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TOPWRAP 3-Euro zone services drop, signs of China recovery

By Jonathan Cable and Simon Rabinovitch LONDON/BEIJING, March 4 (Reuters) - The euro zone's powerful services sector plumbed new lows last month, data showed on Wednesday, but Chinese manufacturing displayed signs of bottoming out and stock markets staged a rebound. The Markit Eurozone Purchasing Managers Services Index showed new business in the euro zone services sector, which accounts for the bulk of the economy, plummeted in February and shed jobs at record levels. 'The record rate of contraction in the services PMI in February points to a deepening of the recession in the first quarter,' said Chris Williamson, chief economist at Markit. In contrast, China's manufacturing downturn showed tentative signs of bottoming out, a rare glimmer of hope for a world economy in crisis. Britain's services sector also contracted sharply in February but the rate of decline eased for a third month and the level of jobs cuts slowed a little. European stocks rebounded after three days of losses, following the lead from Asia, where markets rallied on hopes the Chinese government would step up its efforts to support the country's economy. MOOD GRIM The overwhelming mood was grim, however, with the International Monetary Fund warning late on Tuesday the global financial cricis had shifted to the world's poorest nations and 22 might need as much as $25 billion in additional funds this year to cope with the downturn. The German Steel Federation warned steel production was set to fall below 40 million tonnes for the first time since 1993 and the country's VDMA industry association said engineering orders in January showed the biggest monthly drop in 50 years. France's Credit Agricole bank forecast the financial crisis could last until late next year as it posted a fourth-quarter loss that was worse than expected by analysts. 'We expect that the crisis won't end until the second part of 2010,' Chief Executive Georges Pauget told reporters in Paris. Underscoring the severity of the crisis, U.S. auto sales fell more than 40 percent in February, existing home sales hit record lows and Australia's long-resilient economy finally succumbed to global headwinds, shrinking unexpectedly by half a percent in the final quarter of last year. With the United States, Europe and Japan deep in recession and the list of economies shifting into reverse getting longer, all eyes are on Beijing and its efforts to revive growth in the world's third-largest economy. The Chinese economy slowed sharply late last year and the government has pledged nearly $600 billion in extra spending to counter a collapse in exports and downturn in the domestic property sector. The third monthly improvement in China's official Purchasing Managers' Index and the first rise in output since September suggested those efforts were beginning to bear fruit. 'China's economy is possibly on the road to a sustainable recovery,' said Zhang Liqun, a government economist who comments on the survey. The data on Britain's services sector, which

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accounts for three-quarters of the economy, could also give the Bank of England some cautious optimism the economy is beginning to bottom out. 'The latest data provide further hope that the UK service sector is past the worst point in its downturn, with rates of decline in activity and new business continuing to ease from the records seen last November, while a continued steady improvement in sentiment further bolsters hopes of recovery,' Paul Smith at Markit said. Both the Bank of England the European Central Bank (ECB) meet to decide on interest rates on Thursday with both widely expected to agree to cut. The ECB is likely to cut its rates to an all-time low of 1.5 percent, while Britain's policymakers could chop another half a percentage point to a record low of 0.5 percent. MARKETS RALLY Investors moved tentatively back into stocks after the MSCI world equity index racked up a 7.5 percent loss over three sessions and pushed many other indexes to multi-year lows. 'The market has been both a financial and emotional rollercoaster over the past fortnight. Investors are scrambling to find an area of support to help justify buying back in,' said Chris Hossain, senior sales manager at ODL Securities. Oil companies helped the relative rally, boosted by gains in crude, which rose $1 to beyond $42.50 a barrel after surging 4 percent on Tuesday. (Reporting by Reuters bureaus worldwide; Writing by Malcolm Davidson and Tomasz Janowski; Editing by Anthony Barker) Keywords: FINANCIAL/ (malcolm.davidson@thomsonreuters.com; +44 20 7542 6958; Reuters Messaging: malcolm.davidson.reuters.com@reuters.net)

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