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European Commission

The Economic Recovery in Industry

April 2012

Including a Quarterly Short-term Industrial Outlook

(updated on the basis of data published up to 25th April 2012)

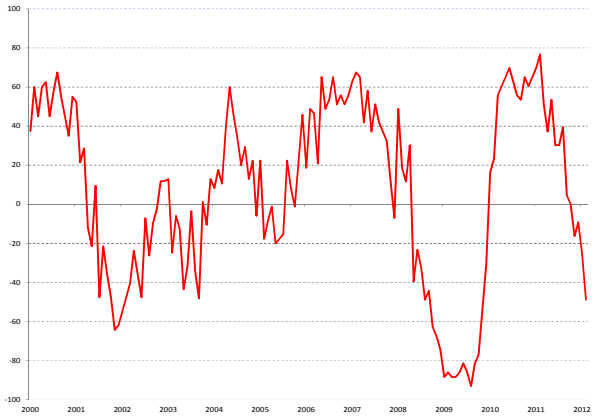
Short-term Industrial Outlook

Highlights: Overall difficult first half of 2012 with hope for a stronger second half:

– A **slowdown in the recovery** of the EU manufacturing sector occurred in the second half of 2011. This contrasts with continued recovery in other major economies, such as the US and China.
– With the exception of the sectors of necessity goods (food and drink as well as pharmaceuticals), and the non-auto transport equipment, the rest of the **EU manufacturing sector has not yet reached its pre-crisis levels.**
– EU **new orders** declined in the last quarter of 2011.
± **DG ENTR experts' short-term expectations** of future outlook vary across sectors. Whilst experts are optimistic about future developments in mechanical engineering, metalworking and pharmaceutical, prospects in metals and autos appear gloomier.
± There is some evidence of a **marginal improvement** of business expectations in January 2012 over December 2011, but it is slight, has since fallen back and remains to be confirmed.
± **Despite strong growth, euro area exports are outperformed** by competitors, reflecting the quick rebound in economic activity in Asia.
+ First signs of recovery of manufacturing growth in US and Asian major trading partners provide optimism for growth in export demand for EU manufactures. This is confirmed by rising metals and other commodity prices.
+ A positive sign is the steady **increase of EU investment in machinery and metal products**.

Short-term industrial prospects remain uncertain after the recovery of EU industry has stalled since the middle of 2011. Only one in four industries registered output growth in February 2012, cf.

Figure 1 75% of EU industries decline at the start of 2012

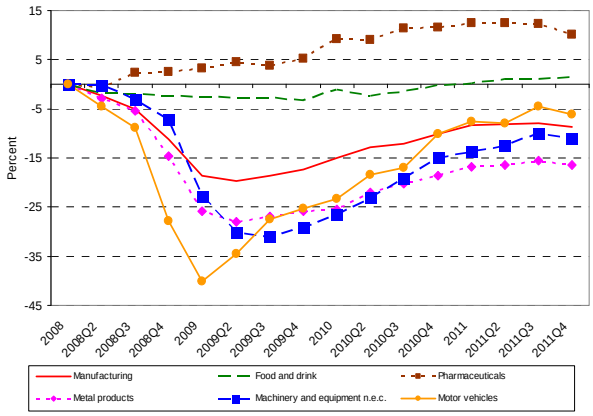


Note: The index shows the difference in percent between industries with positive and negative growth. The index was –49 in February 2012, indicating that production in 74.5% of the industries was declining while production in 25.5% was increasing.

Source: Own calculations based on Eurostat data.

The manufacturing sector has not yet fully recovered to its pre-crisis levels. Out of the largest manufacturing industries, only food and drink as well as pharmaceuticals produce at or above their 2008 levels of output. These are necessity goods which are less sensitive to fluctuations in income. In fact they have hardly been hit at all by the crisis. The non-auto transport industry has also recovered above its former peak. In contrast, industries producing capital goods or durable consumer goods are much more sensitive to cyclical fluctuations and have not yet reached their pre-recession levels, cf. Figure 2.

Figure 2 Recovery in food and drink and pharmaceuticals

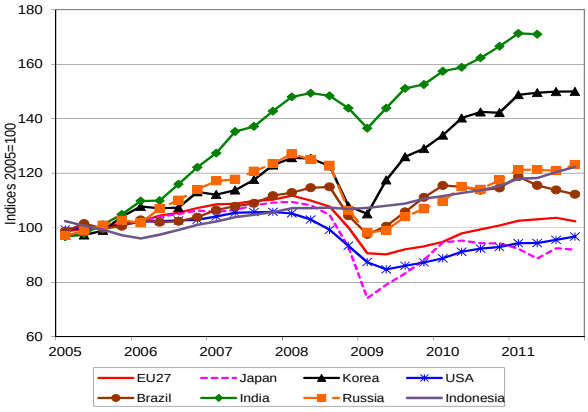


Note: Percentage change of industrial production indices in different manufacturing industries relative to the level in the first quarter of 2008.

Source: Own calculations based on Eurostat data.

The slowdown in industrial recovery was a world-wide problem in the end of last year. World manufacturing grew only by 4.2 percent in the fourth quarter of 2011 versus the same quarter of 2010. This is the lowest quarterly growth (year on year) in 2011. Some of the EU's major trade destinations however, such as the US and East Asia, recorded promising growth, signalling expectations of faster recovery of EU export demand. The US and Chinese manufacturing industries grew by 4.2 and 13.1 respectively.[1] Other Asian manufacturing industries also displayed positive growth also in the end of 2011[2] cf. Figure 3.

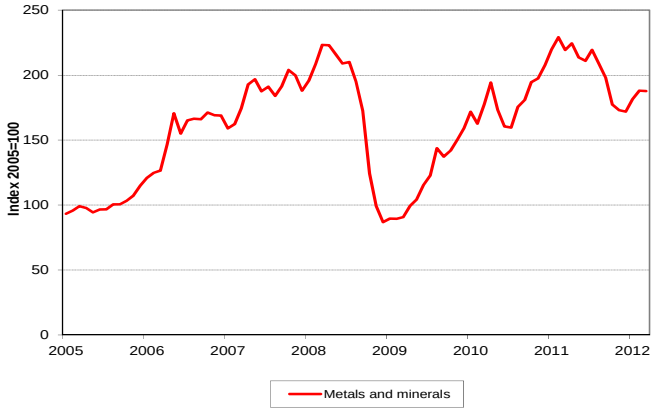
Figure 3 International trends in industrial output. Halt or pause in global recovery?



Source: Own calculations based on Eurostat and OECD data.

Prices of raw materials can also provide useful pointers about future worldwide industrial activity. Metals and minerals are key inputs in manufacturing industries and the construction industry. Increased optimism in those sectors usually increases demand and prices of metals and minerals, although supply side considerations also influence price developments. During the recession in 2009 prices fell by some 60 percent. Subsequently, prices have increased until the beginning of 2011 when the economic recovery seemed to come to a halt. Prices started to recover again in the beginning of 2012, but it remains to be seen how much of this upturn reflects recovery of manufacturing demand in Europe or is rather a result of growing demand in other parts of the world; and whether it is a sign of return to a stronger phase of the business cycle, cf. Figure 4.

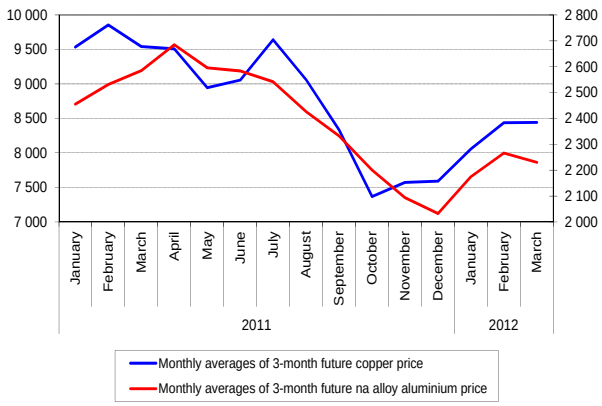
Figure 4 Recovery of metals and minerals prices in 2012?



Source: Own calculations based on World Bank data.

Increasing futures prices point to an improvement in investment. Three-month future prices on copper and aluminium increased in February for the second month in a row, cf. Figure 5. Given their importance in industry, copper and aluminium are two basic metals that analysts tend to closely watch. A rise in the three-month forward prices of these goods could signal a recovery of industrial activity since, faced with an expected growth of new orders, producers will be willing to pay higher prices for the availability of inputs to meet their demands. Some caution is warranted when interpreting the development of metal prices. The movements may also reflect speculative behaviour, increased demand outside the EU or supply disturbances.

Figure 5 Increasing future metal prices indicate increased economic activity



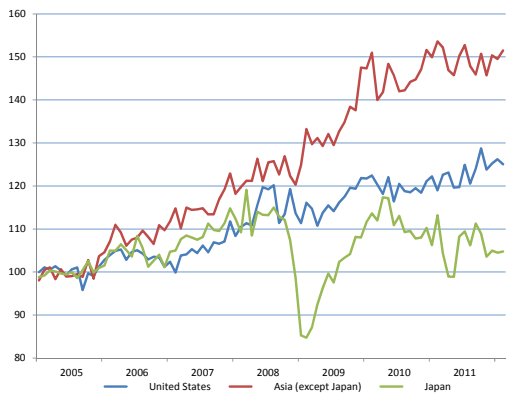
Note: Prices are in USD/Tonne. Copper prices (left axis) and aluminium prices (right axis). Source: London Metal Exchange.

[1] UNIDO (2012). "World Manufacturing Production, Statistics for Quarter IV, 2011".

[2] Also, new orders and shipments in the US manufacturing industries appear to be growing, although at a moderate and decreasing pace. US Department of Commerce (2012) *Full report on Manufacturers' Shipments, Inventories and Orders*. Press release Friday, February 3, 2012.

Strong export growth for the EU has mitigated the effects of the economic crisis and to some extent compensated for the weak demand in the EU. Nonetheless, available data suggest a weaker European performance in comparison with competitors. Since 2009, Japanese exports have grown stronger than euro area exports, with the exception of a short period in 2011, attributable to the negative impact of the nuclear accident of Fukushima, cf. Figure 6.

Figure 6 European export growth lags behind that of major trading partners

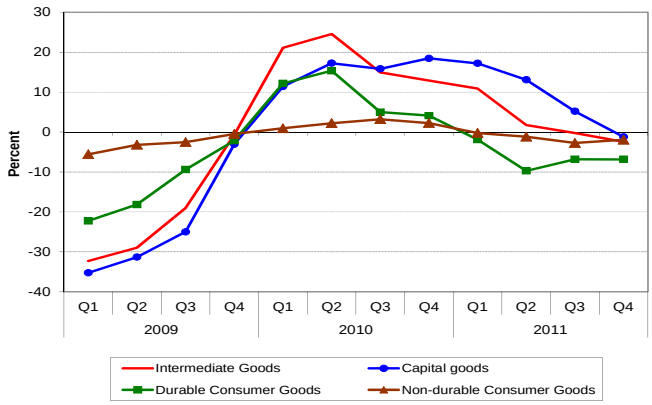


Note: Indices, 2005=100. Exports of the United States, Asia and Japan are displayed relative to Euro area exports. Asia (except Japan) covers the newly industrialized Asian countries: China, Bangladesh, Cambodia, India, Indonesia, Lao, Macau, Malaysia, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Thailand, Viet Nam, Hong-Kong, South Korea, Singapore and Taiwan.

Source: Own calculations based on CPB data.

Developments of new orders provide information about future economic activity. Following the trough in 2009, new orders grew rapidly for manufacturing industries, especially for industries producing capital goods and intermediate goods. The developments towards the end of 2011 do however indicate a slowdown in manufacturing activity, cf. Figure 7.

Figure 7 Decreasing demand for intermediate and capital goods indicate deteriorating prospects for manufacturing

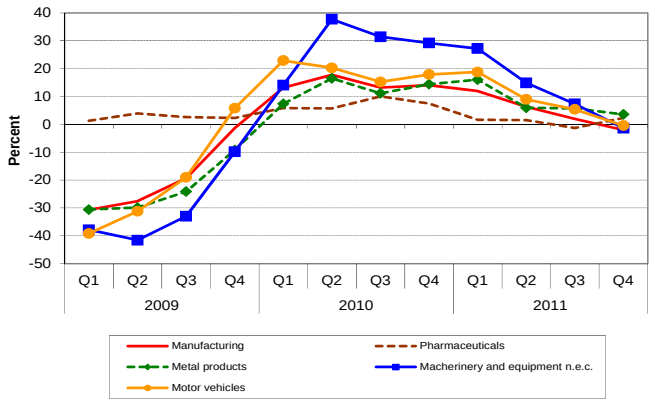


Note: New orders have been deflated using producer prices. Quarterly percentage changes vs. the same quarter of the previous year.

Source: Own calculations based on Eurostat data.

Looking at new orders in the largest industries, the last 2011 data show a downward trend, and only metal products and pharmaceuticals registered positive growth rates of new orders in the last quarter of 2011, cf. **Figure 8**.

Figure 8 Slowdown in new orders

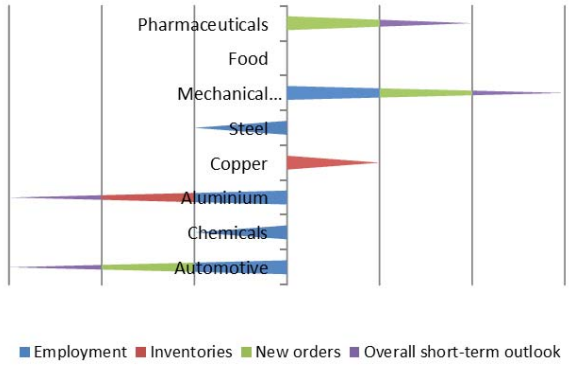


Note: New orders in value have been deflated using producer prices. New orders are not available for the manufacturing industries producing food and drink. Quarterly percentage changes vs. the same quarter of the previous year.

Source: Own calculations based on Eurostat data.

Overall short-term expectations of DG ENTR sectoral experts are mixed. The short-term outlook is positive for pharmaceuticals and mechanical engineering and metalworking, where new orders and employment are expected to go up in the short term while inventories are expected to change little. The most negative short-term outlook is for the automotive and aluminium industries. For the food sector, to which inventories and new orders are not applicable, the overall outlook and employment outlook are neutral, cf. Figure 9.

Figure 9 Short-term outlook in the monitored manufacturing sectors

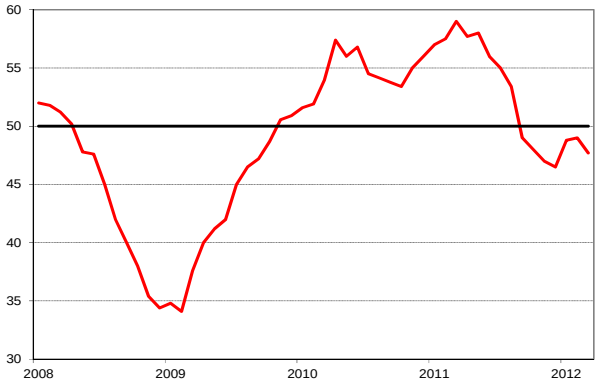


Expert expectations for industrial sectors, taking into account employment, inventories, new orders, and overall short-term output expectations. This allows an informal qualitative assessment of sectoral prospects. For the food sector, to which inventories and new orders are not applicable, the overall outlook and employment outlook are neutral.

Source: Own calculations based questionnaire replies from DG ENTR units.

Recent information from purchasing managers in the euro area also reflects the uncertainty surrounding the manufacturing activity. While there were signs of improvement during the first two months of 2012, expectations of future activity fell in March, cf. Figure 10.[3]

Figure 10 Marginal increase in euro area manufacturing activity in the beginning of 2012

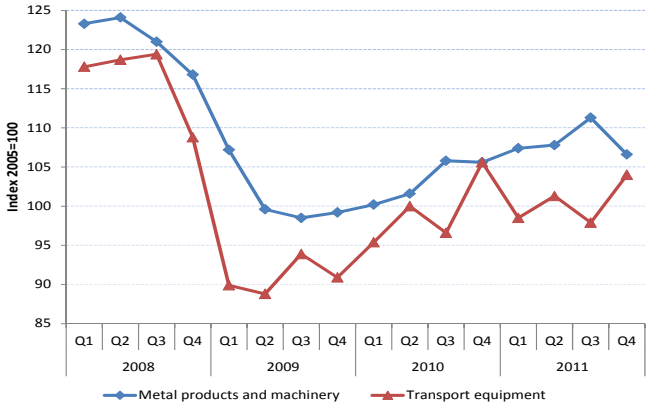


Note: The Markit Eurozone Composite PMI covers surveys of purchasing managers in manufacturing companies. A value of 50 indicates no change in activity.

Source: Markit Economics.

Investments are indications of expectations of future developments in the industry. Following the trough in 2009, investments in metal products and machinery, representing about 25% of total investments, have, with the exception of the last quarter, increased steadily, suggesting an incipient recovery in industrial production for the coming quarters. This is consistent with the picture emerging from Figure 7 concerning new orders for capital goods. On the other hand, investment in transport equipment showed a decreasing trend in the first three quarters of 2011. It remains to be seen whether the increase in the last quarter will translate into higher production in 2012, cf. Figure 11.

Figure 11 Rising investment in machinery and metal products continue and signs of recovery for investment in transport equipment



Source: Own calculations based on Eurostat data.

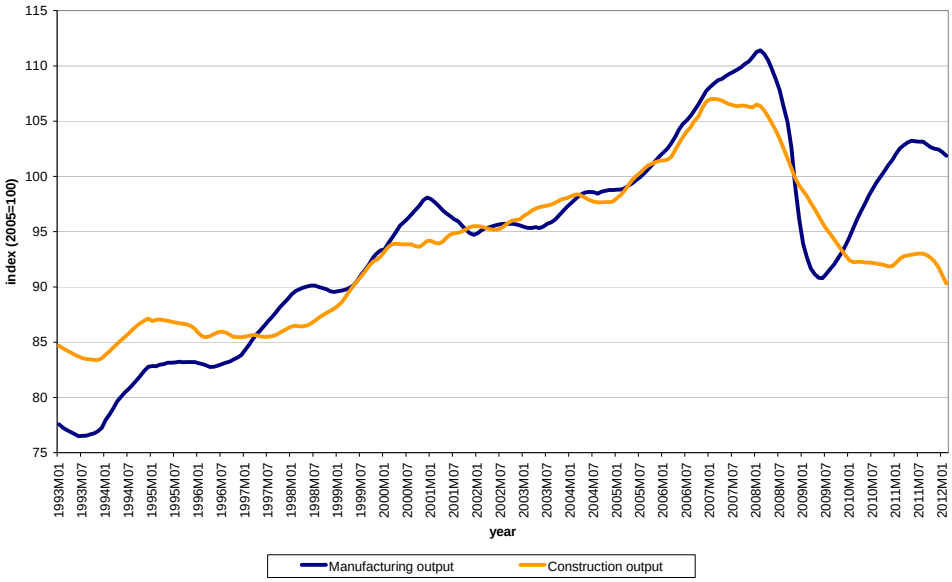
[3] The Manufacturing PMI is a composite index based on a weighted combination of five survey variables: new orders (0.3%); output (0.25%); employment (0.2%); suppliers' delivery times (0.15%); stocks of materials purchased (0.1%). The delivery times index is inverted.

SUMMARY OF RECENT CYCLICAL DEVELOPMENTS

On the basis of substantially revised Eurostat data, manufacturing output is now assessed to have weakened somewhat since the middle of 2011, interrupting the economic recovery. Nevertheless business confidence has remained broadly at its long-term average in recent months. Resurgent international raw materials and energy prices, fiscal consolidation and on-going difficulties in access to finance continue to adversely affect the dynamics of the recovery. Output in the construction sector has fallen substantially in recent months reaching its record low levels particularly following a strong fall in February in civil engineering works (roads and bridges etc.).

In the last three months to February 2012, manufacturing production was some 0.2% lower than a year ago and also some 0.9% below the level registered in the preceding three months. Output has fallen back in the majority of sectors over the last three months: the biggest contractions in production occurred in other non-metallic products, basic pharmaceuticals and beverages industries. Overall manufacturing output is now 12% higher than its trough in early 2009 and some 9% below its former peak in early 2008. Recent data and forecasts for services, including tourism, remain positive, but their future performance depends on the general economic situation.

EU27 production indices 1993 – 2011 (trend adjusted)



Source: Eurostat

International demand for EU products has increased rapidly and has supported EU manufacturing production (see last month's special article on the external competitiveness of EU manufacturing). Extra-EU exports have already recovered their previous peak. In contrast, intra-EU trade, internal demand and private consumption continue to be subdued and overall output growth in Europe has lagged that in the rest of the world, particularly emerging Asia and Latin America.

Data on manufacturing employment in the fourth quarter of 2011 shows that the number of persons employed remained broadly stable. The overall manufacturing jobs have shrunk by some 11% compared to their cyclical peak in 2008. The unemployment rate rose to a record high level, but the situation differs greatly between countries. Deteriorating employment expectations suggest little room for immediate improvement.

1. AGGREGATE DEVELOPMENTS

The latest data on EU **manufacturing production** indicate some weakening since the middle of last year. The latest data differs somewhat from previous estimates owing to the changes in the seasonal adjustment by Eurostat to ensure consistency between the EU aggregate and national data[4]. In the last three months to February 2012 seasonally adjusted output was 0.9% lower compared to the preceding three months, and 0.2% below the level a year earlier. On the volatile month-on-month basis, output in February declined by 1%, following a small increase of 0.1% in January. Trend adjusted output is now some 12% higher than its cyclical trough in April 2009 and some 8.5% below its peak in February 2008.

The situation in **construction** is much bleaker as it experienced substantial contraction in recent months reaching its record low levels. Seasonally adjusted construction output in the last three months to February 2012 was 0.6% lower than a year ago, largely reflecting the weak performance of buildings construction sector. The situation in civil engineering is slightly better, where production rose by some 1% on a yearly basis. Overall trend adjusted EU construction output is over 18% below its pre-crisis level in January 2008.

The most recent **confidence surveys**[5] show that after two months of improvements economic sentiments decreased in March 2012. The overall Economic Sentiment Indicator (ESI) declined by 0.8 points in the EU, and remained below its long-term average for the eighth consecutive month. The deterioration was mainly driven by decreasing confidence in industry and construction. Among the largest Member States, Italy, Poland and France, reported increases, while the UK, Germany, the Netherlands and Spain experienced decrease in sentiments. The ESI is currently above its long-term average only in Germany.

Industrial confidence in the EU worsened remarkably in March (-1.8) offsetting the increase of similar magnitude from February (see chart 2). Managers were more pessimistic about order books and stocks of finished products, while production expectations remained broadly stable.[6]

The **Markit Eurozone PMI Composite Output Index** for March 2012 fell slightly again after a brief return to growth in January. The overall contraction in the PMI output index reflected a renewed decline in service sector activity as well as manufacturing output contraction for the first time in three months.. The national data are mixed. Germany's growth slowed, while France registered a first contraction for four months. Italy and Spain remain firmly in recession. The declines in incoming new business and weak demand continued and had a negative impact on the labour market.[7]

Cost pressures in March rose significantly mainly due to increases in oil prices. This resulted in acceleration of the rate of inflation in the majority of countries, but strong competition and weak demand somehow restricted companies to pass higher costs on consumers.[8]

Survey data for EU industrial utilization indicate a small improvement in **capacity utilisation** at the beginning of 2012 following negative developments in the second half of 2011. In the first quarter of 2012 capacity utilisation rose by 0.4 percentage points after a reduction of 0.5 percentage points in the fourth quarter of 2011. Capacity utilization now stands at 80.2%, which is 1.7 percentage points below the long-term average before the crisis (1985-2008). This is in contrast to the situation in intermediate and capital goods, where current capacity utilisation is already above the pre-crisis average thanks to the fast growing exports.

In February **industrial new orders** declined by 1.2% compared to the preceding month following a decrease of 1.9% in January. In the last three months to February 2012 orders were 2.3% lower compared to a year ago. Growth in

[4] For a comprehensive analysis of the changes, see the Box in ECB Monthly Bulletin April 2012, pp49-51.
[5] DG ECFIN, *Business and Consumer Survey Results*, March 2012. The ESI is a composite indicator, measuring confidence in five economic sectors (industry, services, construction, consumer and retail trade).
[6] DG ECFIN, *Business and Consumer Survey Results*, March 2012
[7] *Markit Eurozone Composite PMI*, News Release 04/04//2012.
[8] *Markit Eurozone Manufacturing PMI*, News Release 02/04//2012

domestic orders still lags substantially, but since the second quarter of 2011 there are no signs of improvements in neither non- nor domestic orders.

2. RECENT DEVELOPMENTS IN MANUFACTURING SECTORS

An analysis of developments in manufacturing sectors in recent months (see chart 5b) shows a decline of manufacturing production across the vast majority of sectors. In February 2012, **industrial production**[9] in the EU27 was 1.8% lower than a year earlier. The expansion was registered only in the production of capital goods (0.7% y-o-y) and energy (1.4% y-o-y). Some worsening of the situation was registered in intermediate goods (-4%), durable consumer goods (-5.2%), and non-durable consumer goods (-4.4%).

Looking at specific sectors, the increases in output on a three month basis up to February 2012 were registered in chemicals, coke and petroleum products, and computer and electronics. Production in most of other industries fell back with the biggest declines registered in other non-metallic products, leather, basic pharmaceuticals and beverages sectors.

Data on **new orders** show that in the last three months to February 2012 a majority of sectors registered weakening of the new orders. The increases compared to a year earlier were observed in metal products (4.5%) and chemicals (1.4%). The biggest declines were registered in other transport equipment (-10.6%), computer and electronics (-8.1%) and textiles sectors (-6.6%).

3. RECENT DEVELOPMENTS IN TOURISM SECTOR

Data on the **tourism** sector indicate that 2011 has been a record year for travel to Europe. Through November, European airlines served 5% more passengers than in 2010 and continue to expand access by adding capacity. Hotels also indicate strong performance with a 3.2% gain in occupancy and a rate increase of 2.7% through November.[10] **International tourism arrivals** grew by 4.4% in 2011 with a total of 980 million arrivals, 41 million more than in 2010. Despite persistent economic uncertainty, Europe was the best performing region, where tourist arrivals reached 503 million in 2011 (6% increase in comparison to 2010).[11] However, both Europe and the world are entering a period of economic weakness. Consequently, tourism Economics now forecasts visits to all of Europe are expected to decline just over 1% in 2012 and with just moderate growth of 0.8% expected for 2013.[12]

4. EMPLOYMENT AND PRODUCTIVITY DEVELOPMENTS

Employment data indicate a downturn in employment recovery. In the fourth quarter employment declined by 0.2% compared with the previous quarter following a similar fall in the third quarter. Employment stood at 223 million, representing a decrease of 0.5% compared to a year earlier.[13]

In the fourth quarter of 2011 compared to the previous quarter, employment in construction was still shrinking, while employment in industry remained broadly stable. Among service sectors the highest increases were registered in real estate and professional services, while employment in the public sector remained stable.

Data for February 2012 for the EU 27 **unemployment rate** showed that it rose again to a new record level of 10.2%, compared with the January 2013 rate, which was revised up to 10.1%. On a year-on-year basis unemployment increased by 1.874 million and now stands at more than 24.6 million. Compared to March 2008, when unemployment in the EU was at a low at 16 million persons, the number of unemployed has risen by 8.6 million. The euro zone unemployment rate also climbed and now stands at 10.8%, which is the highest level since

[9] Industrial production includes the output both of manufacturing and energy industries.

[10] European Travel Commission, *European Tourism 2011 – Trends & Prospects*, Q4/2011, January 2012

[11] World Tourism Organization UNWTO, *World Tourism Barometer*, March 2012.

[12] European Travel Commission, *European Tourism 2011…op. cit.*

[13] Eurostat, *Employment down by 0.2% in euro area and by 0.1% in EU27*, News release 15/03/2012.

the introduction of the single currency in 1999.[14] Youth unemployment remains at an unprecedented high level at more than 5.5 million or 22.4% in the EU27, while the overall unemployment duration has risen, resulting in increasingly persistent unemployment.

Employment in manufacturing in the fourth quarter of 2011 was still 11% below the peak in the first quarter of 2008. The largest falls of over 20% were recorded in wearing apparel and textiles, followed by furniture and other non-metallic mineral products industries. In the sectors benefiting from export opportunities those contractions were significantly lower, but still around the average, which indicates strong reliance on the internal market. In the fourth quarter of 2011 a small contraction was registered offsetting partially improvements in the first half of 2011. Thus, in the last quarter jobs in manufacturing were 0.3% lower than in the previous quarter and some 0.5% higher compared to a year ago.

Preliminary Eurostat data on **overall hours worked in manufacturing** show that in the fourth quarter of 2011 they were 10.5% down since the cyclical peak in the first quarter 2008 (see chart 6). Labour input as measured in hours fell visibly in the last quarter of 2011 following some small improvements in the previous quarters. Overall labour inputs have fallen again below the adjustment of output , with considerable differences seen between sectors.

In the fourth quarter of 2011, **construction employment** was still shrinking with a reduction of 2.9% of the number of persons employed compared to the fourth quarter of 2010.

5. COUNTRY-SPECIFIC DEVELOPMENTS

Among the countries for which data are available for February 2011, **manufacturing production** on annual comparison rose in seven, and fell in sixteen countries. Looking at the less volatile three months average, in the last three months to February 2012 compared to a year ago (see table 1) the highest increases were registered in Latvia (+12%), Poland (+9%), and Denmark (+5%) and the biggest decreases in Cyprus (-12%) and Greece (-11%).

Manufacturing output in some countries, such as Poland, Slovakia and Belgium is well above pre-crisis levels, while in other countries output continues to regain the ground lost during the crisis (see chart 8b). Many other countries are still some distance away from their pre-crisis levels, with the output growth moderating in recent months.

Construction output in February 2012 in the Member States for which data were available rose on annual basis in three, fell in eleven and remained stable in France. In the last three months to February 2012, compared to the same period last year, construction output rose fastest in Poland (+21%), Germany (+10%) and Finland (+9%), and fell most markedly in Slovenia (-25%), Portugal (-13%) and Italy (-11%).

Among the countries for which data are available for the fourth quarter of 2011, **employment** expanded in eleven Member States, declined in ten and remained stable in two Member State compared to the previous quarter. Among larger Member States, Poland and Germany experienced the strongest revivals. In contrast, employment in Spain continued to decline falling by 1% compared to the previous quarter.[15]

The EU27 aggregate **unemployment rate** continues to mask an increasing divergence in the changes of unemployment rates among the Member States. In February 2012 compared with a year ago, the unemployment rate fell in eight Member States, increased in eighteen and remained stable in Romania.[16] The largest falls were observed in Lithuania (17.5% to 14.3% between the fourth quarters of 2010 and 2011), Latvia (17.0% to 14.6% between the fourth quarters of 2010 and 2011) and Estonia (13.9% to 11.7% between the fourth quarters of 2010 and 2011). The highest increases were registered in Greece (14.3% to 21.0% between December 2010 and December 2011), Spain (20.6% to 23.6%) and Cyprus (6.7% to 9.7%).

[14] Eurostat, *Euro area unemployment rate at 10.8%*, News release 02/04/2012.

[15] Eurostat, *Employment down by 0.2% in euro area and by 0.1% in EU27*, News release, 15/03/2012

[16] Ibid.

6. ACCESS TO FINANCE

The latest European Central Bank (ECB) data for February indicate that the annual growth rate of loans to non-financial corporations (NFCs) declined further to 0.6% from 0.9% in January and 1.2% in December. Contractionary forces from the end of 2011 continue to be observed in the first months of 2012 accompanied by some substitution of loans with short to medium-term maturities for loans with longer maturities. Cross-country heterogeneity in loan developments remains significant, in line with uneven developments in economic activity, differences in external financing needs and differences in the indebtedness levels of non-financial corporations in the various euro area countries.[17]

As banks' funding positions are becoming increasingly more difficult; so is SMEs' access to finance. Financing conditions in Europe over the past months have clearly deteriorated (with the notable exception of Germany).

According to a survey by the Commission, SMEs' access to finance became more difficult during the period April-October 2011. Close to one third of the companies in the Commission survey got less than what they applied for, were rejected or did not take up the offer for considering it too expensive. Generally it is the larger (both in terms of staff and turnover) and older enterprises that are more likely to get the external financing they are looking for. Younger and smaller firms are more likely to get only some of the finance requested, and to be rejected outright. The highest rejection rate for bank loans is among micro companies employing fewer than ten people (16%) and among SMEs having been active for between 2 and 5 years (24%).[18]

The latest European Central Bank's Bank Lending Survey for the first quarter of 2012 indicates some improvement for enterprises' access to finance compared to the previous quarter. Nonetheless a net 9% of the surveyed euro area banks (see chart 7) tightened their **credit standards to non-financial corporations** (NFCs). This comes on the heels of substantial tightening during the last quarter of 2011 (a net 35% of surveyed euro area banks). Given the soft patch the European economy is going through, it remains to be seen whether this improving trend is sustainable. Especially, as banks in the last two quarters identified expectations regarding economic activity as the most influential in contributing towards tighter credit standards. In any case the situation for SMEs did not improve as net tightening of credit standards on loans to SMEs came in at 1%.[19]

The tightening of credit standards was still reported to be applied more often to long-term loans (15% in the last quarter of 2011, compared with 42% in the preceding quarter) than to short-term loans (3% in in the last quarter of 2011, compared with 24% in the preceding quarter).[20]

The Commission survey also shows that **equity financing** was used by less than one in ten SMEs (7%) during the period April-October 2011. Its use was more likely among larger businesses (11% of those with 250+ employees). Gazelles (firms that are less than five years old which have grown at more than 20% per annum) are also slightly more likely (12%) than SMEs overall to have used equity financing. The main challenge concerning this source of financing among SMEs is the lack of investment readiness and a limited knowledge thereof.[21]

While access to finance has become more difficult, the net demand for loans to NFCs also dropped significantly (-30% in the first quarter of 2012, compared with -5% in the fourth quarter of 2011. The fall in net demand for loans in the first quarter of 2012 was driven in particular by a further sharp drop in the financing needs of firms for fixed investment (-36% in the first quarter of 2012, compared with -20% in the fourth quarter of 2011). It was complemented by a decline in financing for mergers and acquisitions, a slightly negative contribution from financing needs linked to inventories and working capital, and a moderate decline related to higher availability of internal

[17] ECB, *Monthly Bulletin*, April 2012
[18] European Commission, *SMEs' Access to Finance*, Survey 2011, Analytical Report, 7 December 2011.
[19] ECB, *ECB Bank Lending Survey*, April 2012, ECB.
[20] Ibid.
[21] Ibid.

funds. By contrast, for the second quarter of 2012, banks expect a rise in demand for corporate loans.[22]

The deteriorating economic outlook and the deepening sovereign debt crisis are also having their toll on the availability of **venture capital**. Many venture capital funds are attending to their current portfolio of companies and are shunning new deals. Venture capital fundraising continued its downward trend in 2011, decreasing to €1.7bn in the first three quarters, which is only slightly more than half of the total 2010 VC fundraising amount. Venture exits have decreased by 25%, amounting to € 1.0bn. Venture performance has remained weak, apart from those in the top quartile, emphasising the importance of careful selection by investors.[23]

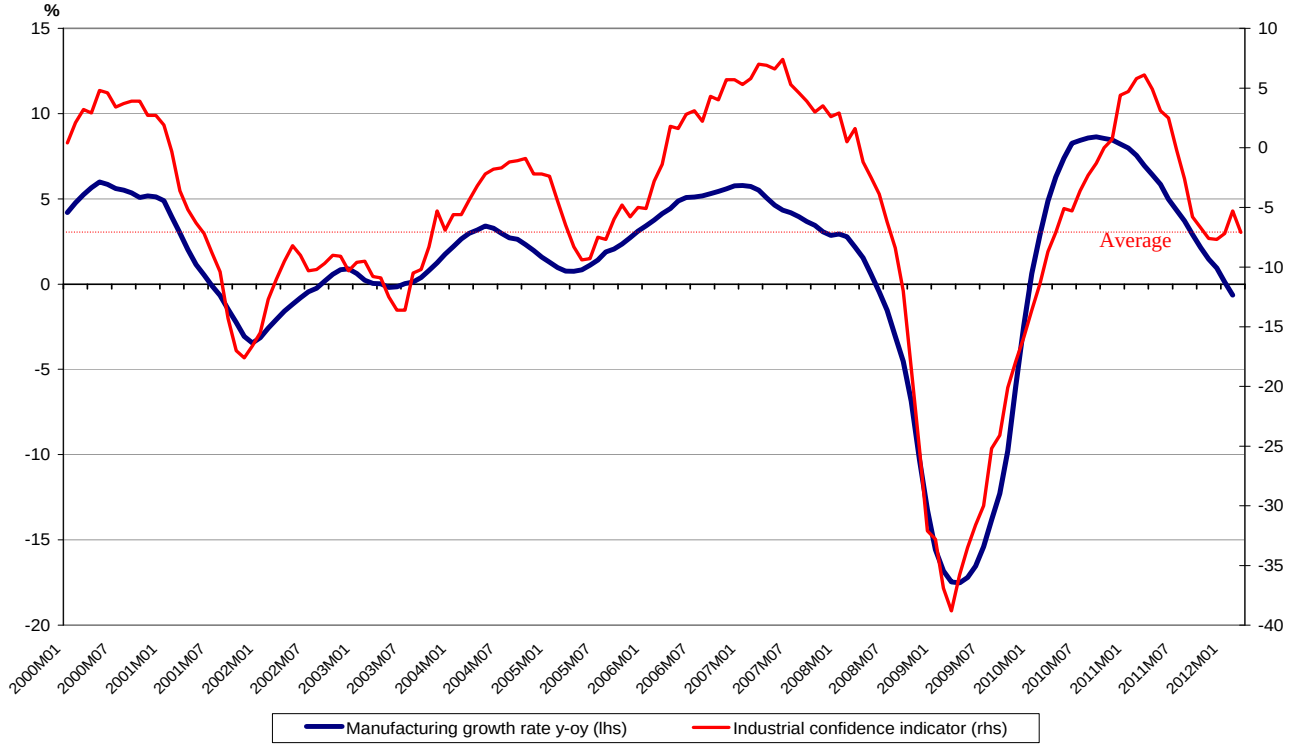
A recent survey conducted among German venture capitalists indicated a sharp fall in confidence regarding fundraising and exits, which eventually will affect venture capital investments in Germany.[24] Most likely other European countries are facing a similar challenge.

Turning to SME securitization (SMESec), originators continue to mainly retain newly issued deals in order to create liquidity buffers and to use the assets as collateral with central banks. The SMESec market (excluding pure ECB-related transactions) slowly restarts in more sophisticated markets, (UK, Germany, Benelux, Italy). Looking forward, regulatory reforms will impact the securitisation market. Investors will only return in volume if they regain confidence in the quality of transactions and if there is satisfactory secondary market liquidity. Originators will only return if transactions are economically feasible.[25]

[22] Ibid.
[23] EIF, *European Small Business Outlook*, 2/2011.
[24] KfW, *German Private Equity Barometer, 3rd Quarter 2011*, 22 November 2011.
[25] EIF, *European Small Business…op. cit.*

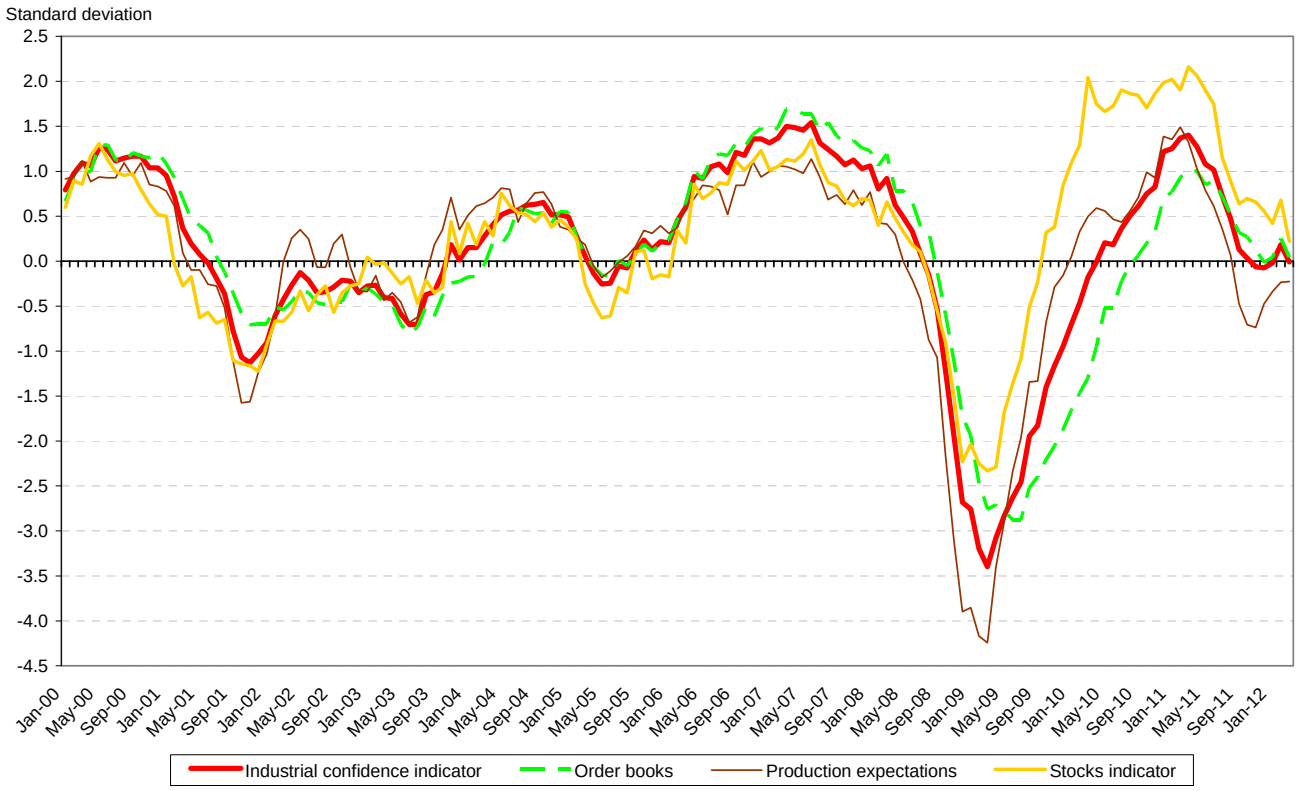
Annex

Chart 1: EU27 manufacturing production growth and industrial confidence indicator



Source: Eurostat and DG Economic and Financial Affairs

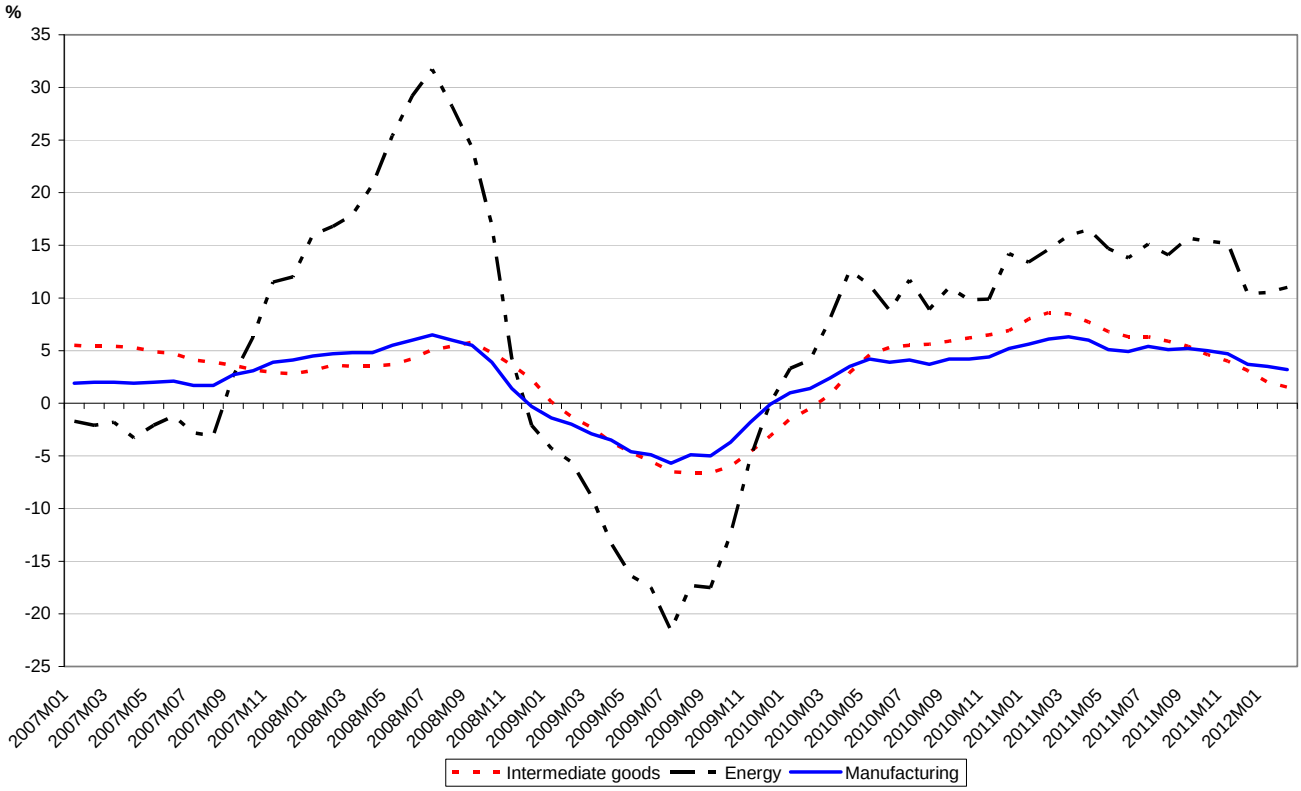
Chart 2. Industrial confidence indicator and its components – standardised values



The chart shows standardised indicators normalised with long-term standard deviation around their long term average. Stocks indicator has reversed values to those of DG ECFIN stocks of finished products indicator.

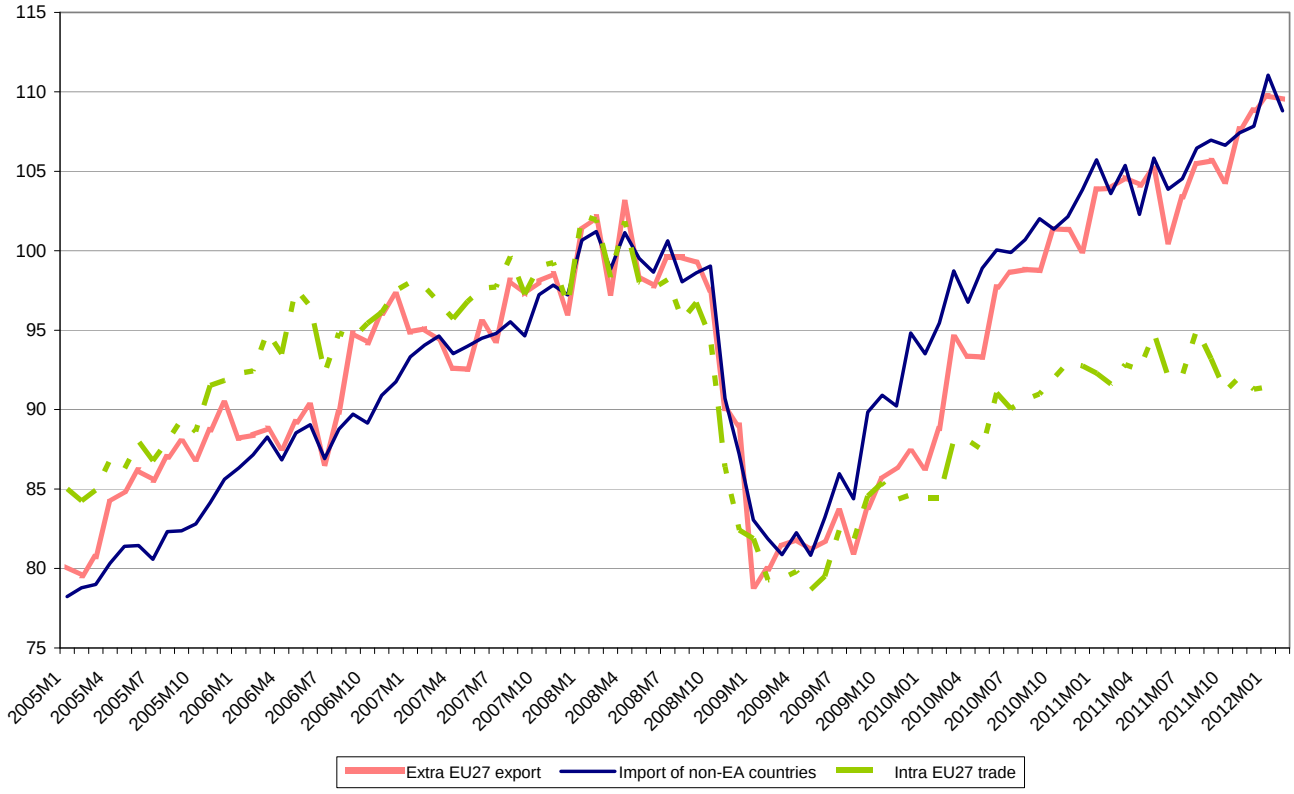
Source: DG ECFIN

Chart 3: Producers prices indices (change over previous year)



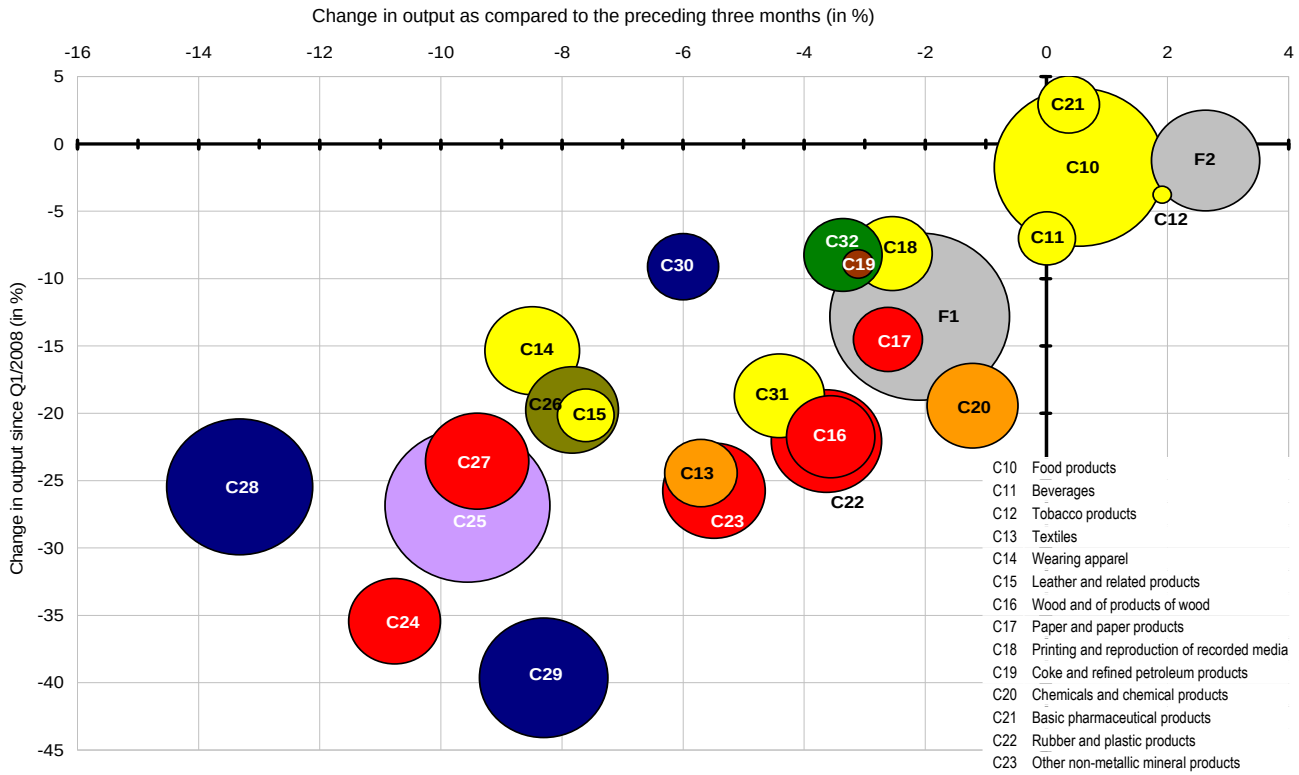
Source: Eurostat

Chart 4: World trade (imports of non-EU countries), extra-EU exports and intra-EU trade *(index in volumes, seasonally adjusted, H1/2008=100)*



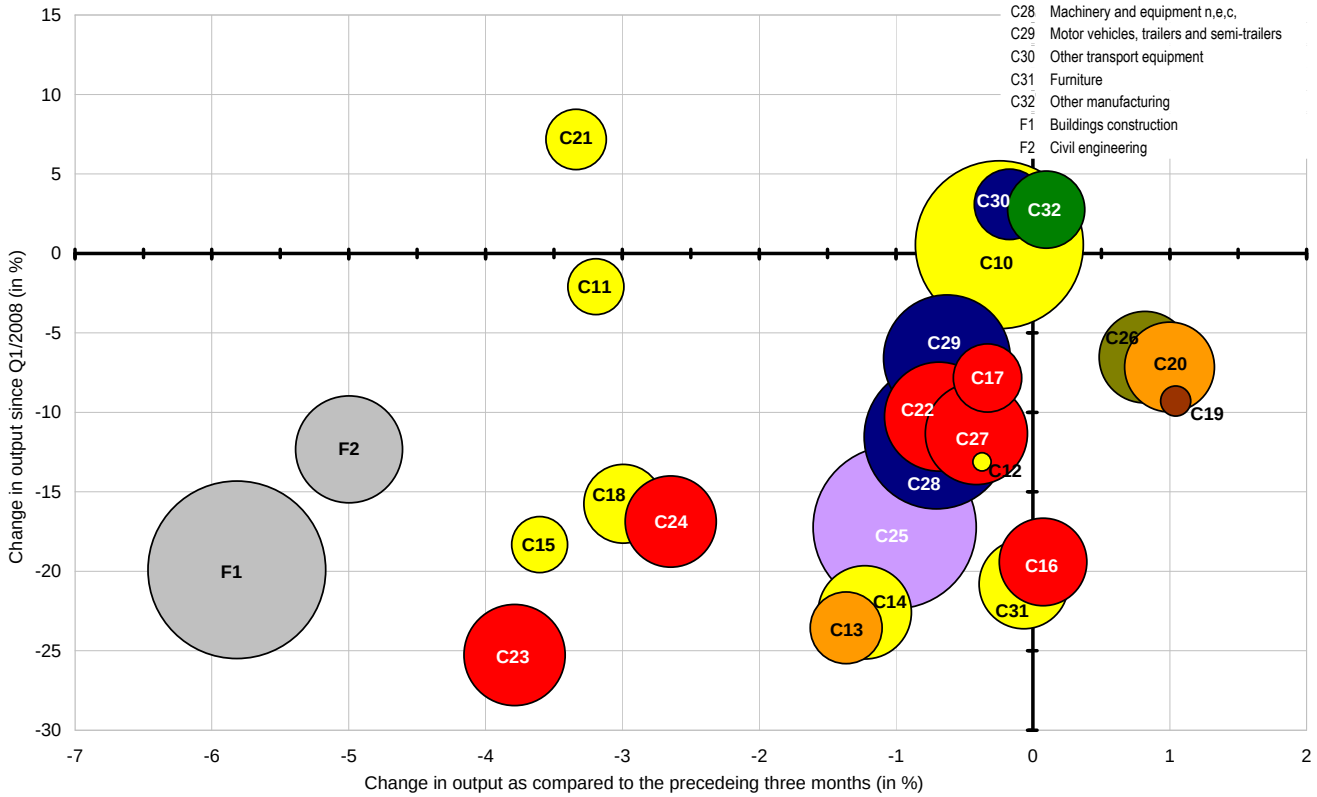
Source: Eurostat and Netherlands CPB

Chart 5a: Sectoral output performance since onset of the crisis – April 2009



C10 Food products
C11 Beverages
C12 Tobacco products
C13 Textiles
C14 Wearing apparel
C15 Leather and related products
C16 Wood and of products of wood
C17 Paper and paper products
C18 Printing and reproduction of recorded media
C19 Coke and refined petroleum products
C20 Chemicals and chemical products
C21 Basic pharmaceutical products
C22 Rubber and plastic products
C23 Other non-metallic mineral products
C24 Basic metals
C25 Fabricated metal products
C26 Computer, electronic and optical products
C27 Electrical equipment
C28 Machinery and equipment n,e,c,
C29 Motor vehicles, trailers and semi-trailers
C30 Other transport equipment
C31 Furniture
C32 Other manufacturing
F1 Buildings construction
F2 Civil engineering

Chart 5b: Sectoral output performance since onset of the crisis – February 2012

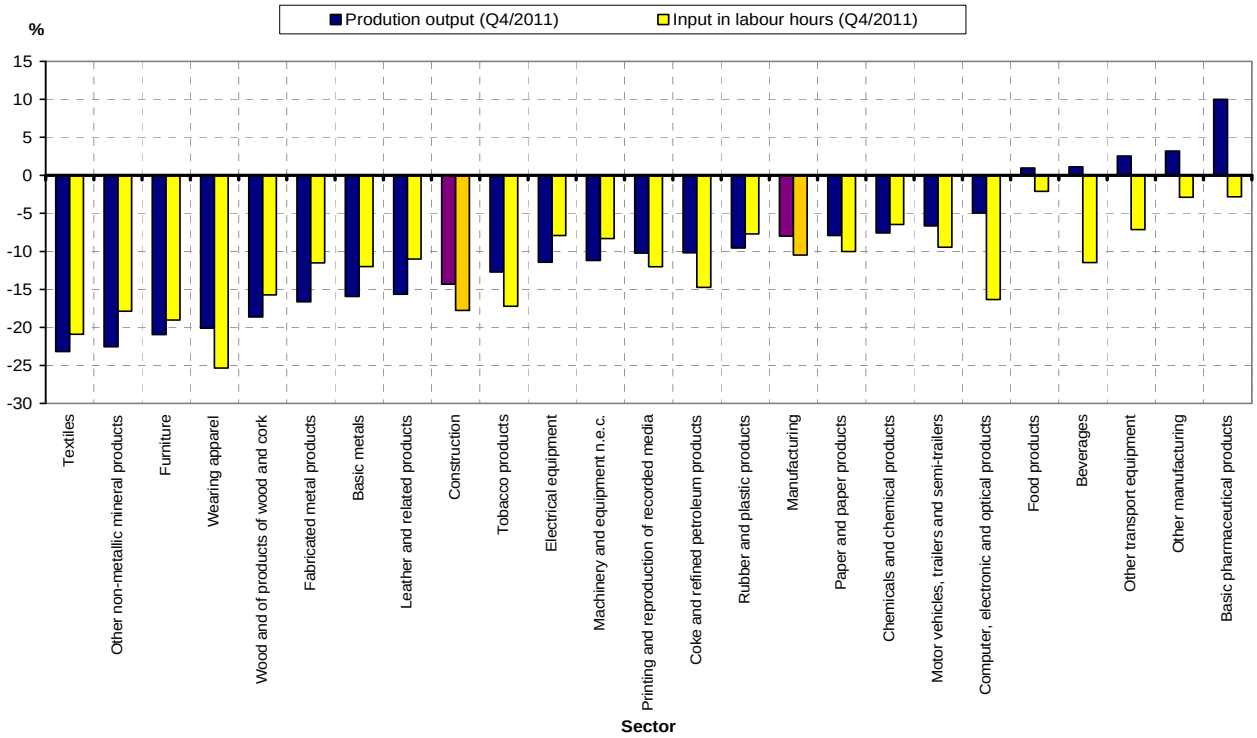


Sectors falling under more than one category of goods are in secondary colours. The size of the bubble reflects employment in the sector

Intermediate goods Capital goods Consumer goods Construction

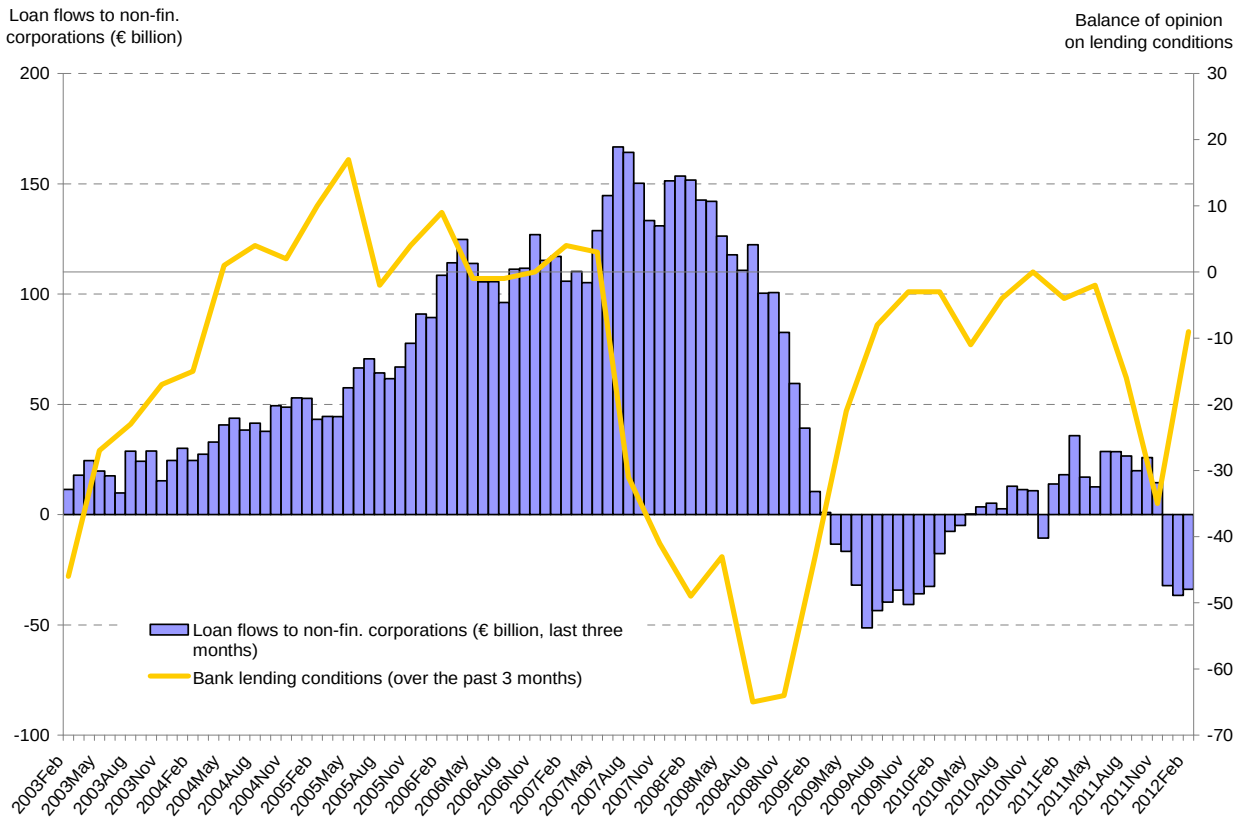
Source: Eurostat

Chart 6. Sectoral manufacturing output and employment developments



Percentage change, latest data compared to the cyclical peak (Q1/2008), seasonally adjusted
Source: Eurostat

Chart 7. Loans to non-financial corporations in the euro area (€ billion, last three months)



Source: ECB

Chart 8a: Change in manufacturing and construction production since the cyclical trough (Q1 2009) in Member States (seasonally adjusted, last three months to February 2012*)

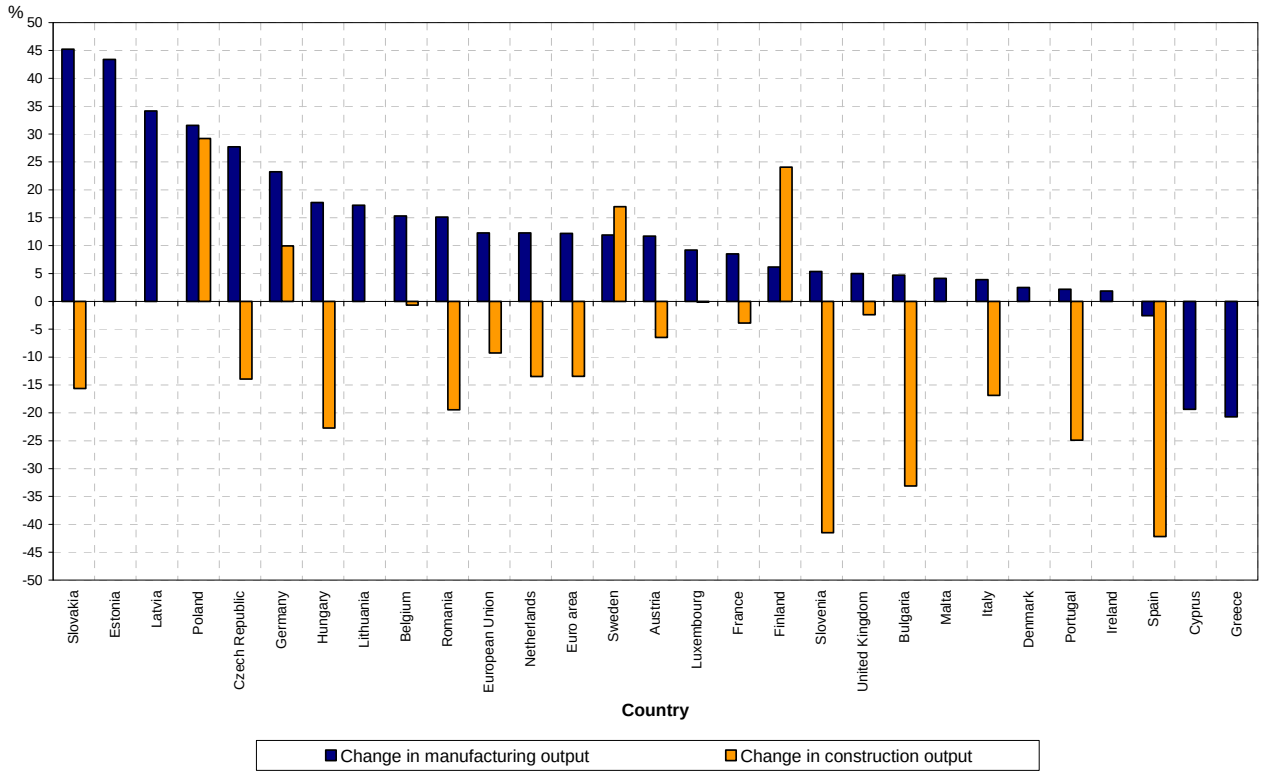
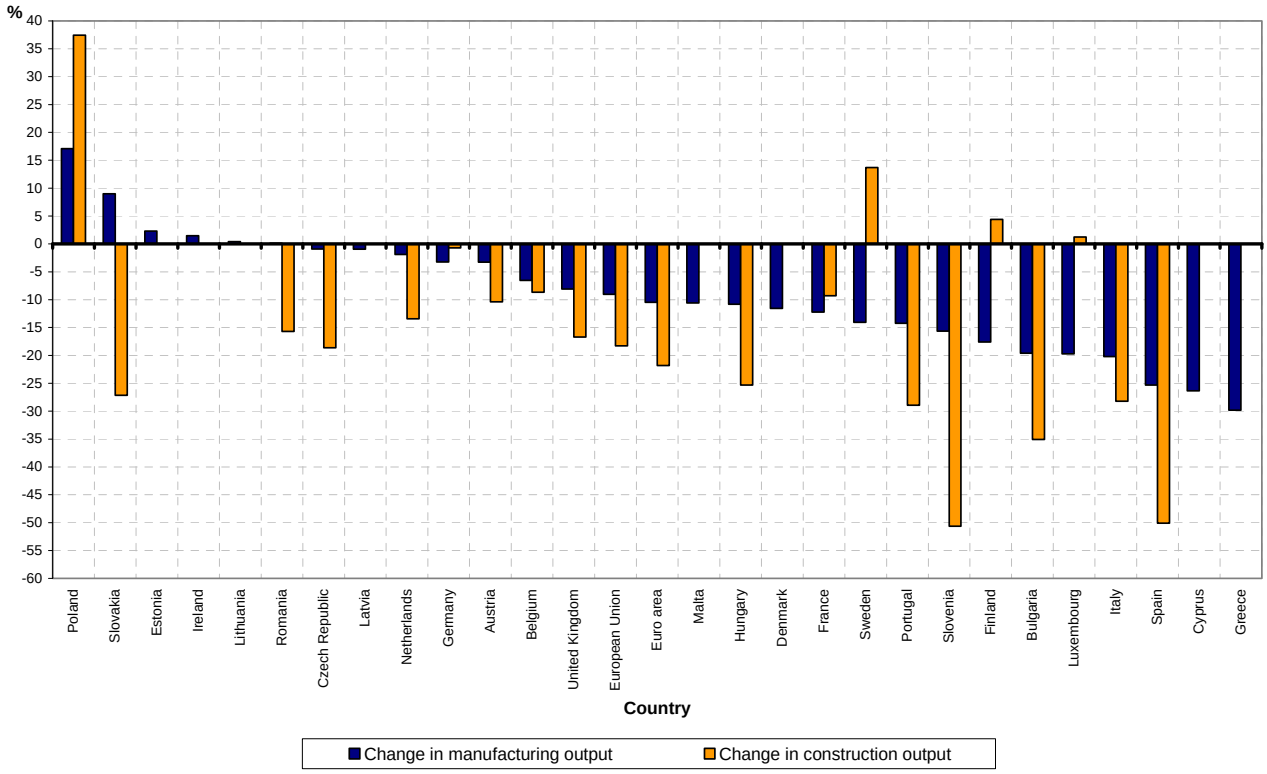


Chart 8b: Change in manufacturing and construction production since the cyclical peak (Q1 2008) in Member States (seasonally adjusted, last three months to February 2012*)



Source: Eurostat

* Subject to data availability

Table 1: Manufacturing production per country – % change in comparison with the same quarter/month of the previous year (working day adjusted)

Total industry	Q2/2011	Q3/2011	Q4/2011	Last 3M to Feb 2012	Dec-11	Jan-12	Feb-12	Difference last 3M to Feb 2012 over peak Q1/2008**
EU27	5.3	4.4	1.5	-0.3	1.3	0.0	-2.2	-9.0
EA17	5.3	4.9	1.0	-1.0	0.4	-0.7	-2.7	-10.5
Austria	9.5	6.2	2.0	-0.1*	-0.7	0.5	:	-3.8*
Belgium	5.2	5.0	1.7	1.0*	3.9	-1.9	:	-7.0*
Bulgaria	4.9	4.0	-0.6	-4.5	-3.0	-2.9	-7.5	-19.6
Cyprus	-4.1	-8.5	-11.3	-12.3*	-12.0	-12.5	:	-26.3*
Czech Republic	9.9	4.6	5.1	4.0	6.5	1.6	3.8	-0.9
Germany	9.7	9.4	4.0	1.6	1.5	2.5	0.8	-3.2
Denmark	6.1	2.0	5.2	5.2	7.4	1.8	6.3	-11.6
Estonia	26.2	19.1	3.5	2.4	2.7	2.5	2.0	2.3
Spain	-0.8	-0.6	-4.7	-4.6	-3.2	-4.1	-6.6	-25.3
Finland	3.7	1.6	0.6	1.3	6.4	-1.7	-0.7	-17.6
France	3.6	3.7	2.0	-1.8	0.8	-2.2	-3.9	-12.2
Greece	-11.4	-5.1	-14.5	-11.4	-16.9	-7.0	-10.4	-29.8
Hungary	4.5	1.9	5.1	0.5	7.8	-2.3	-4.0	-10.8
Ireland	1.0	1.6	1.4	-2.1	-3.3	0.4	-3.5	1.5
Italy	2.3	0.2	-3.0	-4.5	-1.0	-5.0	-7.5	-20.2
Lithuania	12.3	9.4	2.3	0.9	3.6	1.4	-2.2	0.4
Luxembourg	-4.2	0.0	-5.3	-8.5*	-7.1	-9.8	:	-20.0*
Latvia	14.6	9.3	9.2	12.3	9.6	16.8	10.6	-0.9
Malta	0.8	-3.0	-1.1	-7.2	-4.1	-4.7	-12.9	-10.6
Netherlands	2.6	2.6	1.5	-0.4	3.6	-1.5	-3.3	-1.9
Poland	7.7	6.3	9.8	8.9	10.3	10.8	5.6	17.1
Portugal	0.2	-1.2	-4.1	-2.9	-5.7	-0.8	-2.3	-14.2
Romania	4.6	6.1	2.2	-1.0	-0.6	1.9	-4.3	0.1
Sweden	9.5	3.9	0.1	-2.4	-1.1	1.7	-7.9	-14.1
Slovenia	2.9	-0.7	-2.3	-1.5	-4.2	1.3	-1.6	-15.8
Slovakia	11.3	7.5	4.1	5.5	2.7	3.0	10.7	9.0
United Kingdom	2.8	1.4	-0.2	-0.2	1.6	-0.4	-1.9	-8.1

: Data not available // * Last 3M to January 2012 //** seasonally adjusted

Source: Eurostat

Table 2: EU27 output growth rate - % change in comparison to the corresponding period of the previous year and the trough (working day/seasonally adjusted data)[26]

Nace code	Sector name	Average growth 2010	Average growth 2011	Last 3M to Feb 12	Feb-12	Difference trough over peak Q1/2008	Quarter of the trough	Difference last 3M to Feb 12 over peak Q1/2008
C	**TOTAL MANUFACTURING**	7.3	4.8	-0.3	-2.2	-19.3	Q2/2009	-9.0
F	**CONSTRUCTION**	-3.8	1.2	-0.6	-9.2	-16.4	Q4/2010	-18.3
C10	Food products	1.9	1.4	0.5	-1.2	-2.8	Q4/2009	0.5
C25	Fabricated metal products	7.0	6.9	0.7	-2.3	-27.8	Q2/2009	-17.2
C28	Machinery and equipment n,e,c,	10.7	12.1	4.0	3.5	-30.4	Q3/2009	-11.6
C29	Motor vehicles, trailers and semi-trailers	22.1	13.4	0.9	0.1	-40.9	Q1/2009	-6.6
C22	Rubber and plastic products	7.7	4.3	-1.3	-3.5	-22.0	Q1/2009	-10.3
C27	Electrical equipment	11.6	4.7	-1.1	-0.9	-25.3	Q2/2009	-11.3
C23	Other non-metallic mineral products	1.9	4.2	-2.7	-14.5	-27.8	Q1/2010	-25.3
C14	Wearing apparel	0.7	-5.9	-5.3	-10.0	-21.7	Q3/2011	-22.6
C26	Computer, electronic and optical products	8.3	7.3	1.2	1.0	-19.9	Q1/2009	-6.5
C24	Basic metals	19.1	5.6	-4.1	-5.8	-36.1	Q2/2009	-16.9
C20	Chemicals and chemical products	10.2	1.5	-1.7	-2.4	-21.0	Q1/2009	-7.2
C31	Furniture	-0.6	2.5	-2.8	-4.2	-21.4	Q3/2009	-20.8
C16	Wood and of products of wood	3.4	0.0	-1.9	-6.5	-21.6	Q2/2009	-19.4
C18	Printing and reproduction of recorded media	-0.4	-1.8	-5.4	-6.7	-11.9	Q4/2009	-15.8
C32	Other manufacturing	7.7	3.2	1.6	0.0	-8.2	Q2/2009	2.7
C13	Textiles	8.1	-2.6	-7.9	-7.3	-25.5	Q2/2009	-23.6
C30	Other transport equipment	1.6	4.8	4.5	0.4	-6.6	Q4/2009	3.1
C17	Paper and paper products	6.2	-0.9	-2.1	-1.5	-13.2	Q1/2009	-7.9
C21	Basic pharmaceutical products	5.7	1.0	-4.3	-8.3	3.8	Q1/2009	7.2
C11	Beverages	-0.3	5.9	0.1	-3.8	-7.6	Q2/2010	-2.1
C15	Leather and related products	3.2	4.4	-5.8	-9.2	-21.4	Q2/2009	-18.3
C19	Coke and refined petroleum products	-0.9	0.6	0.6	-0.1	-12.4	Q1/2010	-9.3
C12	Tobacco products	-5.6	-2.4	3.4	-0.1	-15.3	Q4/2010	-13.1

* January 2012

Source: Eurostat

[26] All the tables with sectoral data have been ranked according to their employment importance

Table 3: EU27 manufacturing and construction – monthly evolution (seasonally adjusted data)

Nace code	Sector name	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12
C	**TOTAL MANUFACTURING**	1.3	0.7	-1.7	-0.1	-0.2	-0.4	0.1	-1.0
F	**CONSTRUCTION**	-0.1	0.6	-1.0	-0.3	2.1	-3.5	-3.9	-3.6
C10	Food products	0.1	2.0	-1.5	-1.3	1.3	0.3	-1.0	-0.7
C25	Fabricated metal products	0.9	2.1	-3.0	-0.3	0.1	-0.6	-0.1	-0.9
C28	Machinery and equipment n.e.c.	2.7	0.6	-2.6	-0.6	1.8	-2.4	0.6	1.0
C29	Motor vehicles, trailers and semi-trailers	6.8	3.4	-6.2	1.7	-1.6	-1.8	2.6	-0.1
C22	Rubber and plastic products	0.6	0.0	-1.3	-0.2	0.7	-1.3	1.0	-1.4
C27	Electrical equipment	1.3	1.2	-2.4	-1.3	1.2	-1.3	0.9	-0.1
C23	Other non-metallic mineral products	0.1	2.4	-2.7	-0.5	0.6	-1.8	2.0	-10.6
C14	Wearing apparel	-5.3	0.0	-1.8	2.2	-0.6	0.5	-0.6	-4.9
C26	Computer, electronic and optical products	3.1	-0.9	-2.0	-3.1	0.7	-0.8	3.0	0.5
C24	Basic metals	0.8	-0.2	-2.1	-0.3	-1.2	-2.9	1.6	0.1
C20	Chemicals and chemical products	1.0	-0.1	-1.6	-0.7	-1.2	0.9	1.8	-0.2
C31	Furniture	4.5	-1.2	-3.3	-2.3	1.0	0.4	-0.3	-0.4
C16	Wood and of products of wood	1.6	-1.5	-1.3	-0.3	0.6	0.5	0.5	-3.1
C18	Printing and reproduction of recorded media	0.7	-0.6	-1.7	-0.1	-1.2	-1.3	-1.2	-0.2
C32	Other manufacturing	1.2	2.1	-1.7	-1.5	1.6	1.9	-3.4	-0.2
C13	Textiles	3.2	-2.9	-0.4	-3.0	0.0	-0.6	-0.4	1.6
C30	Other transport equipment	0.6	-0.5	3.1	-1.3	4.2	-0.6	-1.5	-2.7
C17	Paper and paper products	0.5	1.2	-0.9	-2.0	0.5	-0.2	0.0	0.7
C21	Basic pharmaceutical products	-0.7	2.1	-2.1	3.2	-5.6	-0.6	3.0	-5.6
C11	Beverages	-2.0	1.0	2.1	1.5	-0.4	-1.6	-2.9	0.1
C15	Leather and related products	-0.9	-1.4	-0.2	-1.0	0.0	-1.3	-1.5	-3.0
C19	Coke and refined petroleum products	0.4	0.1	-2.0	0.3	0.5	1.5	-1.9	1.3
C12	Tobacco products	1.3	-1.1	0.5	-0.8	0.6	-0.3	-0.5	0.3

Source: Eurostat

Table 4. Construction output – quarterly / monthly variation - % change in comparison with the same quarter / the same month of the previous year (working day/ seasonally adjusted)

Total	Q2/2011	Q3/2011	Q4/2011	Last 3M to Feb 2012	Dec-11	Jan-12	Feb-12	Difference last 3M to Feb 2012 over peak Q1/2008
EU27	-1.5	2.0	3.5	-0.4	9.1	-1.1	-9.2	-18.3
EA17	-4.0	2.3	3.2	-1.7	10.1	-2.6	-12.6	-21.8
Austria	1.0	-0.6	1.2	1.0	1.0	7.2	-5.3	-10.4
Belgium	3.5	2.6	8.6	8.6*	17.2	:	:	-8.7*
Bulgaria	-16.2	-11.5	-8.8	-4.6	-4.9	1.2	-10.0	-35.1
Czech Republic	-5.3	-9.2	0.9	-2.6	16.1	-6.6	-17.3	-18.6
Finland	9.0	9.1	6.7	9.4*	13.8	10.6	:	4.4*
France	-0.6	2.8	5.3	4.4	13.3	-0.1	0.0	-9.3
Germany	7.0	6.7	19.4	9.9	44.0	7.1	-21.4	-0.7
Hungary	-9.4	-13.7	-1.5	-6.0	-0.8	-1.4	-15.9	-25.3
Italy	-2.8	-4.4	-3.5	-11.2	0.1	-10.6	-23.0	-28.2
Luxembourg	-1.4	-3.2	6.2	6.1*	27.7	-6.4	:	1.3*
Netherlands	4.6	3.5	1.6	-4.7	3.5	-0.8	-16.9	-13.4
Poland	19.9	14.9	13.2	20.7	14.7	34.1	13.4	37.4
Portugal	-7.7	-10.3	-11.6	-13.0	-11.1	-12.2	-15.7	-28.9
Romania	-4.2	8.5	9.1	3.8	3.5	2.8	5.2	-15.7
Slovakia	-3.4	-2.6	1.2	-3.5	5.6	-7.2	-8.8	-27.2
Slovenia	-30.9	-25.2	-19.9	-25.0	-24.5	-23.1	-27.5	-50.6
Spain	-25.8	5.5	-4.2	-3.5	1.4	-7.3	-4.6	-50.1
Sweden	9.3	6.1	7.2	5.6	6.1	7.2	3.6	13.7
United Kingdom	2.4	0.0	2.0	0.2	6.1	-0.8	-4.6	-16.7
Buildings EU27	-2.5	1.8	2.9	-0.4	7.8	-1.2	-7.8	-19.9
Civil engineering EU27	2.4	2.4	5.4	-0.7	14.1	-0.6	-15.6	-12.3

: Data not available
* Last 3M to January 2012

Source: Eurostat

Table 5: EU27 employment growth rate by manufacturing sector - percentage change on same quarter last year/peak (gross data)

Nace code	Sector name	Persons employed in 2008 (000s)	Average growth 2010	Average growth 2011	Average growth Q3/2011	Average growth Q4/2011	Q4/2011 over peak Q1/2008
C	**TOTAL MANUFACTURING**	32961	-3.6	0.6	0.9	0.5	-10.9
F	**CONSTRUCTION**	15047	-5.8	-2.9	-3.2	-2.9	-18.6
C10	Food products	4245	-0.4	0.4	0.6	0.2	-2.8
C25	Fabricated metal products	4000	-5.3	1.9	2.4	2.1	-10.9
C28	Machinery and equipment n,e,c,	3140	-4.9	2.3	2.8	2.4	-7.7
C29	Motor vehicles, trailers and semi-trailers	2420	-2.8	2.9	3.8	4.1	-8.1
C22	Rubber and plastic products	1800	-2.4	1.2	2.1	0.9	-8.6
C27	Electrical equipment	1573	-2.2	3.1	2.6	2.5	-6.9
C23	Other non-metallic mineral products	1550	-6.3	-1.5	-0.8	-1.6	-20.0
C14	Wearing apparel	1320	-8.4	-1.9	-1.3	-2.4	-25.2
C26	Computer, electronic and optical products	1270	-3.3	0.7	-0.1	0.2	-12.8
C24	Basic metals	1249	-5.5	1.3	1.7	1.1	-12.4
C20	Chemicals and chemical products	1220	-2.2	-0.3	0.0	-0.5	-8.6
C31	Furniture	1200	-8.2	-1.7	-1.2	-2.1	-21.5
C16	Wood and of products of wood	1157	-3.0	-0.2	0.0	-0.9	-17.4
C18	Printing and reproduction of recorded media	940	-4.7	-3.4	-3.9	-4.6	-17.5
C32	Other manufacturing	900	-1.6	-1.1	-1.2	-1.8	-6.2
C13	Textiles	780	-5.7	-2.9	-2.9	-2.8	-23.8
C30	Other transport equipment	750	-5.0	-0.7	-0.4	1.9	-6.8
C17	Paper and paper products	706	-2.3	-0.9	-0.9	-2.7	-10.6
C21	Basic pharmaceutical products	557	-0.2	-0.4	0.1	0.9	-5.5
C11	Beverages	480	-2.2	-1.6	-0.8	-1.5	-12.2
C15	Leather and related products	474	-3.1	3.9	5.3	3.7	-13.9
C19	Coke and refined petroleum products	140	-2.8	-2.5	-3.0	-0.9	-8.4
C12	Tobacco products	52	-6.4	-2.9	-0.5	3.0	-15.3

Source: Eurostat

Table 6: EU27 industry new orders - % change in comparison to the corresponding period or peak/trough – gross /seasonally adjusted data

Nace code	Sector name	Average growth 2001-2007	Average growth 2010	Average growth 2011	Last 3M* over Q4/2007	Last 3M* over Q1/2009	Last 3M y-o-y
C	**MANUFACTURING FOR NEW ORDERS**	4.5	17.3	7.6	*-11.5*	28.7	*-2.3*
C25	Fabricated metal products	5.3	12.9	10.8	*-4.7*	28.7	4.5
C28	Machinery and equipment n.e.c.	6.5	28.2	12.9	*-11.4*	38.0	*-5.5*
C29	Motor vehicles, trailers and semi-trailers	5.4	19.4	9.1	*-14.7*	46.1	*-1.0*
C27	Electrical equipment	3.7	17.1	5.3	*-5.3*	24.0	*-1.3*
C14	Wearing apparel	*-0.1*	*-2.4*	2.6	*-21.2*	*-8.5*	*-6.6*
C26	Computer, electronic and optical products	*-0.4*	7.5	*-3.8*	*-26.0*	1.0	*-8.1*
C20	Chemicals and chemical products	3.8	17.2	9.7	5.7	36.7	1.4
C24	Basic metals	7.3	41.0	12.5	*-6.7*	77.4	*-2.1*
C13	Textiles	*-2.5*	9.9	3.8	*-16.1*	11.1	*-5.5*
C30	Other transport equipment	8.8	*-0.9*	3.5	*-49.1*	*-27.2*	*-10.6*
C17	Paper and paper products	1.5	10.7	2.4	*-3.1*	14.0	*-2.4*
C21	Basic pharmaceutical products	5.8	5.5	*-1.8*	4.9	2.1	*-1.4*

* Average for last three months to February 2012 compared to the quarter when a peak/trough was reached by total manufacturing new orders

Source: Eurostat

Table 7: EU27 industry new orders – monthly evolution – seasonally adjusted data

Nace code	Sector name	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-11	Feb-11
C	**MANUFACTURING FOR NEW ORDERS**	0.9	-3.5	0.3	-0.9	2.8	-1.9	-1.2
C25	Fabricated metal products	0.2	0.4	-3.5	3.4	4.1	-3.5	2.4
C28	Machinery and equipment n,e,c,	-0.4	-1.0	-3.2	-1.2	8.8	-7.4	-3.8
C29	Motor vehicles, trailers and semi-trailers	-0.9	1.2	-1.6	0.3	1.0	0.4	-0.9
C27	Electrical equipment	-1.1	-4.7	-1.3	1.1	2.7	2.1	-3.0
C14	Wearing apparel	-4.0	-2.8	0.2	4.7	-2.2	-4.1	-2.1
C26	Computer, electronic and optical products	-4.3	-1.5	0.9	0.0	-1.4	0.4	2.0
C20	Chemicals and chemical products	-0.1	-1.7	-0.5	-0.8	0.5	1.9	2.3
C24	Basic metals	0.2	-4.7	-1.1	-2.1	16.6	-8.8	-2.6
C13	Textiles	-1.6	-2.0	-1.8	0.6	1.6	-2.7	-0.8
C30	Other transport equipment	61.1	-46.6	20.1	-11.5	0.0	3.1	-15.4
C17	Paper and paper products	0.6	-1.9	-1.1	-0.3	1.6	-1.4	0.7
C21	Basic pharmaceutical products	-0.8	-0.9	-1.2	2.5	2.1	-5.7	-1.6

Source: Eurostat

Table 8: Extra EU Exports (in value)

CPA 2002 code	Sector name	Sectoral share in Total 2010	Annual growth rate in 2009	Annual growth rate in 2010	Annual growth rate in 2011	Total growth 2008-11
	TOTAL EXPORTS	**100.0%**	**-16.1%**	**22.9%**	**13.5%**	**17.0%**
D	**MANUFACTURING**	**93.3%**	**-16.0%**	**23.3%**	**14.0%**	**18.1%**
15	Food Products And Beverages	4.9%	-7.2%	21.5%	16.7%	31.6%
28	Fabricated Metal Products	2.5%	-18.2%	16.1%	9.5%	4.0%
29	Machinery And Equipment N.E.C.	14.8%	-18.8%	17.5%	15.5%	10.1%
34	Motor Vehicles, Trailers And Semi-Trailers	10.4%	-31.0%	51.0%	21.8%	26.8%
22	Printed Matter And Recorded Media	0.4%	-11.9%	4.9%	7.8%	-0.4%
36	Furniture; Other Manufactured	2.3%	-18.3%	21.5%	11.1%	10.3%
25	Rubber And Plastic Products	2.2%	-14.6%	25.7%	13.7%	22.1%
31	Electrical Machinery And Apparatus N.E.C.	4.8%	-13.4%	18.5%	11.0%	13.8%
32	Radio, Television And Communication Equipment	3.9%	-25.1%	22.0%	6.8%	-2.4%
33	Medical, Precision And Optical Instruments	4.7%	-6.1%	19.7%	11.6%	25.4%
26	Other Non-Metallic Mineral Products	1.3%	-18.7%	16.0%	7.2%	1.1%
18	Wearing Apparel; Furs	1.2%	-16.9%	8.1%	19.8%	7.7%
24	Chemicals, Chemical Products	16.5%	-0.5%	18.6%	8.2%	27.6%
20	Wood And Products Of Wood And Cork	0.7%	-17.4%	20.0%	6.6%	5.5%
27	Basic Metals	5.7%	-24.5%	34.1%	25.2%	26.8%
17	Textiles	1.3%	-16.7%	16.3%	11.5%	7.9%
35	Other Transport Equipment	6.0%	-6.2%	19.1%	3.6%	15.8%
21	Pulp, Paper And Paper Products	1.7%	-12.6%	22.0%	7.9%	14.9%
19	Leather And Leather Products	1.0%	-15.2%	19.6%	21.4%	23.1%
23	Coke, Refined Petroleum Products	5.0%	-32.3%	39.4%	31.7%	24.3%
30	Office Machinery And Computers	1.8%	-12.1%	7.6%	3.2%	-2.4%
16	Tobacco Products	0.2%	8.0%	11.8%	18.9%	43.6%

Source: DG Trade

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