

Europe Flash

Eurozone

Madrid, February 27, 2013
Economic Analysis

Europe Unit

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Economic sentiment in the eurozone improves for the fourth month in a row Results contrast with falling PMIs in February

- **Economic sentiment (ESI) surprises to the upside, pulled by both industry and services**

In February, the Economic Sentiment Indicator published by the European Commission improved markedly, rising +1.6 points to 91.1, pulled by both industry and services. Though the indicator remains well below its 100 points long-run average, it has grown above the expectations¹. However, these optimistic confidence data from the EC contrast with the PMIs released by Markit last week, which were more negative in February. Though it is still early for an assessment and we have to wait hard data to be published, it seems that the trough of the recession should be over and growth is expected to be back in the first quarter of this year. The large improvement in export order books in the Euro Area (+4.4points) fits well with our assumption that the drop in exports was the key factor in the 4Q contraction and it was only a temporary phenomenon. However, for future months the increase in financial market uncertainty linked to the result of the Italian elections might put a break to this expected recovery.

By components, industry confidence improved +2.6 points thanks to the current level of order books and to the better production expectations. The current level of export order books was assessed much more positively. Services improved +2.3 points, continuing the upward trend. Only the index for retail trade and construction confidence decreased moderately, while consumer confidence improved marginally. Employment expectations deteriorated in the eurozone, but consumers seem slightly more positive about the future economic outlook.

By countries, sentiment improved in February in most of the largest Member States, ie. Germany (+2.5), Spain (+1.5), France (+1.3), the Netherlands (+0.8), and Italy (+0.3).

- **Germany continues leading confidence gains in the euro area**

As ZEW and GfK indicators already showed earlier in the month, the EC index also suggests that German confidence continues its upwards trend started in November and surpasses its long-term average. Export order books jump by +3.3 points, in line with the recovery expected after the exports decline in 4Q.

¹: A change in German services data has prompted a series revision for previous periods, so that ours and the consensus forecasts are not perfectly comparable with the figures released today.

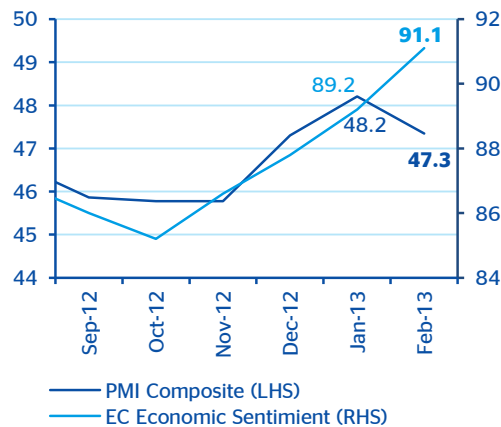
- **The weak improvement in the French index does not dispel the uncertainty around its short-term prospects**

Economic sentiment improved slightly in France (+1.3), driven by the industrial sector. However, consumer confidence has marginally fallen (-0.5), while the household confidence indicator published today by the National Institute of Statistics of France indicates stagnation at a low level. French households' employment expectations for coming months look gloomy, suggesting that the domestic demand remains weak.

- **Confidence improves in most of the largest countries**

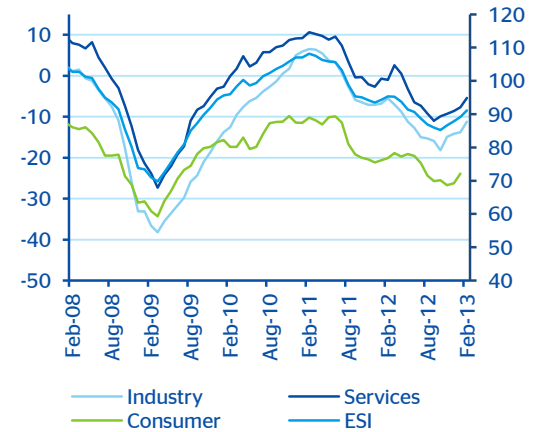
Confidence improved marginally in Italy, due to better industrial and consumer confidence. ESI rebounded in Portugal after having decreased in January, thanks to a slight better outlook across all sectors. In Spain, there is less pessimism in industry and retail trade, helped partly by the considerable leap in export order books, but the downturn in services, consumer confidence and construction offset the positive effect.

Chart 1
EA: ESI improvement contrasts with PMI data



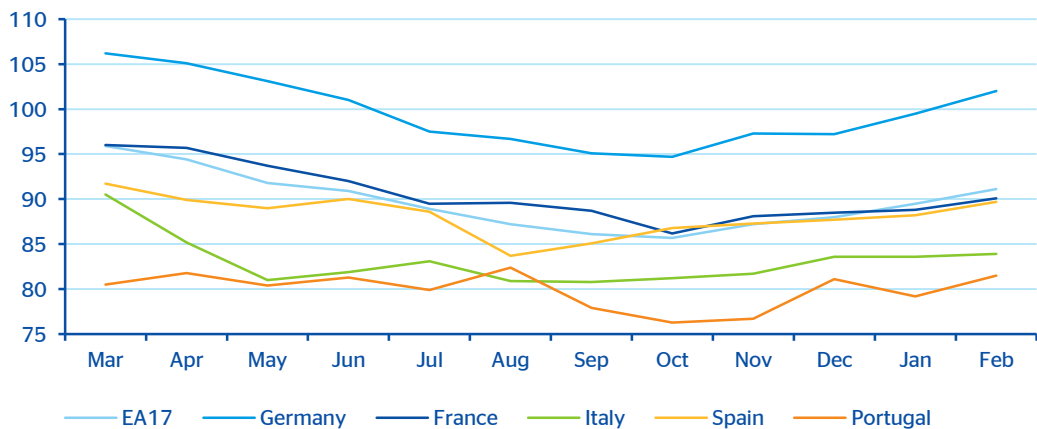
Source: European Commission and Markit

Chart 2
EA: Pessimism eases overall across sectors



Source: European Commission

Chart 3
Confidence improves in most of the largest countries



Source: European Commission

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