

## Eurozone | PMIs suggest a moderation in growth in 2Q16

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**The slight worsening of composite PMI in May reflects a fall in confidence in the industrial sector, which continues to suffer due to the weakness of global demand and the uncertainty in Europe, while services expectations remain stable. Overall, today's data point to the expected moderation of GDP growth in 2Q16 to rates of around 0.3% QoQ.**

### Eurozone: confidence falls marginally due to worsening expectations in the industrial sector

Composite PMI in the Eurozone fell very slightly in May (52.9 points after 53.0), somewhat below expectations (Consensus: 53.2), so the rate of decline has moderated since April. The average so far in the second quarter shows a reduction of about 0.2 points compared to the 1Q16 average. This performance was mainly due to the slight dip in the manufacturing index (from 51.7 to 51.5 points), which records lower production growth, and less new orders (both internal and external) and work backlogs. With regard to the services sector, the index remains invariable (53.1 points), due to the contraction of work backlogs and the fall in new order growth and business expectations being offset by the increase in unemployment and lower reduction in prices.

Although the information for 2Q16 is limited to confidence data, the fall in PMIs so far this quarter suggests that growth may be slowing somewhat in 2Q16 to rates of around 0.3% QoQ, in line with our scenario and as expected after the slightly higher-than-expected growth in 1Q16 (0.5% QoQ) due to temporary factors.

### The recovery continues in Germany and France supported by services, while the rate of expansion is slowing in the periphery

The German composite PMI has increased in May (from 53.6 to 54.7 points), due to the expansion of both services (55.2 after 54.5) and manufacturing sectors (from 51.8 to 52.4). This increase, however, appears to have been more due to work backlogs than new orders, the growth of which has been weaker and mainly external. So we must be cautious in assessing this, although signs of improvement in employment in both sectors suggest that domestic demand will remain the main driver of the recovery moving forward, and will partly offset the lower contribution from net exports.

In May, the composite PMI for France increased by nine-tenths to 51.5 thanks to the greater increase in confidence in the services sector (from 50.6 to 51.8), despite the contraction in manufacturing sector (-0.2 points to 48.1). These data suggest that the resilience of domestic demand continues, while the developed components of industry index (especially orders) remain clearly below 50 points and no clear improvements are expected in the coming months. Overall, today's data tend to confirm that the strong growth observed in 1Q16 was due mainly to transitory factors and is difficult to sustain in this quarter.

As for the countries on the periphery, the press release stressed that the pace of expansion is slowing.

Table 1  
PMI in the Eurozone, Germany and France

CC	Indicator	April	May	Consensus
Eurozone	Composite PMI	53,0	52,9	53,2
	Manufacturing PMI	51,7	51,5	51,9
	Services PMI	53,1	53,1	53,2
Germany	Composite PMI	53,6	54,7	53,9
	Manufacturing PMI	51,8	52,4	52,0
	Services PMI	54,5	55,2	54,6
France	Composite PMI	50,2	51,1	50,4
	Manufacturing PMI	48,0	48,3	49,0
	Services PMI	50,6	51,8	50,6

Source: Markit Economics

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