Eurozone manufacturing powers ahead

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Eurozone manufacturers are expanding production at the highest pace for a decade, according to a closely watched survey that shows industry reaping the benefits of the euro's Greece-related slide.

April's purchasing managers' surveys showed the 16-country zone's recovery firmly on track. Growth is being powered by manufacturing companies, which are benefiting from a strong pick-up in demand from emerging economies as well as the weaker currency.

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German manufacturers expanded production this month at the fastest since the survey began in 1996. But growth in the eurozone service sector also accelerated.

The results highlight the silver lining to the crisis over Greece's public finances, which has fuelled fears about the stability of Europe's 11-year-old monetary union. Since early December, the euro has fallen about 8 per cent on trade-weighted basis.

They also suggest that the pace of the overall economic recovery is accelerating. First-quarter eurozone gross domestic product figures, due for release next month, were hit by the exceptionally bitter winter especially in Germany, where GDP might even have contracted.

The latest purchasing managers' indices, however, suggested the rise in second-quarter GDP compared with the previous three months could easily exceed 0.4 per cent, according to Chris Williamson, chief economist at Markit, which produces the surveys. "Manufacturers are showing the best performance for 10 years," he said.

However, the recovery in the eurozone is still expected to lag behind the world's other main regions. International Monetary Fund forecasts this week showed the global economy growing 4.2 per cent in 2010 and the US economy 3.1 per cent. But the Washington-based forecasters expected only 1 per cent in the eurozone, where prospects have been dragged down by the weaker southern European countries, including Spain and Greece.

Christoph Weil, economist at Commerzbank in Frankfurt, said: "We are still a long way from normal economic conditions."

The eurozone would probably not return to pre-crisis production levels until the end of 2012, he said, and would "have to battle with mass unemployment for some years yet".

Meanwhile, fears about a pick-up in inflation pressures could mount after the purchasing managers' survey showed bottlenecks forming in eurozone manufacturing and rising input costs resulting from the weaker euro. But with eurozone inflation, at 1.4 per cent, still well below the European Central Bank's target of an annual rate "below but close to" 2 per cent, no early rise in interest rates is expected.

The purchasing managers’ indices are regarded as good up-to-date indicators of trends in private sector activity. The composite eurozone index, covering manufacturing and service sectors, rose from 55.9 in March to 57.3. With a figure over 50 representing an expansion in activity, that was the fastest increase since August 2007.

The eurozone manufacturing index jumped from 56.6 in March to 57.5, the highest since June 2006. The German manufacturing index rose from 60.2 to a record 61.3.