

Europe Flash

Eurozone

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Economic Analysis

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Falling eurozone PMIs in March point to a delayed recovery

PMIs fall against expectations, and affect both Germany and France

- **The widespread downturn intensification across sectors and the continuous fall of activity since September 2011¹ hampers optimism**

February PMIs already presented a small decline and we were expecting it to remain flat in March. However, the last flash release was clearly negative, with a fall of the composite index 1.4 points down to 46.5 (see table below), a level that historically was close to the one associated with recession. Both manufacturing and services fall by roughly the same amount, and stay now at around 46.5. New orders register a steep fall in both sectors and employment continues declining.

Also consumer confidence, published yesterday by the European Commission, surprised in the downside, remaining flat. Markit remarks that today-published flash PMIs are mostly based on responses given before the Cyprus difficult situation made the news.

All this points to a more sluggish recovery than we projected. Still, hard indicators so far in the eurozone have been relatively upbeat, with strong exports and retail sales in January, and industrial production less negative than in previous months, which suggest that GDP could be more positive than what PMIs suggest. Our MICA-BBVA model, in its version that incorporates PMIs instead of the European Commission confidence indicator, still predicts growth of 0.1% t/t in Q1. However, today's release, together with the Cyprus crisis and Italian political noise suggest that our above-consensus outlook for 2013 (0.3% growth with a recovery early this year) is subject to obvious downward risks.

- **German manufacturing PMI falls below 50 and the services index stumbles**

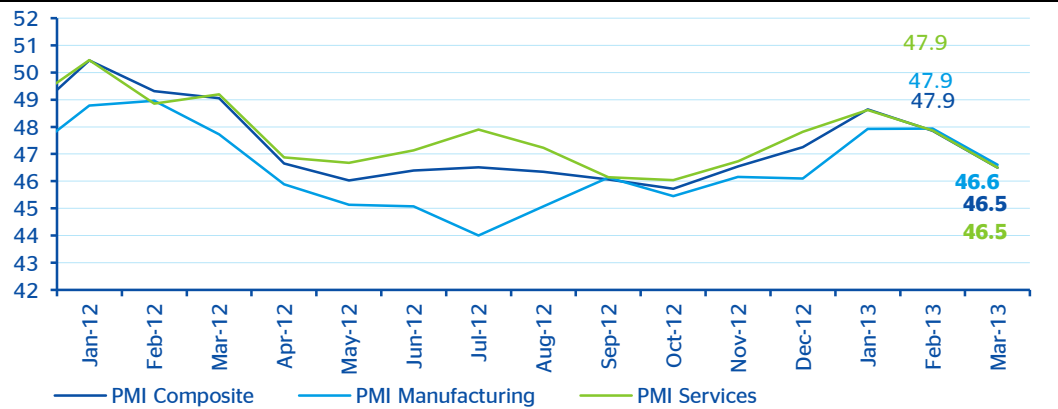
In Germany, both manufacturing and services disappointed, the former even going back under the 50-points threshold. In particular, the manufacturing flash PMI went down from 50.3 in February to 48.9 points in March, contrasting with the expected improvement, while services fell by 3.1 points, down to 51.6, though remaining in the growth zone. The composite PMI hits its 3-month low, though it is still above 50 points threshold (51.0).

1. With the only exception of January 2012.

- **France's PMIs fall further and remain at very weak levels**

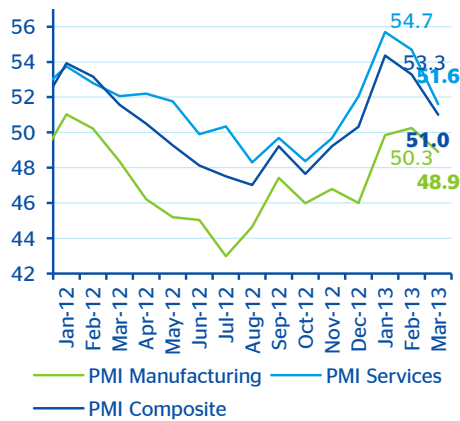
France registered a large reduction in its services sector, from 43.7 to 41.9, the minimum since February 2009. Manufacturing continued deteriorating at the same rate as in February. New orders further declined and employment cuts, together with pessimistic future expectations, suggest that the economic downturn could persist after March.

Chart 1
Eurozone PMIs



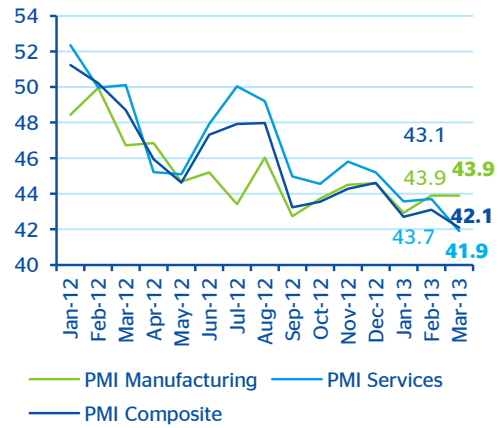
Source: Markit Economics

Chart 2
Germany PMIs



Source: Markit Economics

Chart 3
France PMIs



Source: Markit Economics

Table 1

Purchasing Manager's Index

CC	Indicator	February	March	BBVA	Consensus
	PMI Composite	47.9	46.5	48.2	48.3
Eurozone	PMI Manufacturing	47.9	46.6	48.1	48.2
	PMI Services	47.9	46.5	48.2	48.3
	PMI Composite	53.3	51.0	-	-
Germany	PMI Manufacturing	50.3	48.9	50.4	50.5
	PMI Services	54.7	51.6	55.1	55.0
	PMI Composite	43.1	42.1	-	-
France	PMI Manufacturing	43.9	43.9	-	44.2
	PMI Services	43.7	41.9	-	44.0

Source: Markit Economics

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