

# Europe Flash

Madrid, April 23<sup>rd</sup>, 2013  
Economic Analysis

Europe Unit

## April PMIs suggest a bumpy exit of the recession

- **Faltering confidence at the beginning of 2Q13**

PMIs in April were somewhat disappointing, showing a gloomy outlook at the beginning of 2Q13, as the recession in the periphery is also putting a brake in core economies. Still high uncertainty and lower demand expectations from the former is tying down private sector's decisions in investment and consumption in the latter. These figures (still very limited) point to a flat or a slight contraction in activity in the first half of the year in the eurozone as a whole, putting a downward bias to our assessment of a mild recovery in spring. Nonetheless, April PMIs in the eurozone also mean an interruption in deteriorating confidence since the beginning of the year, despite negative events in both Italy and Cyprus could end weighing markedly on respondents, and thus pointing to some stabilisation in the real economy. Positive news come from France, offsetting partly the negative surprise in Germany, as confidence in services increases markedly and suggests that domestic spending could have been more resilient than what previous figures showed.

- **Eurozone: confidence remained subdued at the beginning of 2Q13, but broadly stable, after having deteriorated in previous months**

Manufacturing Flash PMI leaps back slightly below the expected, standing at 46.5 after 46.8 in March (BBVA: 46.8, Consensus: 46.7); while services indicator resulted basically in line with the expected, slightly above the March reading (46.6 after 46.4, that is, 0.2 and 0.1 points above BBVA and Consensus forecasts, respectively). These outcomes compensate each other so the Composite PMI remains at the same level as in March (46.5), in line with Consensus forecast and a little below ours (46.9).

New orders decline for the third month in a row, falling at its fastest rate in 2013, while jobs shed for sixteenth consecutive month, both in manufacturing and services sectors.

By countries, divergent trends became clear between Germany and France in April. While the latter's private sector contraction eases, the former records the steepest rates of decline in activity for six months. Across the other countries, output drop eases at the slowest rate for three months, though the slump in new business remains sharp.

- Confidence in German economy continues losing momentum after the rebound of the previous months, in contrast with resilient domestic fundamentals**

The private sector output declines 1.8 points in April down to 48.8, below the crucial 50-points threshold for the first time since November 2012. Both manufacturing and services sectors register a more than expected fall during April. Flash Manufacturing PMIs is 1.1 points lower in April down to 47.9 (BBVA: 49, Consensus: 49), while the service sector index stands 1.7 points lower in April down to 49.2 (BBVA: 51, Consensus: 51).

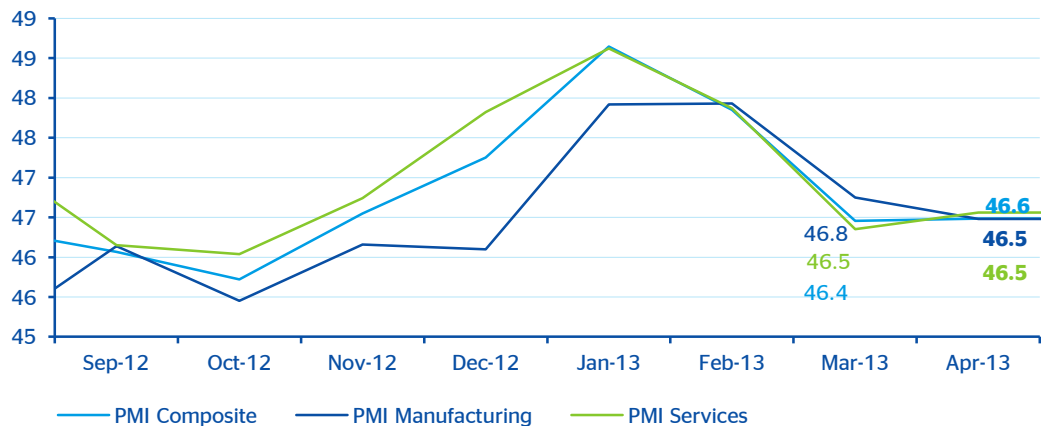
Positive news comes from the labour market, as employment is showing resilience in April. Staffing levels increased slightly in the service economy, while manufacturers recorded only a marginal decline in workforce numbers. This combined with lower inflation should result in relatively robust households' spending, and this is partly reflected in the survey, as the outlook over the year ahead for business activity in services remains optimistic. Regarding manufacturing sector, still high uncertainty and poor demand from the periphery seem to weigh clearly on confidence, although the destocking efforts could be also behind the manufacturing output decline.

- Services sector brings somewhat good news from France, though its PMIs remain at very low levels**

Economic activity downturn eases in April, reaching its highest reading of the last four months, especially to the smoothing in services decline. Thus, Flash PMIs Services climbs almost 3 points to 44.1, surprising upwards (BBVA: 41.8, Consensus: 44.1). As for manufacturing sector, the corresponding PMI records a 44.4 level (standing 0.3 points over Consensus and in line with our expectations, 44.5). As a result, private sector as a whole fell at a slower pace in April, Flash composite output index jumping from 41.9 in March to 44.2 this month.

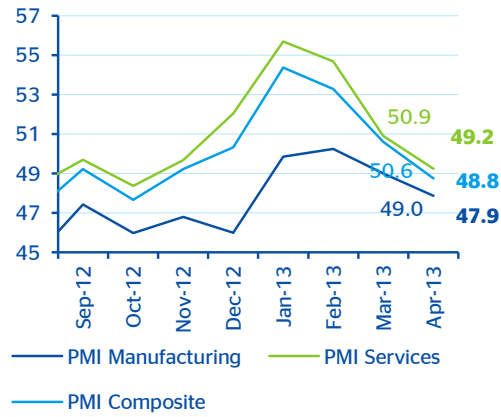
Contrasting with PMIs, the French business climate indicator, published today by INSEE, deteriorates further than expected in April. Both industry and services drop slightly, making the synthetic indicator (which includes trade and construction) fall by two points to 84, remaining below its long term average (100).

Chart 1  
**Eurozone PMIs**



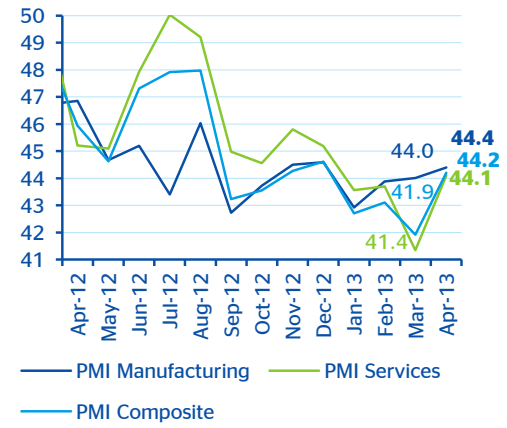
Source: Markit Economics

Chart 2  
**Germany PMIs**



Source: Markit Economics

Chart 3  
**France PMIs**



Source: Markit Economics

Table 1  
**Purchasing Manager's Index**

CC	Indicator	March	April	BBVA	Consensus
	<b>PMI Composite</b>	<b>46.5</b>	<b>46.5</b>	<b>46.9</b>	<b>46.5</b>
Eurozone	PMI Manufacturing	46.8	46.5	46.8	46.7
	PMI Services	46.4	46.6	46.4	46.5
Germany	<b>PMI Composite</b>	<b>50.6</b>	<b>48.8</b>	-	-
	PMI Manufacturing	49	47.9	49	49.0
	PMI Services	50.9	49.2	51	51.0
France	<b>PMI Composite</b>	<b>41.9</b>	<b>44.2</b>	-	-
	PMI Manufacturing	44	44.4	44.5	44.1
	PMI Services	41.3	44.1	41.8	42.0

Source: Markit Economics

**DISCLAIMER**

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

**Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report.** Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

**The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.**

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

**"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: [www.bbva.com](http://www.bbva.com) / Corporate Governance".**

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.