

# Europe Flash

## Eurozone

Madrid, February 21, 2013  
Economic Analysis

Europe Unit

**Miguel Jiménez González-Anleo**

Chief Economist

mjimenezg@bbva.com

**Agustín García Serrador**

Senior Economist

agustin.garcia@bbva.com

**Sonia López Senra**

Economist

sonia.lopez.senra@bbva.com

**Diego Torres Torres**

Economist

diego.torres.torres@bbva.com

## Unexpected eurozone PMI fall in February, but we still expect growth to be back in 1Q

Foreign demand gain supported the German economy, while the economic outlook in France turned gloomier

- **Eurozone PMIs were disappointing in February, declining again to December levels**

PMI Composite registers a level of 47.3, down from 48.6 in January, and contrasts with 49.2 expected by BBVA Research and 49.0 foreseen by the Consensus.

Across components, today's figures reveal that the weak domestic demand took its toll on the services sector (-1.3 points to 47.3; BBVA Research: 49.1; Consensus: 49), while the manufacturing component remained more resilient (-0.1 points to 47.8; BBVA Research: 48.7; Consensus: 48.3), supported by the increase in new export orders from Asia and the US, in line with our view that the sharp drop in exports observed in 4Q12 should be temporary.

Overall, the average PMI composite level in January-February remained in contractionary territory, but increasing by 1.5 points over 4Q12 average to 48, and thus standing somewhat below the level observed in 1Q12 when the eurozone economy was flat. Despite these disappointing figures, they continue to suggest that the trough of the recession should be behind us.

Though the confidence deterioration was widespread across Europe, differences among countries were noticeable, following the experience of the last months.

- **We continue to expect a very slow and gradual recovery for 2013**

Our MICA-BBVA model, updated with available data for 1Q13, continues to point that economic activity could be growing again in early 2013, around 0.1%-0.2% q/q.

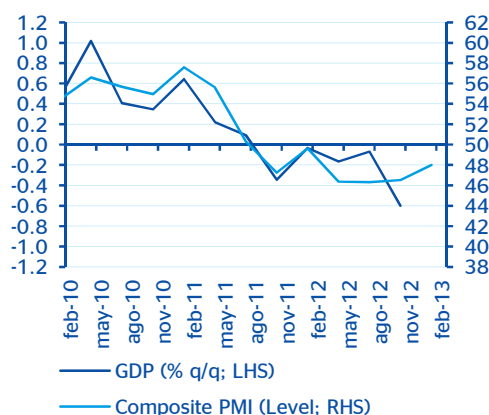
- **In Germany, both manufacturing and services remain in the growth zone**

Germany contrasts the prevailing trend in the rest of the eurozone and remains in the growth zone. The composite PMI suggests that growth eased in February, registering a level of 52.7, down from 54.4. The manufacturing PMI crosses the line to the positive side, up to 50.1 (BBVA: 50.5, Consensus: 50.2) from 49.8 in January, boosted by stronger demand from Asia, while leading indicators (lower stocks) suggest this improvement is likely to linger in coming months. Services remain in the positive zone, but grow at a lower rate (PMI of 54.1 after 55.7 in January), a bit under expectations (BBVA: 55.8, Consensus: 55.4). After the sharp rebound observed in the previous two months, this reduction is not a major surprise and is still consistent with an improving domestic demand.

- France does not seem to get back on its feet in 1Q

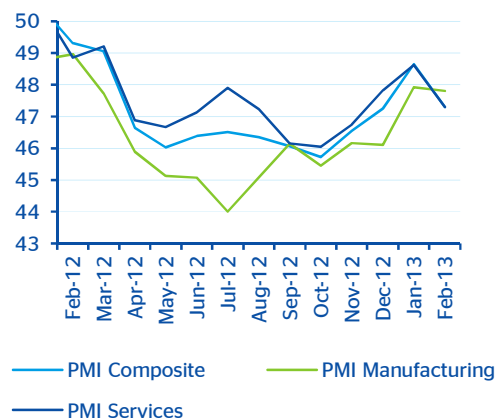
In France, PMI Composite drops by 0.4 points to its lowest level since March 2009, down to 42.3 in February. Both manufacturing and services remain at low levels, but while the decline of manufacturing eases, the drop in services gathers pace. These figures raise concerns about the economic outlook in France, as domestic drivers seems to worsen further, pointing to a contraction in activity again at the beginning of the year.

Chart 1  
EMU: PMI and GDP quarterly growth



Source: Eurostat, Markit Economics and BBVA Research

Chart 2  
EMU: PMI and components



Source: Markit Economics

**DISCLAIMER**

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.