

Europe Flash

PMI Services improved in June, but dismal Q2 overall

Bottom line: Private sector activity continued falling in Eurozone, but with a milder downturn in the services sector, as reflected in higher PMI figures, leading to a more positive ending of Q2. Nevertheless, the results for the quarter as a whole are negative, signalling a broad based contraction on the quarter. By country, German PMI services stagnated, while the rest of the countries saw their indices improving. In manufacturing, France edged slightly up, while Germany and Italy dropped somewhat. The divergences between the periphery and the core are still large, but less significant.

- **Eurozone downturn eases in June, driven by services sector developments**

Although activity and new business for the services sector continued falling, the respective index increased slightly from 46.7 to 47.1, beating expectations of a more moderate rise. By country, the divergence persists, but is less pronounced. After the unchanged manufacturing PMI published earlier this week (at 45.1), the composite index improved marginally to 46.4 in June, following 46.0 the previous month. As a result of the very negative Q2, GDP in Eurozone could drop by 0.6% q/q in Q2, according to Markit estimations. However, our BBVA-MICA model that includes other variables points to a milder contraction of -0.3% q/q.

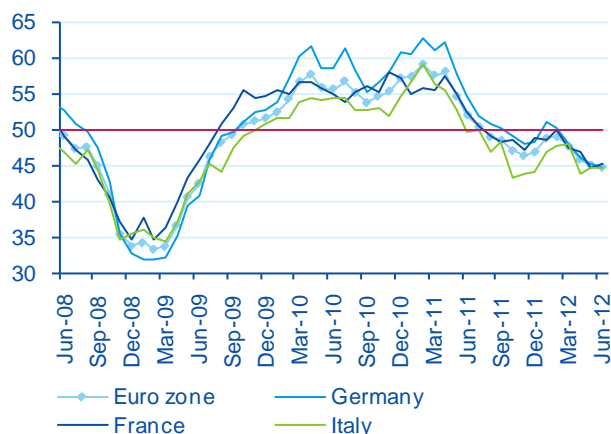
- **Services PMI index falls in Germany and improves in France**

After posting 51.8p the previous month, PMI services in Germany shrank to 49.9 in June, dropping more than expected and suggesting a moderate reduction in activity and new business. In the same line, the assessment of services providers about the future business situation deteriorated markedly compared to May. As manufacturing activity continued contracting, the composite index shrank further to 48.1, after a better but still contractive 49.3 in May.

In June, the downturn of the French services sector was less pronounced, according to the PMI survey. The services index climbed up to 47.9, after a very large drop in April and stagnation in May, reflecting a deceleration in the rate of decline for both current activity and new business. As the index for manufacturing also improved, the composite indicator gained 2.7p to reach 47.3. Nevertheless, Markit economics notes a high probability of a negative GDP growth in Q2. In Italy, services PMIs improved slightly in June, while manufacturing deteriorated somewhat. Overall, the picture does not change much with respect to May, implying a marked deterioration overall in the second quarter.

Chart 1

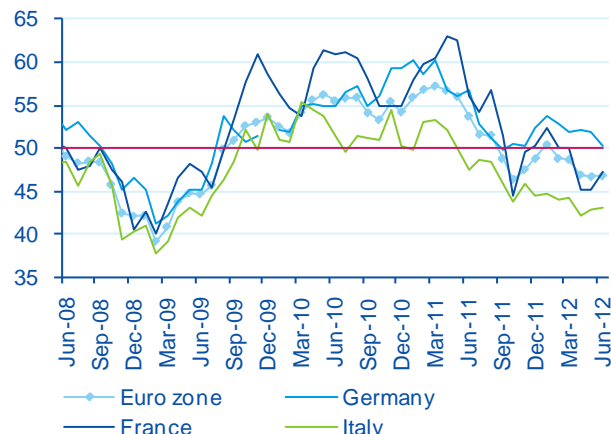
Core countries: PMI manufacturing



Source: Markit Economics and BBVA Research

Chart 2

Core countries: PMI services



Source: Markit Economics and BBVA Research

Table 1

Countries: Markit PMI Index

	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Curr. Var.	Mean	St. Dev.	Max	Min
Eurozone										
Composite	49.3	49.1	46.7	46.0	46.4	0.4	53.3	4.8	62.5	36.2
Manufacturing	49.0	47.7	45.9	45.1	45.1	0.0	51.9	5.1	60.5	33.5
Service	48.8	49.2	46.9	46.7	47.1	0.4	53.6	4.4	62.4	39.2
Germany										
Manufacturing	50.2	48.4	46.2	45.2	45.0	-0.2	51.1	5.7	57.9	34.8
Service	52.8	52.1	52.2	51.8	49.9	-1.9	48.3	8.2	58.5	27.8
France										
Manufacturing	50.0	46.7	46.9	44.7	45.2	0.5	50.9	6.5	59.0	33.5
Service	50.0	50.1	45.2	45.1	47.9	2.8	54.7	6.0	62.9	40.2
Italy										
Manufacturing	47.8	47.9	43.8	44.8	44.6	-0.2	52.4	7.1	62.7	32.0
Service	44.1	44.3	42.3	42.8	43.1	0.3	50.1	5.6	61.8	37.9
Spain										
Manufacturing	45.0	44.5	43.5	42.0	41.1	-0.9	52.4	7.1	62.7	32.0
Service	41.9	46.3	42.1	41.8	43.4	1.5	50.1	5.6	61.8	37.9
UK										
Manufacturing	51.5	51.9	50.2	45.9	48.6	2.7	51.2	5.8	61.5	34.5
Service	53.8	55.3	53.3	53.3	51.3	-2.0	53.9	4.3	60.6	40.1
Construction	54.3	56.7	55.8	54.4	48.2	-6.2	48.3	8.2	58.5	27.8

Source: Markit Economics and BBVA Research

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