Euro-Area Services, Factory Gauge Rises More Than Estimated (2)
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(Updates with comment from Markit's Williamson in penultimate paragraph. For more on Europe's debt crisis, see TOP CRIS.)

By Svenja O'Donnell

May 23 (Bloomberg) -- A euro-area services and factory output gauge increased more than economists forecast in May, adding to signs the currency bloc is starting to emerge from its record-long recession.

A composite index based on a survey of purchasing managers in both industries rose to 47.7 from 46.9 in April, London-based Markit Economics said today. That exceeded the median estimate of 47.2 in a Bloomberg News survey of 27 economists. A reading below 50 indicates contraction.

While the euro-zone manufacturing index rose to a three-month high of 47.8 in May, Chinese factory output contracted for the first time in seven months, signaling the country's economic growth is losing steam for a second quarter.

"We see the euro zone being out of recession in the third quarter," said Christian Schulz, senior European economist at Berenberg Bank in London. "We've seen improving confidence since the ECB provided a safety net, and the risk of countries having to leave the euro has decreased. Also austerity is fading."

The euro extended gains after the data were released, trading at $1.2903 at 10:56 a.m. in Brussels, up 0.4 percent on the day. The Stoxx Europe 600 Index was down 2.1 percent to 303.97.

Rate Cut

The euro area's 18-month recession will end in the second quarter, as the economy stagnates before returning to growth in the following three months, according to a Bloomberg News survey of economists. The economy contracted 0.2 percent in the first quarter.

The 17-nation economy's contraction has left the European Central Bank to try to mitigate the damage by cutting interest rates and exploring unconventional ways of channeling money to needy companies, especially in the south. The ECB this month cut its benchmark rate to a record low of 0.5 percent.

Today's PMI data followed a May 16 trade report, which showed euro-area exports rose a seasonally adjusted 2.8 percent in March and the trade surplus widened to 18.7 billion euros

($24.1 billion). European Union car sales rose in April for the first time since September 2011.
ECB President Mario Draghi said after the bank's May 2 meeting that "euro-area export growth should benefit from a recovery in global demand and our monetary policy stance should contribute to support domestic demand."

Weaker Demand

While the Markit report showed an improvement, its composite gauge has been below 50, indicating contraction, for 16 consecutive months. The services index improved to 47.5 in May from 47 a month earlier.
The ECB forecasts the euro-area economy will shrink 0.5 percent this year, while the European Commission sees a 0.4 percent contraction.
"The euro zone's second recession in five years looks set to drag on into a seventh successive quarter," Markit's chief economist, Chris Williamson, said in today's report.
"The ECB's quarter-point cut in interest rates seems to have done little to inspire confidence that the economy will start to pick up again," he said. "In fact, expectations about the year ahead deteriorated again in the service sector, suggesting recovery remains a long way off still and that policymakers need to do more to stem the downturn and revive growth."
Schaeffler AG, the family-owned bearing maker that's the biggest investor in car-parts producer Continental AG, said on May 21 that profit fell as gains at the automotive unit failed to offset weaker demand at its industrial division. Chief Executive Officer Juergen Geissinger said the company was "not anticipating a quick recovery of the European markets."

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