

Europe Flash

Eurozone: PMI registers 3-month high, but remains in contraction

Bottom line: In December, PMI figures were at least as good as the flash estimates indicated, were also improved on the previous month, but the overall index remains below the no change level and continues suggesting contraction in the course of Q4. Activity and new business in Eurozone's private sector were less negative, as all indices edged higher. By country, the index for the service sector bounced back significantly in France and Germany, reaching expansion ground, while it deteriorated in Italy. The manufacturing index for Germany rose, but remained in contraction throughout Q4.

- **In Eurozone, PMI composite increased, but still signals a contractive Q4**

The composite index improved significantly to 48.3 (BBVA: 47.9) compared with 47.0 in November, but still remains below 50. This is reflected in the PMI indices for services and manufacturing, which reached 48.8 and 46.9. Nonetheless, the quarterly performance of the private sector in Q4 2011 was the worst since Q2 2009. Output and new orders improved in both sectors, with output outperforming new orders, though remaining in contraction. Average output prices charged by companies fell marginally, in spite of a further increase in input costs. In all countries surveyed, production fell in manufacturing, while Germany and France saw increased activity in the services sector and France was the only country to experience an improvement in outstanding business.

- **In Germany, the service sector rebounded significantly in December, leading to expansionary PMI Composite**

The overall index is now reaching 51.3, up from 49.4 in November. Activity in the private sector improved, driven by developments in services with the relevant index expanding jumping to 52.4, to gain 2.1p, but remaining slightly below the flash estimate. The index in Manufacturing rose marginally (PMI manufacturing at 48.4 from 47.9 in November). Intakes of new work kept falling, due to a steep drop of new orders in manufacturing, whereas service providers registered increased new business.

- **Private sector in France towards expansion, with PMI Composite reaching 50.0 in December**

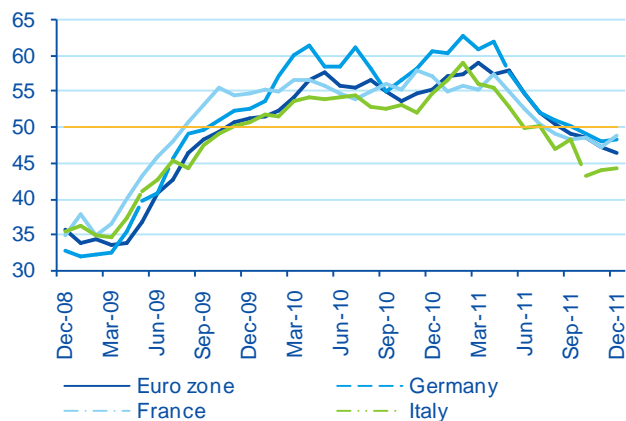
Activity and new orders improved across sectors, especially in services. As a result, the manufacturing index climbed to 48.9, still below the no change level, while for services it returned to expansion, reaching 50.3. The result was a composite index of just 50.0, after 48.8 in November. Input costs remained elevated in the services sector, while prices went down for manufacturers.

- **In Italy, the service sector fell deeper in contraction**

Activity and new business in the sector deteriorated, as reflected in the services index, which kept falling for the seventh consecutive month, to 44.5 from 45.8 in November. At the same time, services firms continued lowering their prices, despite rising input costs. In manufacturing, the index improved only slightly to 44.3 from 44.0 in November.

Chart 1

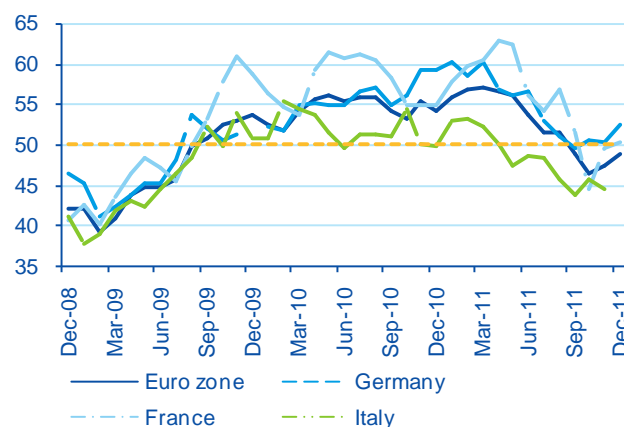
Countries: Markit PMI Manufacturing Index



Source: Markit Economics through Bloomberg & BBVA Research

Chart 2

Countries: Markit PMI Services Index



Source: Markit Economics through Bloomberg & BBVA Research

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	48.3	1.3	53.4	4.8	62.5	36.2
New Orders	49.8	46.5	44.7	45.5	46.0	0.5	52.4	5.2	61.8	33.1
Employment	51.9	51.0	50.1	50.1	50.4	0.3	50.7	3.6	57.8	40.2
Input Prices	54.9	54.4	53.0	53.4	54.3	1.0	57.3	6.6	70.9	40.5
Backlogs of Work	49.0	47.2	45.5	45.5	46.4	0.9	50.4	3.9	55.8	39.5
Manufacturing Sector										
PMI Index	49.0	48.5	47.1	46.4	46.9	0.6	51.9	5.1	60.5	33.5
Output	48.9	49.6	46.6	45.7	47.1	1.4	53.4	5.9	62.8	30.8
New Orders	46.0	45.2	43.4	42.4	43.5	1.1	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	49.4	-0.5	45.9	5.7	61.4	34.7
Stocks of Purchases	48.3	48.3	47.6	47.4	45.3	-2.0	47.8	3.2	53.1	35.5
Input Prices	54.6	51.8	48.8	48.9	49.3	0.4	58.0	11.5	85.3	27.6
Output Prices	52.1	51.3	50.0	50.6	50.8	0.2	51.5	4.8	61.5	38.3
Backlogs of Work	47.0	46.1	44.0	44.0	44.0	0.0	50.3	6.1	57.6	29.2
Quantity of Purchases	45.4	44.3	43.3	41.2	43.8	2.6	51.4	6.6	62.1	26.2
Stocks of Finished Goods	50.3	49.7	50.0	49.3	47.3	-2.0	48.2	1.9	51.3	40.6
New Export Orders*	47.4	46.4	44.2	43.5	45.4	1.9	52.0	5.8	60.0	29.6
Service Sector										
Business Activity	51.5	48.8	46.4	47.5	48.8	1.3	53.7	4.4	62.4	39.2
Employment	51.8	51.0	50.0	50.2	50.6	0.4	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	47.1	0.3	52.8	4.7	61.4	35.8
Input Prices	55.0	55.6	54.9	55.4	56.6	1.2	56.9	4.1	67.7	46.5
Outstanding Business	49.9	47.7	46.3	46.1	47.4	1.3	49.6	3.6	55.5	38.5
Business Expectations	57.6	54.6	52.7	53.5	53.6	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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