

ECONOMIC ANALYSIS

The PMIs fall more than expected in June, but are still consistent with slightly higher growth in 2Q14

Europe Unit

By country, the consolidation of the recovery in the periphery is overshadowed by doubts about France, while Germany should grow at a robust, but more moderate, pace

Eurozone: despite the declines recorded in both May and June, the quarterly average points to further growth in 2Q14 (0.4% QoQ)

The preliminary estimate of the composite PMI in June decreased 0.7 points to 52.8, below expectations (BBVA Research: 53.6; consensus: 53.4), the second consecutive monthly decline, although still marking the highest quarterly level in the last three years. The behaviour of the index in June is the result of the deceleration of the service sector, which drops to 52.8 (from 53.2 in May) and the manufacturing sector, which falls to 51.9 points from 52.2 in May. However, the sharp rise in both business expectations and new orders received in the service sector indicate that the growth rate could increase in July, and recruitment is progressing, albeit at a slower pace.

Moreover, Markit's commentary shows risks caused by divergent behaviour among member countries, with French activity remaining very weak, although the recovery is gaining momentum on the periphery. However, the growth rate in 2Q14 could be in line with our MICA-BBVA model (0.3% QoQ).

By countries, signs of the consolidation of the recovery persist on the periphery, while growth prospects in France are again reduced

The German composite PMI has slowed 1.4 points to 54.2, especially in the services sector, while manufacturing has remained virtually stable. In addition, the sub-components that advance the economic cycle (new orders, internal and external) continue to increase and predict a strong recovery in the coming months. Therefore, these data are in line with our vision that the German economy will continue growing at a robust pace, but more moderate than the one recorded in 1Q14.

On the contrary, the French composite PMI has again fallen for the second month below the threshold of 50 (49.3 in May to 48.0), worsening in both services and manufacturing, and with a negative outlook, as labour shedding continues and new orders declined over previous months.

With respect to other countries, even without giving details, the note flags up that the periphery may be growing at the highest rate since mid-2007.

Figure 1

Eurozone, Germany and France's PMIs

CC	Indicator	May	June	BBVA	Consensus
Eurozone	Composite PMI	53.5	52.8	53.6	53.4
	Manufacturing PMI	52.2	51.9	53.6	52.2
	Services PMI	53.2	52.8	53.6	53.3
Germany	Composite PMI	55.6	54.2	-	55.5
	Manufacturing PMI	52.3	52.4	53.1	52.5
	Services PMI	56.0	54.8	56.0	55.8
France	Composite PMI	49.3	48.0	-	49.3
	Manufacturing PMI	49.6	47.8	52.0	49.5
	Services PMI	49.1	48.2	51.0	49.4

Source: Markit Economics

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