

Europe Flash

April's PMI worse than expected, raising doubts about foreign demand support

Bottom line: Flash PMI figures for Eurozone came in worse than expected, as reflected in a deeper fall in contraction of all indices, affected by the upsurge of financial strains. By country, the German PMI index remained in expansion although its manufacturing component fell sharply, while the French index fell deeper in contraction pulled down by services. Although very preliminary, these figures suggest that GDP growth in Q2 could turn out to be negative again after flat growth expected for Q1.

- **Eurozone PMI falls deeper into contractionary territory in April**

After some positive surprises over Q1, especially in January, preliminary PMI figures for April came in worse than expected, with all indices falling further into contraction territory. In particular, the overall Composite index shrunk to 47.4p, after a still negative but better 49.1 in March. By sector, the Services index dipped to 47.9p (49.2p in March), while the Manufacturing index reached as low as 46.0p (47.7 in March). Falling output and new orders were recorded in both sectors. The divergence in Eurozone continues, with Germany and France outperforming the periphery, where the contraction in both sectors is much more pronounced than in the core. Looking ahead, growth prospects seem to remain gloomy in both services and manufacturing, according to private sector managers' assessment.

- **PMI in Germany still in expansion, but rate of growth keeps slowing...**

Private sector activity continued improving, though only marginally, driven by the service sector, while manufacturing kept falling further below the 50 threshold. The Composite index fell to 50.9 in April, losing 0.7p compared to the previous month, a result of divergent trends in the underlying sectors. Although services managed to remain above the 50 mark, with the index edging higher to 52.6p (52.1p in March), manufacturing PMI dropped to 46.3 (from 48.4 in March). Apart from output, new orders in manufacturing kept falling, while they stabilized in services.

- **...while in France the private sector continued deteriorating, with flash PMI at 46.8**

The main force behind the further fall of the composite PMI index was the services sector, which dropped to 46.1 in April, losing 4p in just a month, resulting in composite index of 46.8 after 48.7 the previous month. The sub-index for manufacturing also remained in contraction, but improved to 47.3p (46.7 in March). New business received in both sectors decreased, especially in the service sector. For the future, managers revised downwards their growth expectations, citing the uncertain economic outlook and strong concerns over tight client budgets.

Chart 1

Eurozone: PMI and GDP growth (% q/q)

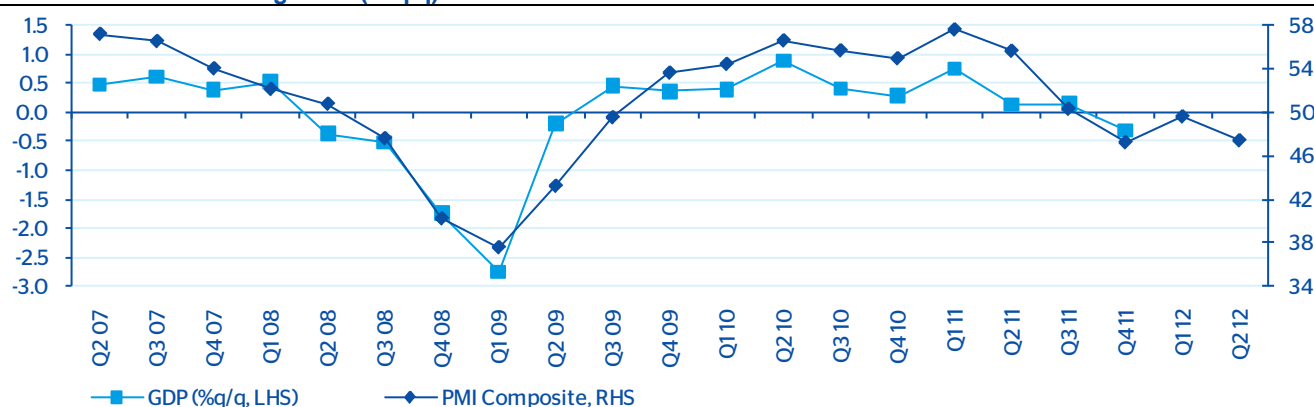


Table 1

Countries: Markit PMI Index

	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	Curr. Var.	Mean	St. Dev.	Max	Min
Eurozone										
Composite	48.3	50.4	49.3	49.1	47.4	-1.6	53.3	4.8	62.5	36.2
Manufacturing	46.9	48.8	49.0	47.7	46.0	-1.7	51.9	5.1	60.5	33.5
Service	48.8	50.4	48.8	49.2	47.9	-1.3	53.6	4.4	62.4	39.2
Germany										
Manufacturing	48.4	51.0	50.2	48.4	46.3	-2.1	51.3	5.7	57.9	34.8
Service	52.4	53.7	52.8	52.1	52.6	0.5	48.0	8.3	58.5	27.8
France										
Manufacturing	48.9	48.5	50.0	46.7	47.3	0.6	51.1	6.5	59.0	33.5
Service	50.3	52.3	50.0	50.1	46.4	-3.7	54.9	5.9	62.9	40.2
Italy										
Manufacturing	44.3	46.8	47.8	47.9			52.7	7.6	62.7	32.0
Service	44.5	44.8	44.1	44.3			50.4	5.5	61.8	37.9
UK										
Manufacturing	49.7	52.0	51.5	52.1			51.3	5.9	61.5	34.5
Service	54.0	56.0	53.8	55.3			53.9	4.4	60.6	40.1
Construction	53.2	51.4	54.3	56.7			48.0	8.3	58.5	27.8

Source: Markit Economics through Bloomberg & BBVA Research, Flash values in italics

Table 2

Eurozone: Markit PMI Index

	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	Curr. Var.	Mean	St. Dev.	Max	Min
Composite										
Output	48.3	50.4	49.3	49.1	47.4	-1.6	53.3	4.8	62.5	36.2
New Orders	46.0	48.0	48.5	47.6	45.4	-2.2	52.3	5.2	61.8	33.1
Employment	50.4	49.4	49.1	49.2	48.3	-0.9	50.7	3.6	57.8	40.2
Input Prices	54.3	55.2	56.7	57.5	56.2	-1.3	57.3	6.6	70.9	40.5
Backlogs of Work	46.4	47.4	47.9	47.2	45.8	-1.4	50.4	3.8	55.8	39.5
Manufacturing Sector										
PMI Index	46.9	48.8	49.0	47.7	46.0	-1.7	51.9	5.1	60.5	33.5
Output	47.1	50.4	50.3	48.7	46.4	-2.3	53.4	5.9	62.8	30.8
New Orders	43.5	46.5	47.3	45.4	43.7	-1.7	52.5	6.5	62.4	26.4
Employment	49.9	50.1	49.0	48.7	47.6	-1.1	49.6	4.2	55.9	34.1
Suppliers' Delivery Times	49.4	48.7	48.2	49.9	52.0	2.1	45.9	5.7	61.4	34.7
Stocks of Purchases	45.3	45.2	46.3	46.5	45.5	-1.0	47.8	3.2	53.1	35.5
Input Prices	49.3	52.8	58.5	59.5	56.2	-3.2	58.0	11.5	85.3	27.6
Output Prices	50.8	50.7	51.0	51.2	50.5	-0.7	51.5	4.8	61.5	38.3
Backlogs of Work	44.0	45.7	46.2	45.3	45.8	0.5	50.3	6.1	57.6	29.2
Quantity of Purchases	43.8	46.8	47.3	45.4	43.1	-2.4	51.4	6.6	62.1	26.2
Stocks of Finished Goods	47.3	47.3	48.7	49.1	48.7	-0.4	48.2	1.9	51.3	40.6
New Export Orders*	45.4	47.7	48.5	48.4	46.3	-2.1	52.0	5.8	60.0	29.6
Service Sector										
Business Activity	48.8	50.4	48.8	49.2	47.9	-1.3	53.6	4.4	62.4	39.2
Employment	50.6	49.1	49.2	49.4	48.5	-0.8	51.5	3.5	59.2	42.4
Prices Charged	49.3	48.7	48.8	49.7	49.1	-0.5	50.0	3.5	57.0	40.2
Incoming New Business	47.1	48.7	49.0	48.6	46.2	-2.4	52.7	4.7	61.4	35.8
Input Prices	56.6	56.3	55.9	56.6	56.2	-0.4	56.9	4.1	67.7	46.5
Outstanding Business	47.4	48.2	48.7	48.0	45.7	-2.3	49.6	3.6	55.5	38.5
Business Expectations	53.6	56.4	59.2	60.6	57.7	-2.9	64.1	6.4	76.4	41.6

Source: Markit Economics, * Please note that the Eurozone New Export Orders Index is a weighted average of export orders data collected from individual national PMI surveys and, as such, includes intra Eurozone trade

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