

Europe Flash

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Economic Analysis

Europe

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Eurozone PMIs continue to improve Germany leads the way, standing in the growth zone

- **Eurozone PMIs increase for the third month in a row, though still remain in the recession zone**

PMI reaches its ten-month high (48.2 in January, one point more than in December), (BBVA Research: 47.9; Consensus: 47.5), suggesting that economic recession is easing in Europe. Both Manufacturing PMI (47.5; +1.4 points higher than in December) and Services PMI (48.3; +0.5p.) are showing some signs of improvement since October, although both remain in the recession zone. Downturn in employment accelerates, but the fall in new orders slows down and business expectations are recovering.

These data heighten optimism arisen from the yesterday-published advanced indicator of consumer confidence, which, although revealed the weakness in private consumption, also surprised on the upside, raising 2.4 points from December and reaching a -23.9 level. Despite the great divergence among countries, data are in line with our prevision for eurozone to come out from the recession in the first half of the year. In particular, our MICA-BBVA model estimates a slight growth in the first quarter of 2013 (around 0.1% q/q). In this regard, these data seem to confirm that the ECB and the yesterday-published FMI forecasts for 2013 (-0.3% y -0.2%, respectively, against the +0.3% BBVA Research projection) are too pessimistic.

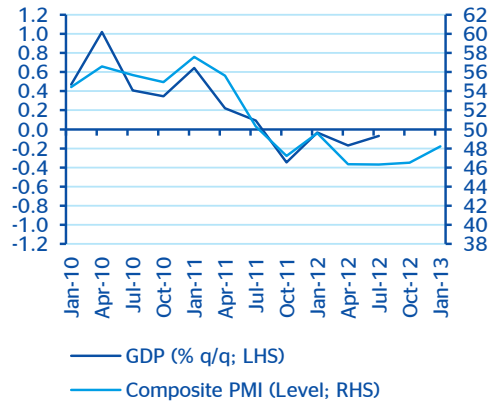
- **German PMIs surprise in the upside, especially in services sector**

The PMI indicators replicate the positive surprise from the ZEW Economic Sentiment published last Tuesday, by reaching its maximum in the last months. Services continue growing and climb 3.3 points up to a 55.3 level (BBVA Research: 52.1; Consensus: 51.7), thus suggesting that domestic demand remains robust. This may be an indication of a better-balanced recovery, which does not rely only on the external sector. Manufacturing PMI increases 2.8 point in January, up to 48.8 (BBVA Research: 46.8; Consensus: 47.0).

- **Decline in French activity intensifies, in contrast to the expected stabilization**

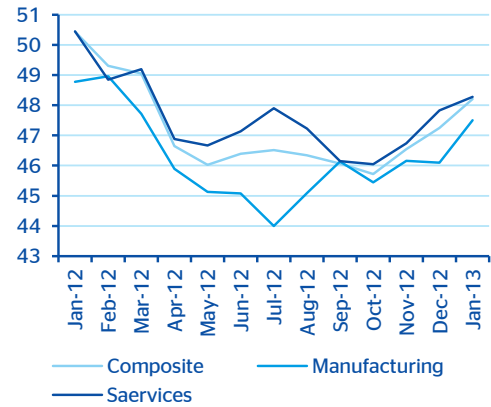
PMIs in eurozone point out the increasing divergence between France and Germany. Unlike the latter, France is suffering the more severe slowdown since the beginning of 2009. Thus, the Manufacturing indicator drops from 44.6 in December to 42.9 in January (both BBVA Research and Consensus: 44.8). Decline sharpens also in the Services sector and the index falls 1.6 points (both BBVA Research and Consensus: 45.4).

Chart 1
EMU: PMI and GDP quarterly growth



Source: Eurostat, Markit Economics and BBVA Research

Chart 2
EMU: PMI and components



Source: Markit Economics

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