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Europe Flash

Madrid, April 23rd, 2013
Economic Analysis

Europe Unit

April PMIs suggest a bumpy exit of the recession

- **Faltering confidence at the beginning of 2Q13**

  PMIs in April were somewhat disappointing, showing a gloomy outlook at the beginning of 2Q13, as the recession in the periphery is also putting a brake in core economies. Still high uncertainty and lower demand expectations from the former is tying down private sector's decisions in investment and consumption in the latter. These figures (still very limited) point to a flat or a slight contraction in activity in the first half of the year in the eurozone as a whole, putting a downward bias to our assessment of a mild recovery in spring. Nonetheless, April PMIs in the eurozone also mean an interruption in deteriorating confidence since the beginning of the year, despite negative events in both Italy and Cyprus could end weighing markedly on respondents, and thus pointing to some stabilisation in the real economy. Positive news come from France, offsetting partly the negative surprise in Germany, as confidence in services increases markedly and suggests that domestic spending could have been more resilient than what previous figures showed.

- **Eurozone: confidence remained subdued at the beginning of 2Q13, but broadly stable, after having deteriorated in previous months**

  Manufacturing Flash PMI leaps back slightly below the expected, standing at 46.5 after 46.8 in March (BBVA: 46.8, Consensus: 46.7); while services indicator resulted basically in line with the expected, slightly above the March reading (46.6 after 46.4, that is, 0.2 and 0.1 points above BBVA and Consensus forecasts, respectively). These outcomes compensate each other so the Composite PMI remains at the same level as in March (46.5), in line with Consensus forecast and a little below ours (46.9).

  New orders decline for the third month in a row, falling at its fastest rate in 2013, while jobs shed for sixteenth consecutive month, both in manufacturing and services sectors.

  By countries, divergent trends became clear between Germany and France in April. While the latter's private sector contraction eases, the former records the steepest rates of decline in activity for six months. Across the other countries, output drop eases at the slowest rate for three months, though the slump in new business remains sharp.

- **Confidence in German economy continues losing momentum after the rebound of the previous months, in contrast with resilient domestic fundamentals**

  The private sector output declines 1.8 points in April down to 48.8, below the crucial 50-points threshold for the first time since November 2012. Both manufacturing and services sectors register a more than expected fall during April. Flash Manufacturing PMIs is 1.1 points lower in April down to 47.9 (BBVA: 49, Consensus: 49), while the service sector index stands 1.7 points lower in April down to 49.2 (BBVA: 51, Consensus: 51).

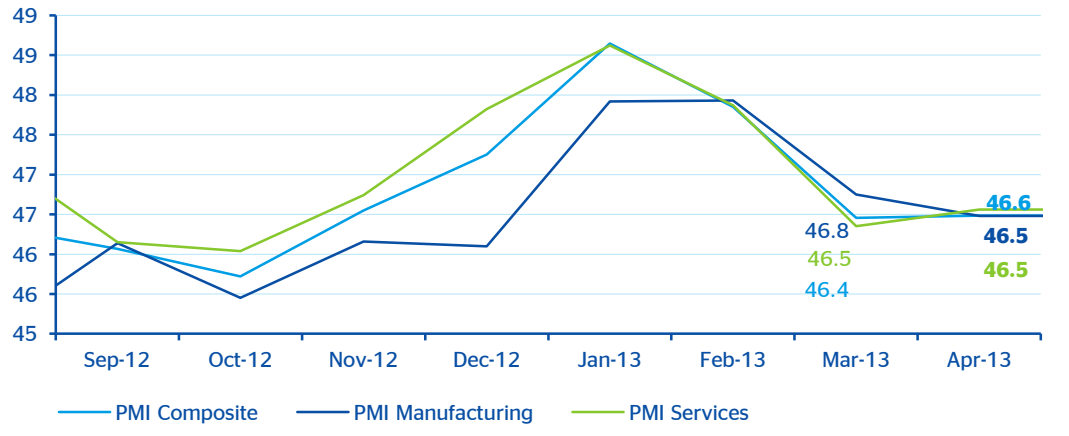
  Positive news comes from the labour market, as employment is showing resilience in April. Staffing levels increased slightly in the service economy, while manufacturers recorded only a marginal decline in workforce numbers. This combined with lower inflation should result in relatively robust households' spending, and this is partly reflected in the survey, as the outlook over the year ahead for business activity in services remains optimistic. Regarding manufacturing sector, still high uncertainty and poor demand from the periphery seem to weigh clearly on confidence, although the destocking efforts could be also behind the manufacturing output decline.

- **Services sector brings somewhat good news from France, though its PMIs remain at very low levels**

  Economic activity downturn eases in April, reaching its highest reading of the last four months, especially to the smoothing in services decline. Thus, Flash PMIs Services climbs almost 3 points to 44.1, surprising upwards (BBVA: 41.8, Consensus: 44.1). As for manufacturing sector, the corresponding PMI records a 44.4 level (standing 0.3 points over Consensus and in line with our expectations, 44.5). As a result, private sector as a whole fell at a slower pace in April, Flash composite output index jumping from 41.9 in March to 44.2 this month.

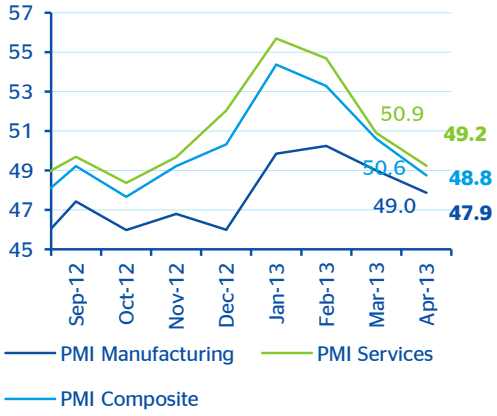
  Contrasting with PMIs, the French business climate indicator, published today by INSEE, deteriorates further than expected in April. Both industry and services drop slightly, making the synthetic indicator (which includes trade and construction) fall by two points to 84, remaining below its long term average (100).

Chart 1
Eurozone PMIs



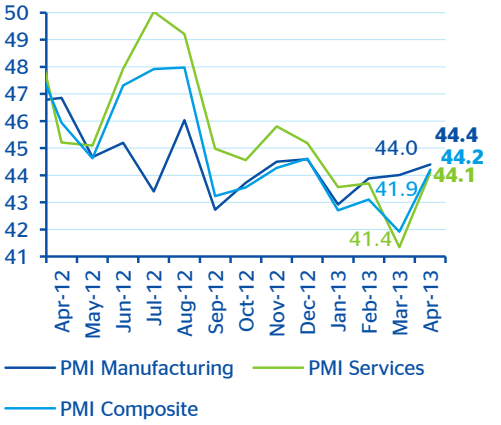
Source: Markit Economics

Chart 2
Germany PMIs



Source: Markit Economics

Chart 3
France PMIs



Source: Markit Economics

Table 1
Purchasing Manager's Index

CC	Indicator	March	April	BBVA	Consensus
	PMI Composite	**46.5**	**46.5**	**46.9**	**46.5**
Eurozone	PMI Manufacturing	46.8	46.5	46.8	46.7
	PMI Services	46.4	46.6	46.4	46.5
	PMI Composite	**50.6**	**48.8**	**-**	**-**
Germany	PMI Manufacturing	49	47.9	49	49.0
	PMI Services	50.9	49.2	51	51.0
	PMI Composite	**41.9**	**44.2**	**-**	**-**
France	PMI Manufacturing	44	44.4	44.5	44.1
	PMI Services	41.3	44.1	41.8	42.0

Source: Markit Economics

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