

Eurozone | PMIs suggest that the economy is suffering more than expected

Agustín García / Miguel Jiménez / Massimo Trento

Eurozone: confidence lowers, especially in the manufacturing sector

Composite PMI in the euro zone fell 0.9 points to 52.7 in February, the lowest level in a year, according to Markit's flash estimate, below expectations (BBVA Research and consensus: 53.3). The average so far in the first quarter shows a reduction of 1 point compared to the 4Q15 average. Index performance in February was due to the fall of the manufacturing index to 51 points (from 52.3 in January), with a decrease in production and orders which meant that job creation slowed, and the service sector dropping 0.6 to 53. Analysing the sub-indices, doubts concerning an improvement in activity in the coming months increased as new orders received, especially external ones, and the backlogs of work, as well as job creation and business expectations have shrunk considerably in February.

Although the information for 1Q16 is limited to confidence data, The fall in PMIs so far this quarter suggests that growth will remain weak and may even be slowing somewhat, putting a downward bias on our forecast which includes quarterly GDP growth of about 0.4% QoQ in 1Q16 [1]. The sharp increase in both global and idiosyncratic uncertainty could slow recovery in the first half of this year, especially if tensions in financial markets and political tensions are prolonged in some European countries.

The recovery continues in Germany supported by services, but doubts in France increase, while the rate of expansion is slowing in the periphery

The German composite PMI has dropped in February (from 54.5 to 53.8 points), mainly due to a significantly lower expansion in the manufacturing sector (down more than two points) due to weak growth in new orders, mainly external. This is reflected in the first reduction in employment in the manufacturing sector in a year and a half. However, services continue to record strong growth in both production and new orders.

In February, the composite PMI for France fell 0.4 points, returning to contraction territory (49.8). This deterioration is the result of the slight increase in the manufacturing index (+0.3 points to 50.3), and a reduction in the services sector (-0.5 points to 49.8), mainly due to falling backlogs of work and new orders. Looking ahead however, employment has increased slightly while business expectations have recovered.

As for the countries on the periphery, the press release stressed that the momentum is moderating, with confidence increasing at the lowest rate in twelve months.

[1] For further information, see [Europe Economic Outlook 1Q16](#).

Figure 1

Eurozone, Germany and France's PMIs

CC	Indicator	January	February	BBVA	Consensus
Eurozone	Composite PMI	53,6	52,7	53,3	53,3
	Manufacturing PMI	52,3	51,0	52,2	52,0
	Services PMI	53,6	53,0	53,3	53,4
Germany	Composite PMI	54,5	53,8	-	54,1
	Manufacturing PMI	52,3	50,2	52,1	51,9
	Services PMI	55,0	55,1	54,5	54,7
France	Composite PMI	50,2	49,8	-	50,3
	Manufacturing PMI	50,0	50,3	49,8	49,9
	Services PMI	50,3	49,8	50,6	50,3

Source: BBVA Research

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