. The index and its most important components are shown in the chart, standardised for their historical degree of fluctuation (using standard deviations). The chart shows that the industrial confidence indicator itself has slowly improved from its all-time low in March, but in June was still well below its previous range of values. The individual components of the index have showed contrasting behaviour. The survey indicator for stocks of finished products shows that excess stocks have

[4] DG ECFIN, Business and Consumer Survey Results, May 2009

diminished somewhat since April, whiles the balance on production expectations has shown a relatively strong rebound since March.

Preliminary data for June from the **Eurozone Purchasing Managers Index**[5] indicated a further moderation in pace of output reductions in manufacturing, despite a worsening of the outlook in services (more broadly defined than in the Commission confidence indicators).

Data from the Commission's economic sentiment survey for June show that business expectations of future employment have begun to stabilise or recover at a very low level, increasing slightly from historically low level in March. This is broadly true in all sectors, manufacturing, construction, services and retail trade alike, whilst the employment sentiments continue to fall among consumers. Further substantial job losses are therefore likely to follow.



Source: DG ENTR on the basis of DG ECFIN data

In contrast, the **balance on order books** has maintained its historical low both for domestic and export orders. Available data on orders indicate that they still remain about a third below their level a year ago, with basic metals, machinery, other transport equipment and motor vehicles sector have been the most severely affected by significant drops in new orders in April in comparison to the same period last year.

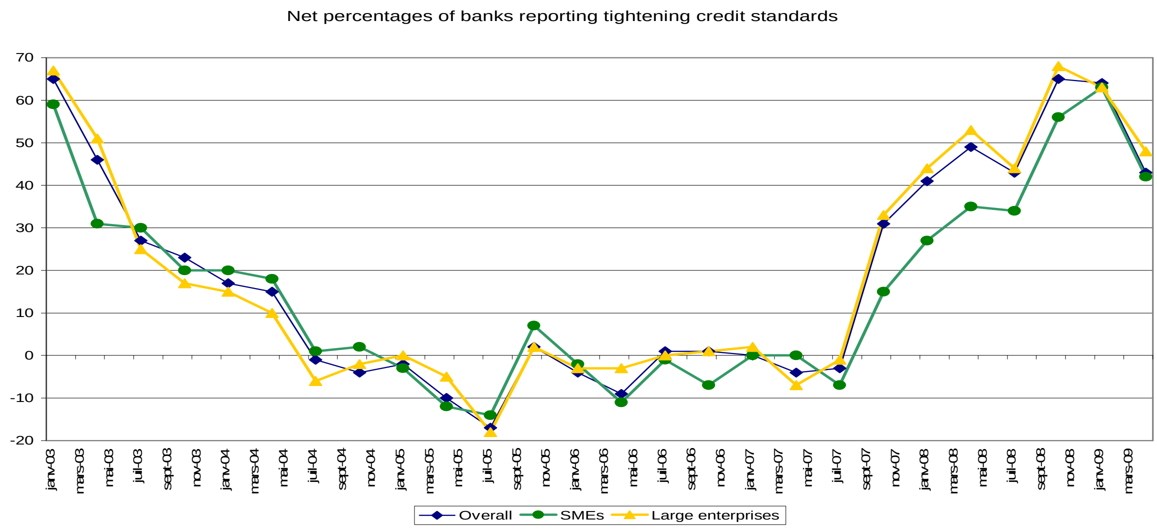
4. ACCESS TO FINANCE

[5] Markit, Markit Flash Eurozone PMI, 23rd June 2009

4.1. Bank lending

The European Banking Federation predicts in its June 2009 report a continuation of the declining trend in overall lending to businesses over the coming months as both demand and supply decrease, reflecting the less favourable growth context for GDP as a whole and also for investment.[6]

The growth in bank lending in the Euro area to non-financial corporations slowed down significantly in the course of 2008 and turned negative in recent months. The slowdown has been most significant in short-term loans that have declined since November last year. The ECB bank lending survey showed that bank lending conditions tightened substantially through the course of 2008, and continued to tighten though at a lesser rate in the first half of 2009. Given the lag of three to four quarters in the response of loan volumes to a change in credit standards, further reductions in loan volumes can be expected before recovery takes place.



Source: ECB

The country-to-country differences in access to finance remain. In countries with well-developed guarantee systems and/or a large savings and cooperative banking sector (e.g. Germany, France) SMEs continue to have access to finance, though banks have certainly become more cautious in their lending. In other countries (e.g. UK, Ireland, Latvia, Lithuania, Estonia, and Hungary) where most of corporate lending has been provided by commercial banks and/or foreign banks, the lending situation is more difficult. In some countries the economic slowdown has been especially severe, lenders have deserted the market or capital outflow has been substantial.[7] There are even concerns of a contagion effect in hither to safe banking markets such as Sweden and Austria due to their high exposure to Central and Eastern Europe lending markets.

[6] EBF Outlook No. 27, June 2009.

[7] In UK, Icelandic banks have left the market. In Latvia, Lithuania and Hungary much of the banking sector is owned by foreign banks, which have retrenched their lending in the wake of the crisis as well as channelled available liquidity to their mother entities abroad. Hungary and Latvia had to apply to IMF for financial assistance to stave off a financial crisis.

There is also evidence of a drop in export trade credit. Data from the World Bank show a sharp drop in year-on-year growth rates from the second quarter of 2008, with the fall being particularly marked in the short-term segment of the market.[8] Total credits had fallen some 21.3% by the first quarter of this year and short-term credits by 23.6%. According to a recent IMF study of forty major banks in advanced and emerging market economies there has also been a widespread increase in the price of trade finance providing evidence for the dislocation of trade finance markets.[9]

Overall, SMEs in Europe are facing an increasingly difficult financing and economic environment. The focus of many banks on improving their balance sheets and an increase in late payments are complicating the picture further.

4.2. Corporate debt and equity markets

The **debt financing conditions** for euro area non-financial corporations worsened seriously following the Lehman Brothers bankruptcy. Spreads for corporate bonds over government debt initially rose to nearly 20 percentage points for high yield bonds, temporarily closing off the market for this type of financing entirely. Spreads on investment grade securities also rose sharply, by some 6 percentage points for BBB rated securities and 2 percentage points for AAA securities. Companies avoided issuing on the market at these rates.

Many companies had taken out longer-term loans over recent years and the need for refinancing these loans seems limited for the moment. Moreover, both as a result of a worsening business outlook and also triggered by the falling value of collateral several companies have faced downgrades of their ratings that have increased their cost of capital. Since the beginning of April 2009, the market has stabilised and spreads have fallen back somewhat. However, these spreads are still substantially higher than those that prevailed prior to the beginning of the financial crisis. Nevertheless a number of firms have begun to tap the market albeit at very high cost.

Concerning **equity finance** the market has effectively been closed to non-financial corporations since the on-set of the financial crisis in July 2007.

4.3. Venture capital markets

At present venture capital funds in Europe are focused on managing their portfolio companies through the crisis to be well positioned once the economic climate improves. Final figures for 2008 released by the European Private Equity and Venture Capital Association indicate that early-stage venture capital investment registered a 15% increase in the number and 7% in the value of seed-stage and start-up companies receiving finance.[10] The outlook for 2009 nonetheless is negative. The fourth quarter of 2008 already saw a significant drop in all major venture capital

[8] World Bank, http://devdata.worldbank.org/sdmx/jedh/jedh_home.html
[9] IMF "Survey of International Trade Credit Developments".
[10] "Private equity investment falls 28% during 2008", EVCA Press Release, 8 June 2009.

activities in Europe: fundraising, investment and exits. First quarter results for 2009 in US point to an especially difficult year for the sector (there have been significant drops in investment and fundraising values compared to previous years as well as a frozen exit market). Furthermore, 51% of respondents to the 2009 Global Venture Capital Survey are planning to decrease the number of companies in which they will invest.[11]

The continued high volatility of public markets, depressed prices and the bleak economic perspective keep companies from pursuing initial public offerings (IPOs). Exits have slowed significantly since the start of the economic downturn.[12] The IPO window is not expected to open soon which prolongs the financing needs for portfolio companies and extends the time funds are locked into their investments. Fundraising is slowing as exit markets remain challenging and distributions are not flowing back to be recommitted. Venture capital fund raising rounds could take longer in the future.[13] In 2008 capital commitments from capital markets and banks dried up considerably, with both halving their commitment levels compared with previous years.[14] Research data indicates that the financial crisis led to a 20% decrease in the average amount of funds raised per funding round among US internet firms.[15]

According to the 2009 Global Venture Capital Survey, a major development of the post-recession landscape will be that the clean-tech sector is set to become the leading investment category. The globalization of the venture capital industry is expected to intensify which poses significant competitive questions for Europe, where returns have been historically poor (the 10-year return on overall venture capital investments was 0.4% in Europe compared with 15.5% in US).[16] Countries that can nurture entrepreneurs and investors as well as offer attractive exit opportunities have the most to gain economically in the next decade.[17]

[11] "Global economic downturn driving evolution of venture capital industry", Deloitte and NVCA, 10 June 2009.
[12] "Private equity investment falls 28% during 2008", EVCA Press Release, 8 June 2009.
[13] Capital Dynamics, Perspectives, PE markets April 2009 overview.
[14] "Private equity investment falls 28% during 2008", EVCA Press Release, 8 June 2009.
[15] "What is the effect of the current financial crisis on venture capital financing?", Joern Block & Philipp Sandner, 2009
[16] European and US figures up to December 2008. 17 March 2009, EVCA and 27 April NVCA.
[17] "Global economic downturn driving evolution of venture capital industry", Deloitte and NVCA, 10 June 2009.

Annex 1

1. THE IMPACT ON SELECTED SECTORS

1.1. Automotive

Total vehicle production in April 2009 was 39.5% lower than a year earlier, as a result of contraction of both domestic and foreign markets. There has been now 12 successive months of decline in the production in comparison to the year before. The situation varies between Member States but the downturn has reached virtually every market in the EU and all major car manufacturers on the European market are severely affected. Industry forecasts[18] project a fall of 20% in vehicle production in 2009 before a potentially sluggish recovering in 2010 and 2011. Overall, the sector is still in trouble, as it is known to have built up structural overcapacity estimated at the level of 20-40%. Additional pressure comes from the bankruptcies of Chrysler and GM in the US which have spill-over effects in the EU, with including a significant risk of GM related plant closures in different Member States.

Regarding passenger cars, there is evidence that recent scrapping and other car purchase schemes have had a significant impact in stemming the fall in passenger car demand in the EU market. In contrast to the very steep fall in vehicle production, the most recent figures on new EU passenger car registrations show a decline of only 4.4 % in May 2009 compared to the same period in 2008. This decline is much less steep that in the first months of 2009, when a fall of 27% was registered in January. The decline in sales for January-May 2009 amounts to 13.7% in comparison to the same time span last year. In particular, the German scrapping scheme has been highly successful and has recently been extended with its financial envelope more than trebled to €5 billion. Germany registered a 39.7% rise in sales in comparison to May 2008. The German scheme has also had spill-over effects in the Czech Republic (20.5% rise in sales). In total 12 Member States have introduced scrapping schemes, including France, Italy, Spain, and recently the UK and the Netherlands[19]. Slovakia registered even higher rise in sales than Germany – 46.4% - also owing to a successful scrapping scheme Other markets registering rise in sales were France (+11.8%), Austria (+4.8%) and Greece (+5.1%). The largest declines occurred in Ireland, the Scandinavian and the Baltic states and were closely associated with their overall macroeconomic situation. The scrapping schemes may however result in a subsequent decline in sales at a later date, since purchases may simply have been brought forward. Latest market forecasts suggest that European automotive markets will further decline in 2009 with most estimates for sales of passenger cars generally varying between -12% and -18% (i.e. an additional fall of about 1.5 to 2.5 million vehicles).

Industry data for light and heavy duty vehicles indicate that they have been affected much more severely than passenger cars, with commercial vehicle sales 35.6% lower in the first quarter than a year ago. Over the first quarter the demand for light commercial vehicles dropped by 35.3%, for medium vehicles by 38.2% and for heavy vehicles by 41.5%. Combined commercial vehicle

[18] Global Insight for ACEA http://www.acea.be/index.php/news/news_detail/global_insight_the_crisis_is_devastating/

[19] The UK and the Netherlands schemes will be partly financed by the car manufacturers themselves and will become operational in May/June.

demand is expected to drop by about 30% in 2009[20]. Industry has adjusted its production to collapsing business confidence, declining demand and excessive stocks. For example, in the first quarter of 2009, there was a 40% cut in the light vehicle production in Europe following dramatic cuts already implemented at the end of 2008. This adjustment will continue and the double-digit declines are likely to build up till the third quarter of 2009[21]. Concerning medium and heavy commercial vehicles, output is forecast to fall by 60% in the first half of 2009 (following cuts in the last quarter of 2008) and by 50% in overall in 2009[22].

The financial condition and survival of original equipment manufacturers (OEMs) has a significant impact on the whole automotive supply chain. Automotive suppliers produce 65%-75% of an average vehicle's value added and account for about 50% of the R&D in the automotive sector. There are currently about 5000 automotive suppliers operating in Europe with ca. 5 million employees[23]. According to the industry association 1 in 3 companies are at risk alongside with 1.5 million jobs. The industry has already implemented some 40% cuts in production at the beginning of 2009 alongside the flexibility schemes for its workforce and redundancies. New ownership and alliances are likely to be formed in the sector that has been suffering from structural problems pre-dating the crisis and currently exacerbated by the lack of access to credit and even more severe conditions imposed by the OEMs. Automotive suppliers, often SMEs, are less well capitalised than OEMs. They have fewer and less diversified production and less financial reserves, since they have been struggling with tight profit margins over recent years.

1.2. Mechanical and electrical engineering

The situation in the mechanical and electrical engineering sectors continued to worsen in March and April with further decreases in production levels. In April the situation was the worst since the beginning of the crisis with a fall in production levels by 28.7% and 27.5% for mechanical and electrical engineering respectively compared to the same period in 2008.

This situation follows earlier forecasts that 2009 would be a difficult year for mechanical and electrical industry. The two sectors seem to be among the worst affected ones in the manufacturing industry. So far the recovery package does not seem to have significant positive effects on the sector. Nevertheless, the industry is remains confident that this will change as soon as investment begins to recover.

1.3. Steel

In the first four months of 2009, the production of crude steel in the EU-27 fell by 44.2% compared to the same period of previous year, while a contraction in world steel output reached 22.7%. The crisis impacted fiercely all the largest steel producing countries of the EU. For

[20] Source: ACEA
[21] Source : J.D. Power - Global Car & Truck Forecast - 1 Quarter 2009
[22] Source : J.D. Power - Global Commercial Vehicle Forecast - 1 Quarter 2009
[23] Source: CLEPA European Association of Automotive Suppliers.

example, steel production decreased significantly in Germany (-43.0%), France (- 42.5%), Italy (-42.0%), Spain (- 375 %) and the U.K (-43.7%) in the first four months of 2009. Other major non-EU steel producing regions that experienced a double-digit decrease in crude steel production were the C.I.S. (-32.8%), North America (-48.5%) and South America (-36.5%). The decline was less significant in Asia (-9.5%) and the production in China even increased slightly (+0.1%)**.**

According to industry estimates from EUROFER, EU producers saw a significant **decline in their Community deliveries** of -43% year-on-year in the first quarter. Overall EU **apparent steel consumption** (including both domestic sales and imports) fell by 42.7% y-o-y, about half of this reduction being accounted for by users running down their stocks. In the first quarter of 2009 the volume of EU steel **exports to third countries** are estimated to have fallen by 22.6% in comparison to the first quarter of previous year, whilst **third country imports** to the EU are estimated to have fallen by 35.3%. The latest forecasts show apparent consumption falling by 33% in the whole 2009 due to a 23% decline in real steel consumption and continued destocking until 4th quarter of 2009.

Many European companies have reduced the number of days of production, or mothballed capacity. Significant reductions in production and employment have been announced by all major steel groups. EUROFER estimates that 27% of the overall EU steel industry employment is impacted by reduction measures which include announced redundancies (24,400 people), effective temporary lay-offs (22,300) and short-time working (80,000).

1.4. Construction

The most recent data confirm the significant downturn in the construction sector which fell by 11.4% in the EU27 in the first quarter of 2009 compared with the previous year. Building construction was mostly affected (-13.4%) mainly due to the decrease in private investment in the residential sector, but civil engineering was not spared (-2.9%). Nevertheless, the latest month-on-month data indicates that in April the output in civil engineering rose by 3.9% in comparison to March and the decline rate in building sector was significantly lower.

Almost all EU countries are concerned by the worsening of the economic situation, including EU-12. On an annual basis, among the Member States for which data are available for the first quarter of 2009, construction output rose only in Poland (+3.3%) and Romania (+1.7%). The largest decreases were registered in Lithuania (-42.8%), Estonia (-31.8%), Latvia (-29.9%), Slovenia (-19.1%), Slovakia (-13.8%), Germany (-12.6%), Spain (-12%), the Czech Republic (-11.5%) and the UK (-16.5%). It should also be noted that the situation in Spain, the UK and Ireland is exacerbated by the bursting of housing "bubbles" and therefore only partly relates to the current financial and economic crisis.

Although it is expected that the growth will be positive in the 2nd quarter of 2009 onwards, there are numerous uncertainties surrounding the forecasts for the near future. Although the numerous fiscal measures related to the construction sector seem to have influenced output, it remains difficult to assess the timing of future policy measures and the extent that the economic slowdown will result in a wider re-structuring of the sector.

1.5. Textile and Clothing

The decline in production registered in the second half of 2008 has accelerated in 2009. In addition, production in the clothing sub-sector, which resisted better in 2008, started to decline. In the first quarter of 2009 the production fell by more than 20% for the textiles and clothing industry, compared to the first quarter of the previous year. For April, the reduction in production has continued to be over -20%. The trade deficit in the first quarter of 2009 showed a sharp increase of 19%, mainly due to a strong reduction in exports to all trade partners and in particular to the most important ones, such as the USA, Japan, Russia and Turkey (20% in average). Those countries represent 45% of the total exports of textiles and clothing products.

The situation of the sector is particularly difficult as the demand is declining both for intermediate and for consumer products. In Italy, which represents 28% of total textile production in EU27, order books in the first months of 2009 decreased by 28% in the textile sub-sector and by 12% in the clothing sub-sector. In addition, there are persisting difficulties in the access to credit and credit insurance. For example in Italy 91% of the companies observed a reduction or cancelation on credit insurances provided by the banks. At the same time industry reports that clients are increasing payments delays. This may lead to continued reduction of production capacity utilisation and further closures. Recovery is not expected before 2010.

1.6. Chemicals industry

The European chemicals industry has been very severely hit by the economic crisis. In the first quarter of 2009 output in the EU chemicals industry (excluding pharmaceuticals) experienced a decline of 21.5% compared to the first quarter of 2008 and European chemical sales (excluding pharmaceuticals) were 24.1% down compared to the same period in 2008.

Some subsectors are particularly badly affected such as polymers, basic inorganics and petrochemicals - in the first quarter 2009 production went down (y-o-y) respectively by 30.1%, 28.2% and 21.8%. A sharp decline in demand has forced reductions in output and numerous temporary plant closures. However, most subsectors of the industry seem now to have reached the bottom and some early signs of improvement are beginning to appear, such as the reopening of plants and production lines.

The positive aspect is that the chemicals confidence indicator increased in May by 3.3 points compared to April 2009. This is the third improvement since March 2008. The indicator nevertheless remained at a very low level, pointing to another negative outcome for year-on-year industrial production growth in March, after the record fall registered in December 2008.

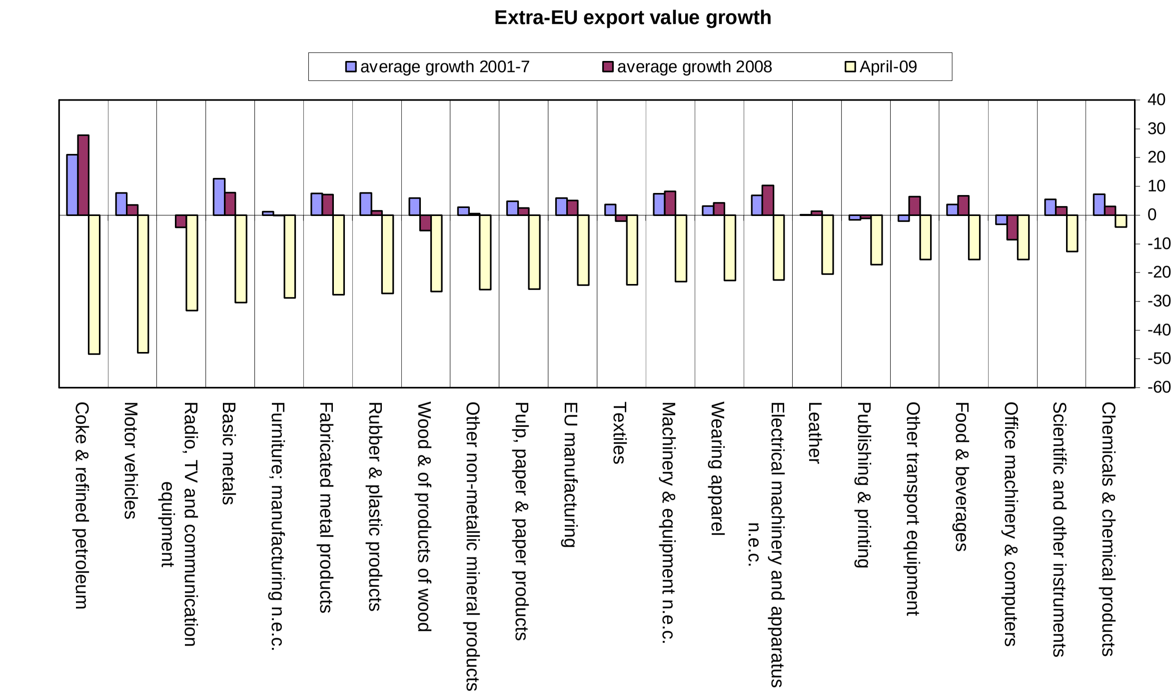
Cefic, the EU chemicals federation, expects a gradual revival of the European chemicals industry in 2010, with output growing between 2 to 8% (depending on sub-sector) compared to the decrease between -2 and -17% in 2009. After an initial rebound led by restocking, underlying demand is expected to stabilize in 2010 but it will take some years before production returns to the pre-crisis level given the high level of uncertainty. Prospects for the EU chemicals industry remain sensitive to some downside risks, such as the high levels of unemployment and public debt. The latter could reduce the available financial resources for investment and cause an increase in fiscal pressure. Uncertainty over the final resolution of the financial crisis is another element of concern.

ANNEX 2

STATISTICAL ANNEX

EU27 employment rowth rate by sector of manufacuring (gross data)

Source: Eurostat



Source: DG Trade based on Eurostat data

Industrial production per country - monthly variation
(% change in comparison with previous month)

Total industry	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
EA16	-2.9	-3.1	-2.7	-2.6	-1.4	**-1.9**
EU27	-2.8	-2.9	-2.6	-2.1	-1.3	**-0.9**
Belgium	-5.3	0.2	-5.0	-0.5	0.7	**:**
Bulgaria	-2.2	-3.7	-3.5	-0.8	-2.5	**-0.3**
Czech Republic	-6.7	-2.2	-2.7	-0.2	-0.2	**:**
Denmark	-0.7	-0.1	-6.4	-2.2	-2.8	**-0.1**
Germany	-4.3	-4.5	-6.2	-3.7	0.0	**-2.1**
Estonia	-3.9	-5.6	-4.7	-4.1	-3.5	**-2.8**
Ireland	4.7	-9.0	11.4	-5.8	3.7	**:**
Greece	-1.5	-2.1	-1.9	2.1	-1.7	**-2.1**
Spain	-2.7	-3.5	-1.2	-1.8	-3.2	**2.0**
France	-2.9	-1.5	-4.4	-0.8	-1.8	**-1.4**
Italy	-3.8	-4.6	-1.2	-4.6	-4.5	**1.1**
Cyprus	0.2	-1.0	-4.5	0.9	-3.4	**:**
Latvia	-2.8	-3.2	-9.1	-3.0	2.3	**4.8**
Lithuania	1.5	0.6	-2.8	-4.3	-7.0	**-1.0**
Luxembourg	-7.4	-9.5	4.3	-0.5	-4.8	**:**
Hungary	-3.3	-14.0	2.9	-4.4	4.4	**:**
Malta	:	:	:	:	:	**:**
Netherlands	-2.9	-2.4	0.7	-3.6	-1.4	**-2.6**
Austria	-1.8	0.9	-6.4	-2.7	-0.3	**:**
Poland	-3.1	-2.9	-0.5	1.0	2.1	**0.9**
Portugal	-1.3	-3.8	-4.3	0.1	4.1	**-0.7**
Romania	-2.2	-5.4	1.7	-0.6	0.7	**0.7**
Slovenia	-14.7	-4.2	0.6	-1.2	-0.3	**-3.8**
Slovakia	-12.3	-13.6	3.8	2.6	2.8	**:**
Finland	-4.9	-4.9	-5.4	0.3	2.0	**-3.4**
Sweden	-2.6	-2.5	-2.3	-2.0	-2.5	**-2.4**
United Kingdom	-2.6	-1.5	-2.7	-0.7	-0.4	**0.2**

* Seasonally adjusted
: Data not available

EU-27 manufacturing and construction*

Percentage change compared to corresponding period of the previous **year**

NACE code	Sector name	Average growth 2001-2007	Average growth 2008	Average growth Q1/2009	Apr-09
C	**TOTAL MANUFACTURING**	1.8	-1.8	-19.1	-20.3
F	**CONSTRUCTION**	1.8	-2.9	-11.5	-5.1
C10	Food products	1.5	-0.5	-1.6	-0.3
C25	Fabricated metal products	2.4	-2.1	-26.1	-27.8
C28	Machinery and equipment n.e.c.	3.4	1.4	-21.9	-28.7
C29	Motor vehicles, trailers and semi-trailers	3.2	-5.9	-40.1	-39.5
C18	Printing and reproduction of recorded media	-0.1	-2.4	-7.1	-6.4
C31	Furniture	-0.1	-4.5	-19.6	-18.2
C22	Rubber and plastic products	1.7	-4.7	-22.1	-22.8
C27	Electrical equipment	1.8	-0.2	-22.1	-27.5
C23	Other non-metallic mineral products	1.1	-6.2	-26.4	-24.1
C14	Wearing apparel	-4.4	-3.4	-14.6	-20.2
C20	Chemicals and chemical products	1.6	-3.2	-20.0	-17.8
C16	Wood and of products of wood	1.1	-8.3	-22.1	-21.0
C24	Basic metals	1.1	-2.9	-34.2	-38.4
C13	Textiles	-3.2	-9.7	-24.4	-23.1
C30	Other transport equipment	2.2	4.4	-10.2	-12.1
C17	Paper and paper products	1.7	-3.0	-15.1	-14.9
C21	Basic pharmaceutical products	5.1	1.8	2.4	0.3
C15	Leather and related products	-6.1	-7.7	-18.5	-20.1
C11	Beverages	1.8	-1.8	-7.0	-5.1
C32	Other manufacturing	2.1	-0.6	-5.9	-11.2
C19	Coke and refined petroleum products	0.6	3.1	-8.6	-8.6
C26	Computer, electronic and optical products	2.6	1.8	-17.3	-16.8

C12	Tobacco products	-3.7	-16.1	-4.1	6.1

* Data adjusted by working days

Source: Eurostat

EU-27 manufacturing and construction - monthly evolution (seasonally adjusted data)

Percentage change compared to the previous **month**

NACE code	Sector name	2008M10	2008M11	2008M12	2009M01	2009M02	2009M03	2009M04
C	**TOTAL MANUFACTURING**	-2.2	-3.1	-3.3	-3.2	-2.1	-0.8	-0.6
F	**Construction**	0.0	-0.9	-2.3	0.4	-1.6	0.1	0.4
C10	Food products	-0.4	-1.0	1.0	0.3	0.0	0.5	0.2
C25	Fabricated metal products	-2.4	-5.2	-5.4	-3.2	-5.0	-2.0	0.3
C28	Machinery and equipment n.e.c.	-0.8	-3.6	-2.9	-7.7	-3.7	-2.2	-3.7
C29	Motor vehicles, trailers and semi-trailers	-6.1	-5.7	-9.4	-4.3	-5.4	2.4	-2.8
C18	Printing and reproduction of recorded media	-2.0	-0.4	-0.3	0.0	-1.7	-0.6	-0.2
C31	Furniture	-2.3	-4.0	-2.8	-1.7	-1.8	-1.1	0.2
C22	Rubber and plastic products	-3.2	-3.2	-5.8	-0.3	-2.4	-1.0	-0.8
C27	Electrical equipment	-3.2	-3.7	-3.5	-4.6	-3.9	-0.6	-2.9
C23	Other non-metallic mineral products	-1.9	-4.2	-8.5	-4.2	-0.4	0.9	-1.0
C14	Wearing apparel	-0.4	2.7	-2.0	-4.6	-2.5	-7.0	0.4
C20	Chemicals and chemical products	-2.4	-5.5	-6.5	0.5	0.2	-0.3	0.7
C16	Wood and of products of wood	-1.9	-3.2	-5.3	-1.8	-0.7	-1.2	-0.2
C24	Basic metals	-5.4	-7.9	-11.3	-3.4	-1.3	-5.4	-3.3
C13	Textiles	-2.2	-2.6	-2.9	-2.9	-2.5	-1.5	-1.1
C30	Other transport equipment	0.8	-1.5	1.7	-10.8	1.2	2.7	-1.8
C17	Paper and paper products	-2.0	-2.4	-3.6	-2.0	0.1	-1.8	0.2
C21	Basic pharmaceutical products	-0.1	0.5	-1.1	3.7	-2.9	2.6	0.4
C15	Leather and related products	3.0	0.3	-4.6	1.1	-5.7	-3.9	2.5
C11	Beverages	-2.8	-1.3	0.3	0.1	-1.1	1.4	-0.8
C32	Other manufacturing	0.8	-1.3	1.1	-1.2	-0.7	-2.4	0.9
C19	Coke and refined petroleum products	-1.6	-3.0	-0.6	-2.6	0.0	-2.4	1.8
C26	Computer, electronic and optical products	-1.0	-1.6	-3.4	-5.7	0.5	-1.6	-0.4

C12	Tobacco products	-0.9	1.7	1.5	2.5	0.7	-2.2	2.4

Source: Eurostat

EU-27 employment growth rate by manufacturing sector (gross data)

Percentage change compared to corresponding period of the previous year

NACE code	Sector name	Average growth 2001-2007	Average growth 2008	Dec-08
C	**TOTAL MANUFACTURING**	-1.1	-0.1	-2.4
F	**CONSTRUCTION**	1.8	-0.9	-5.0
C10	Food products	-0.4	0.5	-0.7
C25	Fabricated metal products	0.7	2.5	-0.2
C28	Machinery and equipment n.e.c.	-0.5	2.5	0.5
C29	Motor vehicles, trailers and semi-trailers	0.0	1.2	-2.4
C18	Printing and reproduction of recorded media	-1.7	-2.9	-4.1
C31	Furniture		-2.0	-7.6
C22	Rubber and plastic products	0.2	1.1	-1.8
C27	Electrical equipment	-0.9	1.6	-0.8
C23	Other non-metallic mineral products	-1.4	-2.0	-5.2
C14	Wearing apparel	-5.4	-6.3	-8.8
C20	Chemicals and chemical products	-1.5	-0.5	-2.3
C16	Wood and of products of wood	-1.0	-1.9	-5.6
C24	Basic metals	-2.3	-0.1	-2.2
C13	Textiles	-5.3	-6.8	-9.6
C30	Other transport equipment	-0.2	3.1	1.0
C17	Paper and paper products	-2.1	-1.7	-2.1
C21	Basic pharmaceutical products	-	-	-
C15	Leather and related products	-3.9	-6.3	-9.6
C11	Beverages	-1.0	-2.6	-6.5
C32	Other manufacturing	-0.7	-0.5	-1.2
C19	Coke and refined petroleum products	-3.0	-0.1	-0.4
C26	Computer, electronic and optical products	-1.6	-0.6	-2.1

C12	Tobacco products	-5.2	-8.2	-5.3

Source: Eurostat

EU-27 industry new orders – *total* (gross data)
Percentage change compared to corresponding period of the previous **year**

NACE code	Sector name	Average growth 2001-2007	Average growth 2008	Q1/2009	Apr-09
C_ORD	**MANUFACTURING FOR NEW ORDERS**	4.6	-4.8	-30.4	-35.0
C25	Fabricated metal products	5.3	0.3	-28.6	-33.0
C28	Machinery and equipment n.e.c.	6.2	-5.4	-36.9	-46.4
C29	Motor vehicles, trailers and semi-trailers	5.4	-12.0	-37.2	-37.0
C27	Electrical equipment	4.0	-1.5	-27.8	-35.0
C14	Wearing apparel	0.2	-1.0	-15.2	-29.7
C20	Chemicals and chemical products	3.8	2.6	-23.7	-25.6
C24	Basic metals	7.7	-5.3	-48.2	-52.2
C13	Textiles	-2.7	-9.8	-23.7	-27.2
C30	Other transport equipment	13.0	5.3	-30.8	-43.9
C17	Paper and paper products	1.6	-1.8	-16.9	-16.8
C21	Basic pharmaceutical products	6.2	0.5	3.9	4.9
C15	Leather and related products	1.1	-8.4	NA	NA
C26	Computer, electronic and optical products	0.2	-8.6	-24.2	-25.7

EU27 industry new orders index - *domestic market* (gross data)

Percentage change compared to corresponding period of the previous **year**

NACE code	Sector name	Average growth 2001-2007	Average growth 2008	Average growth Q1/2009	Apr-09
C_ORD	**MANUFACURING FOR NEW ORDERS**	2.8	-3.1	-26.3	-31.6
C25	Fabricated metal products	4.5	1.3	-27.8	-32.5
C28	Machinery and equipment n.e.c.	3.2	-5.7	-34.6	-43.2
C29	Motor vehicles, trailers and semi-trailers	2.6	-11.0	-26.7	-30.1
C27	Electrical equipment	2.8	-1.0	-29.1	-34.5
C14	Wearing apparel	-0.9	-1.0	-12.4	-28.1
C20	Chemicals and chemical products	3.0	3.2	-23.0	-26.2
C24	Basic metals	5.7	-5.3	-46.5	-51.8
C13	Textiles	-4.3	-11.4	-22.1	-24.1
C30	Other transport equipment	26.9	5.2	47.8	-44.7
C17	Paper and paper products	0.3	-1.3	-15.2	-18.3
C21	Basic pharmaceutical products	4.7	0.5	-10.1	-0.4
C15	Leather and related products	1.6	-9.5	NA	NA
C26	Computer, electronic and optical products	-3.4	-4.5	-24.9	-23.3

Source: Eurostat

EU27 industry new orders index - *non-domestic market* (gross data)

Percentage change compared to corresponding period of the previous **year**

NACE code	Sector name	Average growth 2001-2007	Average growth 2008	Average growth Q1/2009	Apr-09
C_ORD	**MANUFACURING FOR NEW ORDERS**	6.9	-5.8	-33.3	-38.8
C25	Fabricated metal products	8.3	-2.2	-30.9	-32.9
C28	Machinery and equipment n.e.c.	9.1	-5.7	-38.1	-47.4
C29	Motor vehicles, trailers and semi-trailers	8.4	-11.2	-41.9	-39.1
C18	Printing and reproduction of recorded media	8.9	-1.2	NA	NA
C27	Electrical equipment	6.3	-1.7	-24.9	-33.1
C14	Wearing apparel	2.0	0.5	-13.0	-23.6
C20	Chemicals and chemical products	4.6	1.9	-25.9	-27.6

C24	Basic metals	9.9	-3.7	-49.8	-51.7
C13	Textiles	-0.6	-7.6	-26.1	-30.9
C30	Other transport equipment	15.5	11.0	-48.4	-46.0
C17	Paper and paper products	2.5	-2.8	-19.0	-15.2
C21	Basic pharmaceutical products	10.1	6.5	9.7	0.3
C15	Leather and related products	0.6	-7.0	NA	NA
C26	Computer, electronic and optical products	1.2	-9.9	-22.7	-29.1

Source: Eurostat

EU-27 industry new order – *total* (gross data)

Percentage change compared to the previous **month**

NACE code	Sector name	2008 M10	2008 M11	2008 M12	2009 M01	2009 M02	2009 M03	2009 M04
C	**MANUFACURING FOR NEW ORDERS**	-7,2	-13,5	-5,9	-4,5	-0,6	10,7	-10,7
C25	Fabricated metal products	-7,0	-15,3	-14,8	-0,6	1,4	6,3	-5,4
C28	Machinery and equipment n.e.c.	-9,9	-15,9	-1,7	-10,6	-3,0	17,3	-18,3
C29	Motor vehicles, trailers and semi-trailers	-10,5	-13,7	-16,0	0,4	5,7	18,2	-7,8
C27	Electrical equipment	-3,5	-8,5	-11,9	-4,0	-7,5	16,1	-15,2
C14	Wearing apparel	-22,0	-18,9	22,0	11,6	49,4	-14,1	-48,7
C20	Chemicals and chemical products	-5,0	-17,8	-14,4	9,1	-0,4	9,3	-5,5
C24	Basic metals	-11,5	-19,5	-21,6	6,3	-8,8	4,5	-2,4
C13	Textiles	-0,2	-15,0	-16,9	9,2	3,7	10,1	-8,9
C30	Other transport equipment	-9,6	-1,7	57,2	-30,0	17,2	-22,3	-15,4
C17	Paper and paper products	1,4	-12,8	-8,7	6,3	-3,1	6,6	-2,6
C21	Basic pharmaceutical products	7,5	-10,7	0,5	5,9	1,3	5,3	-5,1
C15	Leather and related products	-4,9	-17,9	-24,2	NA	NA	NA	NA
C26	Computer, electronic and optical products	-1,6	-8,3	14,7	-32,5	-0,4	15,8	-11,4

Source: Eurostat

Extra EU Exports

data presented as a percentage change over 12 months

NACE code	Sector name	average growth 2001-7	average growth 2008	March-09	April-09
DF 23	Coke & refined petroleum	21,0	27,8	-41,2	-48,2
DM 34	Motor vehicles	7,7	3,5	-40,8	-47,9
DL 32	Radio, TV and communication equipment	0,0	-4,3	-20,8	-33,1
DJ 27	Basic metals	12,7	7,9	-17,7	-30,4
DN 36	Furniture; manufacturing n.e.c.	1,2	-0,2	-11,0	-28,8
DJ 28	Fabricated metal products	7,5	7,1	-9,5	-27,7
DH 25	Rubber & plastic products	7,6	1,4	-11,7	-27,3
DD 20	Wood & of products of wood	5,8	-5,4	-13,6	-26,5
DI 26	Other non-metallic mineral products	2,7	0,5	-14,9	-25,8
DE 21	Pulp, paper & paper products	4,8	2,5	-14,7	-25,7
D	EU manufacturing	5,9	5,1	-11,8	-24,4
DB 17	Textiles	3,6	-2,1	-12,6	-24,2
DK 29	Machinery & equipment n.e.c.	7,3	8,2	-7,2	-23,1
DB 18	Wearing apparel	3,1	4,2	-10,0	-22,7
DL 31	Electrical machinery and apparatus n.e.c.	6,8	10,2	-1,0	-22,6
DC 19	Leather	0,2	1,4	-10,2	-20,6
DE 22	Publishing & printing	-1,7	-1,1	-4,0	-17,3
DM 35	Other transport equipment	-2,1	6,4	5,1	-15,5
DA 15	Food & beverages	3,7	6,6	-1,2	-15,5
DL 30	Office machinery & computers	-3,2	-8,5	-9,3	-15,4
DL 33	Scientific and other instruments	5,5	2,8	2,8	-12,7
DG 24	Chemicals & chemical products	7,2	3,0	4,6	-4,1

Source: DG TRADE