

Europe Flash

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Economic Analysis

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PMIs stable in May, except for the deterioration in France

More signs of a general recovery in the region, although it may suffer from the worsening external environment and a strong euro

- **Eurozone: the pace of growth, stable in May, supported by the incipient improvement of domestic factors**

The preliminary estimate of the composite PMI fell slightly in May 0.1 points to 53.9, in line with expectations (BBVA Research: 54.0; Consensus: 53.9), marking the highest quarterly level in three years so far in 2Q14. The stabilisation of the index is the result of the divergent behaviour in the services sector, which improved to 53.5 (from 53.1 in April) and the manufacturing sector, which grew at a lower rate (52.5, down from 53.4 in April). Analysing the sub-indexes, the pace of expansion could continue in June, as in May new orders and business expectations in the services sector increased, and companies are still hiring (the highest rate in two and a half years) in order to satisfy increased demand.

However, the May survey also throws up some uncertainties, such as the potential impact of the worsening of the external sector and the appreciation of the euro on foreign sales in the industrial sector, as well as signs of stagnation in the French economy and the downward pressures on prices. The publication of the first official data for 1Q14 and the robust growth of PMIs so far this quarter point to a slight acceleration in the pace of growth for 2Q14, in line with our MICA-BBVA model (0.3% QoQ), but higher than in our scenario (0.2% QoQ).

- **Across countries, the German economy's recovery strengthens and optimism in the periphery increases, while France continues to show signs of weakness**

According to Markit's press release, improved confidence was not widespread among member states: Germany's composite PMI has remained stable at 56.1, growing strongly in the services sector while in manufacturing there has been a moderation in the pace of expansion. In addition, the subcomponents that lead the economic cycle (new orders, domestic and foreign) suggest that the strength of the recovery could continue in the coming months.

To the contrary, the composite PMI for France has slipped below the threshold of 50 (49.3) again, falling both in services and manufacturing, and with a negative outlook, as labour shedding continues and new orders have decreased over previous months. No new data have been published on other countries, but the communiqué flags up that the periphery may be growing at a high rate.

Table 1

Eurozone, Germany and France PMIs

CC	Indicator	April	May	BBVA	Consensus
Eurozone	Composite PMI	54.0	53.9	54.0	53.9
	Manufacturing PMI	53.4	52.5	53.0	53.2
	Services PMI	53.1	53.5	53.3	53.0
Germany	Composite PMI	56.1	56.1	-	56.0
	Manufacturing PMI	54.1	52.9	54.2	54.0
	Services PMI	54.7	56.4	54.5	54.5
France	Composite PMI	50.6	49.3	-	50.5
	Manufacturing PMI	51.2	49.3	52.0	51.0
	Services PMI	50.4	49.2	50.5	50.4

Source: Markit Economics

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