

Europe Flash

Eurozone

Madrid, January 23, 2014
Economic Analysis

Europe

Miguel Jiménez González-Anleo

Chief Economist
mjimenezg@bbva.com

Agustín García Serrador

Senior Economist
agustin.garcia@bbva.com

Diego Torres Torres

Economist
diego.torres.torres@bbva.com

Pablo Budde

pablo.budde@bbva.com

Massimo Trento

massimo.trento@bbva.com

The eurozone PMIs surprised to the upside in January

The recovery may be gaining momentum, both for the strength of Germany and the consolidation of growth in the periphery

- **Eurozone: significant improvement both in manufacturing and services**

The preliminary estimate of the composite PMI increased 1.1 points in January to 53.2, above expectations (BBVA Research: 52.4; Consensus: 52.5), the highest level in the last two and half years. This improvement was due to increased confidence in the manufacturing sector (53.9 from 52.7 in December) and a somewhat more moderate increase in the services PMI (51.9 from 51.0). Overall, the manufacturing sector should continue being sustained by the still robust external demand as suggested by the strong increase in orders from abroad (the highest growth rate since early 2011), while the dynamism domestic demand is showing in latest quarters is beginning to reflect on the expectations of recovery in the services sector.

Nevertheless, some signs of the January survey suggest remaining cautious, since there still are evidences of the fragility of the recovery, such as the heterogeneity in the pace of recovery across countries, deteriorating expectations about employment and the downward pressure on prices.

These are the only data available for 1Q14 and, therefore, it is premature to say that the recovery would gain momentum early in the year and would be more optimistic than our vision of a relatively steady growth.

- **Across countries, the strong recovery in Germany should offset the sluggish activity in France, while growth is consolidated in the periphery**

According to the Markit press release, improved confidence was fairly widespread among member states: Germany's composite PMI improved to 53.2, growing both in services and manufacturing, which posts a two-and-a-half-year high (56.3). Furthermore, the subcomponents that anticipate the economic cycle (new orders) suggest that the strength of the recovery should continue in the coming months.

On the other hand, France composite PMI remains below the threshold of 50, falling both in services and manufacturing, but softening the rate of decline compared to previous months. With respect to other member states, the note anticipates that growth could have accelerated in the periphery too.

Table 1
PMI in the eurozone, Germany and France

CC	Indicator	December	January	BBVA	Consensus
	PMI Composite	52.1	53.2	52.4	52.5
Eurozone	PMI Manufacturing	52.7	53.9	53.0	53.0
	PMI Services	51.0	51.9	51.3	51.4
	PMI Composite	55.0	55.9	-	-
Germany	PMI Manufacturing	54.3	56.3	54.5	54.6
	PMI Services	53.5	53.6	53.8	54.0
	PMI Composite	47.3	48.5	-	-
France	PMI Manufacturing	47.0	48.8	47.5	47.5
	PMI Services	47.8	48.6	48.0	48.1

Source: Markit Economics

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.