

Europe Flash

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Economic Analysis

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Economic sentiment improves in the eurozone

France and Italy fail to join Germany on the path towards recovery in January

- **Economic sentiment improves across all sectors**

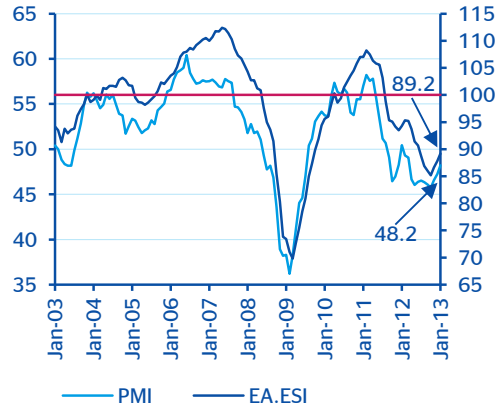
The Economic Sentiment Indicator released by the European Commission today confirms that confidence has been firming in the eurozone since October, as foreshadowed by the PMI indicators released on 24 January. The ESI rose 1.4 points to 89.2, as forecast¹, albeit remaining well below its long-run average of 100. Based on today's figures, our GDP forecasts for 4Q12 remain intact, while our MICA-BBVA model points to a GDP contraction of between 0.2% and 0.3% in 4Q12 and slight growth of close to 0.2% in 1Q13. Nevertheless, we think that the 4Q12 GDP figure will come in a shade short of this mark, as the economic activity indicators for the quarter have proven significantly worse than the sentiment yardsticks.

Confidence picked up in construction, services and among consumers and remained broadly unchanged in industry and retail trade. Confidence in industry was broadly stable (increasing by just 0.3 points) with the improvement in production expectations largely offset by a weaker assessment of current order books, notably export orders. In services the improvement in the expected business situation more than offset the more negative assessment of the present situation, giving rise to an overall one-point gain in confidence. Publication of the Economic Sentiment Indicator coincided with the quarterly manufacturing industry survey, which revealed significantly higher export expectations by industrial managers.

Consumer confidence also rose in January (+2.4), underpinned by reduced pessimism about the current and future economic situation relative to December assessments.

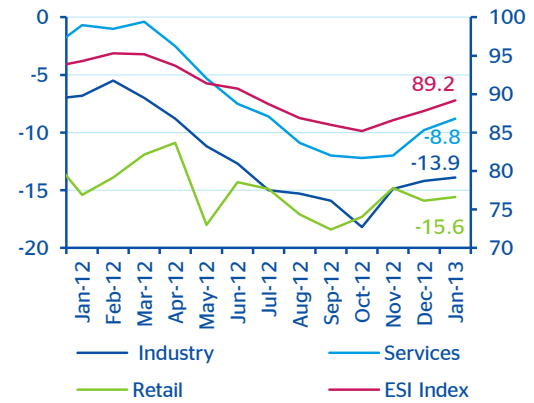
1: A change in methodology has prompted a series revision for previous periods (in general: upwards), so that ours and the consensus forecasts are not perfectly comparable with the figures released today.

Chart 1
EA: PMI and ESI improve after October slump



Source: European Commission and Markit

Chart 2
EA: pessimism eases in all sectors



Source: European Commission

- **Germany leads confidence gains in the euro area**

Germany registered one of the strongest confidence gains in Europe (+2.5), sustaining increases in all sectors, extending the improvement underway since October. Confidence in German industry increased by 2.5 points on the back of a 4.4 point improvement in the assessment of production expectations. The assessment of export new orders deteriorated slightly in January but that of overall order books improved. Confidence in the construction sector improved markedly. German consumers, meanwhile, are also feeling more optimistic.

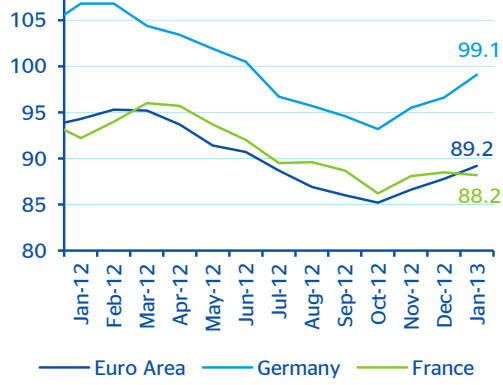
- **Pessimism lingers in France**

Business sentiment is stagnant in France. The ESI registered a fresh setback in France (-0.3) in the wake of the timid gains registered in November and December following the weak October reading. Confidence deteriorated in all sectors, albeit very moderately: the conclusion is that prevailing pessimism has yet to be overcome.

- **Confidence improves slightly in Spain and the UK, while stabilising in Italy and deteriorating in Portugal**

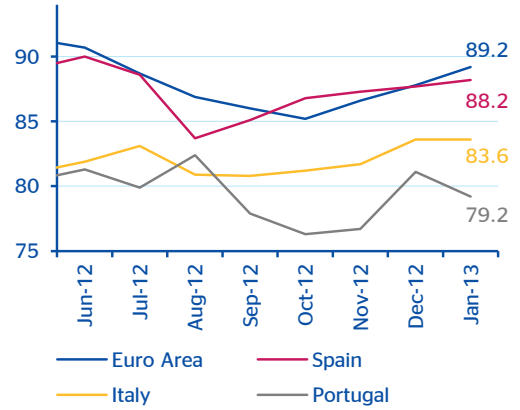
In Spain the indicator increased by 0.5 points, driven above all by improved confidence among consumers and in the construction sector, although sentiment also picked up in services. However, this improvement was undermined by reduced confidence in industry and retail trade. In the UK (+0.5), the significant confidence gain in services and the improvement in other sectors were offset by sharply deteriorated sentiment in industry. In Italy, the indicator remained unchanged with respect to December, proving stable in all sectors. Portugal (-1.9) failed to follow Germany's lead, with pessimism taking a stronger hold in most sectors.

Chart 3
French sentiment lags improvement in confidence in Germany in January



Source: European Commission

Chart 4
Uneven trend across the periphery



Source: European Commission

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