

Europe Flash

Eurozone: Flash PMI rises, but remains in contraction

Bottom line: Flash PMI results for December showed a rise on the previous month, but the index is still below the no change level, suggesting contraction for Q4, which is indicated as the worst quarter in 2.5 years. Activity and new business in Eurozone's private sector were less negative, as all indices edged higher. The index for the service sector rose significantly in France and Germany, reaching expansion ground, while it kept weakening in the rest of the countries surveyed. A worrying sign is that the manufacturing index in Germany remained in contraction throughout Q4.

- **In Eurozone, flash PMI figures point to milder contraction in Q4**

The flash composite index improved slightly to 47.9 (BBVA: 46.8) compared with 47.0 in November, but still remains below the no change level. The same is true for the PMI in services and manufacturing, to 48.3 and 46.9, respectively. Activity was less negative in both sectors, as the sub-indices for new business and new export orders increased, though still remained in contraction territory. Prices charged by companies fell marginally in services and increased in manufacturing and the input cost inflation remained moderate.

Both Germany and France saw their manufacturing indices improving, though still remaining in contraction territory. In other countries, activity weakened steeply, mainly due to a decline in the services sector. Growth expectations among service providers remained particularly weak, as the improved confidence in France was counterbalanced by deteriorating expectations elsewhere and a neutral outlook in Germany.

- **In Germany, service sector developments lead to an expansionary flash PMI Composite,**

with the overall index now reaching 51.3, up from a contractive 49.4 the previous month. Activity in the private sector improved and manufacturing output index rose marginally (PMI manufacturing at 48.1 from 47.9 in November, Consensus: 47.4). Moreover, the services index expanded significantly, to stand at 52.7, edging 2.4p higher. Intakes of new work kept falling for a fifth month, but underscored deviating trends across sectors, with service providers indicating unchanged new business, while manufacturers reported a steep drop in new orders, in part reflecting deterioration in new export order volumes. Prices charged in both industries kept rising, but input costs increased only in services, whereas they kept moderating for manufacturers.

- **Private sector in France almost reaching expansion in December, with PMI at 49.8**

Activity and new orders in manufacturing sector improved, while services rebounded significantly. As a result, the manufacturing index rose to 48.7, while for services it returned to expansion, reaching 50.2. Input price inflation was marginally lower on the month, but remained intact. Prices charged by private sector firms rose somewhat, with modest increases in both industries.

Table 1

Countries: Markit PMI Index

	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Curr. Var.	Mean	St. Dev.	Max	Min
Eurozone										
Composite	50.7	49.1	46.5	47.0	47.9	1.0	53.4	4.8	62.5	36.2
Manufacturing	49.0	48.5	47.1	46.4	46.9	0.5	51.9	5.1	60.5	33.5
Service	51.5	48.8	46.4	47.5	48.3	0.8	53.7	4.4	62.4	39.2
Germany										
Manufacturing	50.9	50.3	49.1	47.9	48.1	0.2	51.4	5.8	57.9	34.8
Service	51.1	49.7	50.6	50.3	52.7	2.4	47.4	8.5	58.5	27.8
France										
Manufacturing	49.1	48.2	48.5	47.3	48.7	1.4	51.3	6.6	59.0	33.5
Service	56.8	51.5	44.6	49.6	50.2	0.6	55.2	5.9	62.9	40.2
Italy										
Manufacturing	47.0	48.3	43.3	44.0			52.9	7.8	62.7	32.0
Service	48.4	45.8	43.9	45.8			50.7	5.4	61.8	37.9
UK										
Manufacturing	49.4	50.8	47.8	47.6			51.3	6.0	61.5	34.5
Service	51.1	52.9	51.3	52.1			53.9	4.5	60.6	40.1
Construction	52.6	50.1	53.9	52.3			47.4	8.5	58.5	27.8

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

Table 2

Eurozone: Markit PMI Index

	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Curr. Var.	Mean	St. Dev.	Max	Min
Composite										
Output	50.7	49.1	46.5	47.0	47.9	1.0	53.4	4.8	62.5	36.2
New Orders	49.8	46.5	44.7	45.5	45.8	0.3	52.4	5.3	61.8	33.1
Employment	51.9	51.0	50.1	50.1	50.9	0.8	50.7	3.6	57.8	40.2
Input Prices	54.9	54.4	53.0	53.4	54.0	0.6	57.3	6.6	70.9	40.5
Backlogs of Work	49.0	47.2	45.5	45.5	46.5	1.1	50.4	3.9	55.8	39.5
Manufacturing Sector										
PMI Index	49.0	48.5	47.1	46.4	46.9	0.5	51.9	5.1	60.5	33.5
Output	48.9	49.6	46.6	45.7	47.1	1.5	53.4	5.9	62.8	30.8
New Orders	46.0	45.2	43.4	42.4	43.3	0.9	52.5	6.5	62.4	26.4
Employment	52.0	51.0	50.5	49.9	49.9	0.0	49.6	4.2	55.9	34.1
Suppliers' Delivery Times	48.5	49.8	49.6	49.9	49.5	-0.4	45.9	5.7	61.4	34.7
Stocks of Purchases	48.3	48.3	47.6	47.4	45.9	-1.5	47.8	3.2	53.1	35.5
Input Prices	54.6	51.8	48.8	48.9	48.9	0.0	58.0	11.5	85.3	27.6
Output Prices	52.1	51.3	50.0	50.6	51.1	0.5	51.5	4.8	61.5	38.3
Backlogs of Work	47.0	46.1	44.0	44.0	43.4	-0.6	50.3	6.1	57.6	29.2
Quantity of Purchases	45.4	44.3	43.3	41.2	43.4	2.1	51.4	6.6	62.1	26.2
Stocks of Finished Goods	50.3	49.7	50.0	49.3	47.9	-1.5	48.2	1.9	51.3	40.6
New Export Orders*	47.4	46.4	44.2	43.5	44.6	1.1	52.0	5.8	60.0	29.6
Service Sector										
Business Activity	51.5	48.8	46.4	47.5	48.3	0.8	53.7	4.4	62.4	39.2
Employment	51.8	51.0	50.0	50.2	51.4	1.2	51.5	3.6	59.2	42.4
Prices Charged	50.7	48.7	48.8	50.0	49.3	-0.7	50.1	3.5	57.0	40.2
Incoming New Business	51.4	47.1	45.3	46.9	47.0	0.1	52.8	4.7	61.4	35.8
Input Prices	55.0	55.6	54.9	55.4	56.3	0.9	56.9	4.1	67.7	46.5
Outstanding Business	49.9	47.7	46.3	46.1	47.9	1.8	49.6	3.6	55.5	38.5
Business Expectations	57.6	54.6	52.7	53.5	53.5	-0.1	64.2	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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