

Europe Flash

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Economic Analysis

Europe Unit

Miguel Jiménez González-Anleo
Chief Economist
mjjimenezg@bbva.com

Agustín García Serrador
Senior Economist
agustin.garcia@bbva.com

Diego Torres Torres
Economist
diego.torres.torres@bbva.com

Francisco José Ortega Castaño
Franciscojose.ortega.castano@bbva.com

Positive surprise from July PMIs further points to a recovery in the eurozone

- **Growing confidence at the beginning of 3Q13 was widespread across the region**

PMIs in July surprised on the upside, showing an encouraging outlook at the beginning of 3Q13 and supported by the improvement in both manufacturing and services sector. But more importantly, the increase in confidence is not limited to the core countries, showing a homogenization extending to the periphery countries. All in all, these figures are in line with our scenario that envisages a mild GDP quarterly growth by now in 2Q13 to gain some momentum over the second half of the year. Nonetheless, these projections are not enough to offset the sharp GDP decline observed by end 2012 and in 1Q13, so we continue to expect GDP to contract in 2013 as a whole at a similar pace to that printed in 2012.

- **Eurozone: confidence improves more than expected at the beginning of 3Q13, continuing the positive trend registered in previous months**

The Flash estimate for the PMI composite indicator in the eurozone increased by 1.7 points to 50.4 (Consensus: 49.9; BBVA Research: 49.4), driven by a widespread improvement across sectors. The flash PMI Manufacturing increased by 1.3 to 50.1 (Consensus: 49; BBVA Research: 49.1), driven by improvement in new orders. In particular, the slight increase in exports new orders dispels some doubts about the maintenance of the support of global demand. The Flash Services PMI improved by 1.3 to 49.6 points (Consensus: 48.6; BBVA Research: 49.4), but still reflecting the weakness of domestic demand. Nonetheless, differences on the domestic side remain across countries, as it is gaining momentum in core economies, while the significant adjustments in the periphery continue to take its toll on private sector spending.

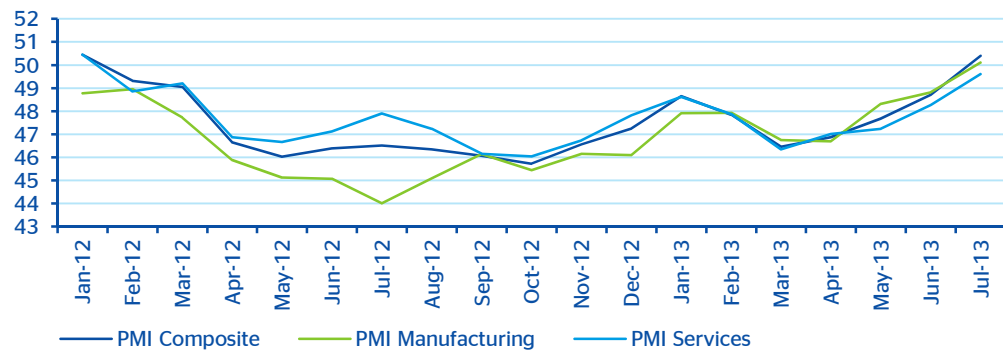
- **Germany: Sentiment is gaining momentum after the fall of the previous quarter, supported by the buoyant domestic demand**

The Flash estimate for Germany's Composite PMI indicator registered a strong rise of 2.4 points to 52.8. The same applies for both the Manufacturing Flash PMI that is increased by 1.7 points to 50.3 (Consensus: 49.1; BBVA Research: 49) and for the Services PMI which climbs up 2.1 points to 52.5 (Consensus: 50.8; BBVA Research: 50.8). These data surprised on the upside. This is the third consecutive month of growth that have allowed crossing slightly the 50 points threshold to the PMI Manufacturing and remaining beyond it both PMI Composite and PMI Services. Overall, these figures suggest that the German economy is likely to grow at a relatively robust pace during the second half of the year, after the economic rebound expected in 2T13 due to fading transitory factors in 1T13.

- **France: Services, Manufacturing and Composite indicators improve in July bordering the 50 points threshold**

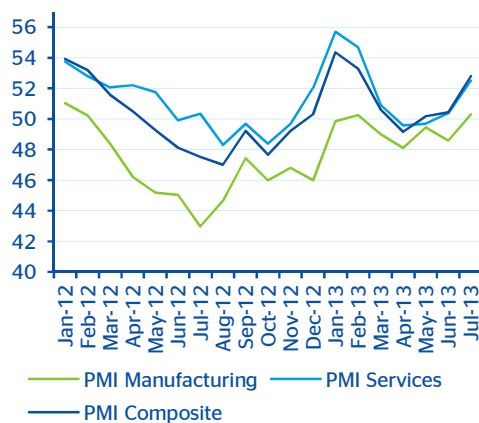
The Flash estimate for the PMI composite indicator of France recorded a rise of 1.4 points to 48.4 in July. The same applies for both manufacturing PMI Flash, which has increased by 1.4 points to 49.8 (Consensus: 48.8; BBVA Research: 49), and Services which is climbing up 1.1 to 48.3 points (Consensus: 47.5; BBVA Research: 47.6). This is the fourth consecutive month of growth that has allowed bordering the 50 points threshold and placing in late 2011 levels. These data show growing confidence of the economic agents and advance an improvement of both sectors industry and services situation, which could indicate the consolidation our forecast of the economic recovery in the second half of the year.

Chart 1
Eurzone PMIs



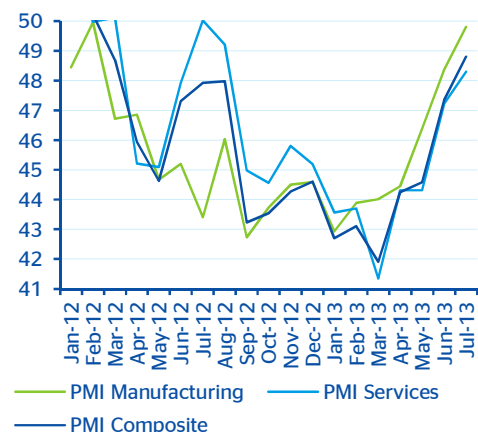
Source: Markit Economics

Chart 3
Germany PMIs



Source: Markit Economics

Chart 4
France PMIs



Source: Markit Economics

Table 1
PMIs in the eurozone, Germany and France

CC	Indicator	June	July	BBVA	Consensus
Eurozone	PMI Composite	48.7	50.4	49.1	49.0
	PMI Manufacturing	48.8	50.1	49.4	48.6
	PMI Services	48.2	49.6	49.4	49.4
Germany	PMI Composite	50.4	52.8	-	-
	PMI Manufacturing	48.6	50.3	49.0	49.1
	PMI Services	50.4	52.5	50.8	50.8
France	PMI Composite	47.4	48.8	-	-
	PMI Manufacturing	48.4	49.8	49.0	48.8
	PMI Services	47.2	48.3	47.6	47.5

Source: Markit Economics

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