

# Europe Flash

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Economic Analysis

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## The PMIs surprise to the upside in the Eurozone early in the second quarter

### The rate of expansion in the euro area could strengthen, with Germany leading

- **Eurozone: significant improvement in both sectors**

The preliminary estimate of the composite PMI increased 0.9 points in April to 54.0, above expectations (BBVA Research: 53.5; Consensus: 53.0), the highest level in almost three years. This improvement was due to increased confidence in both the manufacturing sector (53.3 from 53.0 in March) and, mainly, in services (53.1 from 52.2). Overall, the rate of expansion could continue in May, as in April new orders and backlogs of work increased, with manufacturing supported by external demand as suggested by the increase in orders from abroad, while improving business expectations in the services sector are reflected in the return to job creation.

Moreover, Markit's release shows that there is renewed downward pressure on prices, which is in line with an environment of low consumer price inflation that we are observing in other indicators, and with downside risks over prices linked to raw materials and an appreciated euro.

The PMIs are the only data available about the tone of activity for 2Q14 and, therefore, they give a still very premature signal, but in principle they point to acceleration in the second quarter, which is more optimistic than our scenario. Some factors such as job creation and growth in both core and periphery countries justify a relatively optimistic view.

- **Across countries, the strong recovery of the German economy should offset the weak growth in activity in France, while strengthening in the periphery**

According to Markit's press release, the improved sentiment was fairly widespread among member states, although at different paces: the German composite PMI improved to 56.3, growing in both services and manufacturing. Furthermore, subcomponents that advance the economic cycle (new orders, internal and external) point out that the strength of the recovery should continue in coming months.

By contrast, the composite PMI for France (50.5) indicates a rate of growth lower than in March, when it marked the fastest rate of expansion in two and a half years, with a slowdown in both services and manufacturing sector.

With respect to other countries, the release anticipates that recovery in the periphery could be gaining momentum.

Table 1  
Eurozone, Germany and France PMIs

CC	Indicator	March	April	BBVA	Consensus
Eurozone	Composite PMI	53.1	54.0	53.5	53.0
	Manufacturing PMI	53.0	53.3	53.2	53.0
	Services PMI	52.2	53.1	52.4	52.5
Germany	Composite PMI	54.3	56.3	-	-
	Manufacturing PMI	53.7	54.2	53.8	53.8
	Services PMI	53.0	55.0	53.2	53.3
France	Composite PMI	51.8	50.5	-	-
	Manufacturing PMI	52.1	50.9	53.3	51.9
	Services PMI	51.5	50.3	52.0	51.3

Source: Markit Economics

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