

Europe Flash

Flash PMI disappoints also in May, with manufacturing pushing the index further down

Bottom line: Private sector activity deteriorated further in Eurozone, as reflected in flash PMI indices falling deeper in contractionary territory. The main reason can be found in weak domestic demand and the severe downturn of manufacturing activity. By country, German PMI index did not escape contraction in May, while France fell deeper below the no change level of 50. According to Markit news release, the periphery is leading the negative developments, with persisting divergences across the board.

- **Eurozone downturn continues in May**

PMI preliminary figures point to a further deterioration in private sector activity during the first two months of Q2. The latest data for May showed the composite index shrinking to 45.9, after 46.7 the previous month. Both sub-indices remained in contraction, with manufacturing at 45.0 (45.9 in April) and services at 46.5 (from 46.9). Both outstanding and new business became weaker, with the drop being steeper in the manufacturing sector.

By country, the divergence persists. New business fell stronger in France compared to Germany, while the periphery performed by far worse in all respects. According to Markit calculations, GDP of Eurozone in Q2 is expected to lose 0.5%, although our projection is of a milder fall.

- **PMI signals mild contraction also for the German private sector, due to the slump in manufacturing**

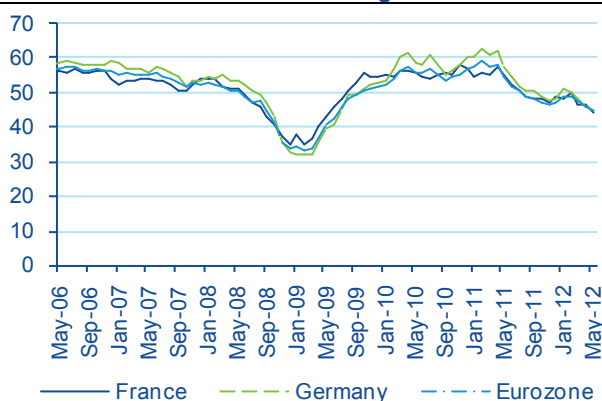
Even Germany could not escape the downturn, with the composite index coming in at 49.6 in May (50.5 the previous month), as a result of a significant fall in manufacturing activity. This translates into a 1.2p loss of the respective index (at 45.0), which more than offset the improvement in the services sector (unchanged at 52.2). New business intakes fell in both industries, but the drop was much steeper for manufacturers, which also saw their export orders shrinking. On a positive note, service providers became more optimistic about the business outlook in the year ahead.

- **In France, PMI sinks deeper in contractionary territory, on weak domestic demand 3**

Private sector activity continued falling in May. The composite index shrank to 44.7, after 45.9 in April and it reached levels not seen in 3 years. This fact reflected a deteriorating activity in both sectors, with manufacturing taking the lead, reaching as low as 44.4 (from 46.9 the previous month), while services index remained at 45.2 during the first two months of Q2. Activity as well as new orders were weaker in both sectors, but the downturn was stronger in manufacturing, mainly a result of weak domestic demand, as the contraction in new export orders was much milder. In addition, services providers' confidence remained subdued, slightly improved on the month. According to Markit, GDP in France is expected to contract in Q2, after stagnating in Q1.

Chart 1

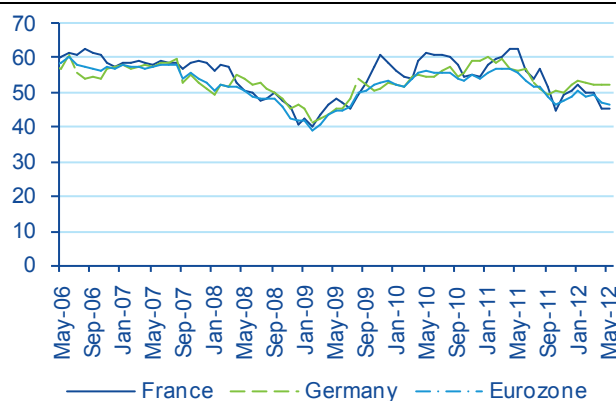
Core countries: PMI manufacturing



Source: Markit Economics and BBVA Research

Chart 2

Core countries: PMI services



Source: Markit Economics and BBVA Research

Table 1

Countries: Markit PMI Index

	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Last. Var.	Mean	St. Dev.	Max	Min
Eurozone										
Composite	50.4	49.3	49.1	46.7	45.9	-0.8	53.3	4.8	62.5	36.2
Manufacturing	48.8	49.0	47.7	45.9	45.0	-0.9	51.9	5.1	60.5	33.5
Service	50.4	48.8	49.2	46.9	46.5	-0.4	53.6	4.4	62.4	39.2
Germany										
Manufacturing	51.0	50.2	48.4	46.2	45.0	-1.2	51.3	5.7	57.9	34.8
Service	53.7	52.8	52.1	52.2	52.2	0.0	48.0	8.3	58.5	27.8
France										
Manufacturing	48.5	50.0	46.7	46.9	44.4	-2.5	51.1	6.5	59.0	33.5
Service	52.3	50.0	50.1	45.2	45.2	0.0	54.9	5.9	62.9	40.2
Italy										
Manufacturing	46.8	47.8	47.9	43.8	n.a.	-4.1	52.7	7.6	62.7	32.0
Service	44.8	44.1	44.3	42.3	n.a.	-2.0	50.4	5.5	61.8	37.9
UK										
Manufacturing	52.0	51.5	51.9	50.5	n.a.	-1.4	51.3	5.9	61.5	34.5
Service	56.0	53.8	55.3	53.3	n.a.	-2.0	53.9	4.4	60.6	40.1
Construction	51.4	54.3	56.7	55.8	n.a.	-0.9	48.0	8.3	58.5	27.8

Note: Values in *italics* are flash values

Source: Markit Economics and BBVA Research

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