

Eurozone | PMIs fall earlier this year, especially in Germany

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Eurozone: confidence deteriorates in manufacturing and services

According to Markit's preliminary estimate, composite PMI in the eurozone fell 0.8 points to 53.5 in January (BBVA Research: 54.3, consensus 54.1), 0.6pp below the 4Q15 average (54.1), which was the best figure in more than four years. This deterioration is due to both the services (53.6 after 54.2 in December) and the manufacturing (from 53.2 to 52.1) indexes. However, high levels of business confidence, together with the increase in backlogs and new orders, means that companies are continuing to build up their workforces at the same pace as the 4-and-a-half-year high observed in late 2015, indicating that companies' optimism could improve further in the coming months.

The sharp drop in oil prices was also reflected in the January survey, with a positive impact on expectations of activity due to decreasing production costs, which would also be translating into lower final prices for the eurozone as a whole. However, there are differences by country: while in France this behaviour seems clearer, probably associated to stimulating demand after the possible negative effects of the terrorist attacks, in Germany companies seem to be taking advantage of this increasing corporate profits rather than transferring the fall in costs to lower final prices. In any case, the downward pressure on prices and the ECB's concern about the possible second-round effects increase.

Although it is still early to draw conclusions for 1Q16 as a whole, today's data point to some stabilisation of growth, which we expect at 0.4% QoQ for 4Q15.

The rate of expansion slowed in Germany and recovered slightly in France. The economies of the periphery advancing at a somewhat slower pace than the previous quarter

In January, the composite PMI for Germany dropped a point from 55.5 to 54.5, mainly due to the sharper contraction of activity in the manufacturing sector (from 53.2 to 52.1). This is mainly due to the decrease in production, which respondents largely attribute to the difficulties the oil industry is facing. In any case, the increase in new orders, especially external, and the order backlogs lead us to believe that activity will increase in the coming months, as evidenced by the hiring of new employees in January. The services sector also suffered a slight correction (55.4 after 56) but business expectations in the sector remain high. In France, the composite PMI increased marginally (50.5 after 50.1) thanks to the recovery in the services sector, which returned to growth after the contraction in December (50.6 after 49.8). In contrast, manufacturing firms indicate stagnation in production (50) after posting 51.4 in the previous month. As for the outlook for the coming months, the sub-indexes point to growth continuing to be driven by the services sector: better business expectations, increased employment and new orders; conversely, there was a reduction of new orders (domestic and external) in the manufacturing sector.

With respect to other countries, the Markit's communiqué states that the pace of expansion in the periphery slowed slightly.

Figure 1

Eurozone, Germany and France's PMIs

CC	Indicator	December	January	BBVA	Consensus
Eurozone	Composite PMI	53,4	53,5	54,4	54,1
	Manufacturing PMI	53,2	52,3	53,4	53,0
	Services PMI	54,2	53,6	54,2	54,2
Germany	Composite PMI	55,5	54,5	-	55,1
	Manufacturing PMI	53,2	52,1	53,0	53,0
	Services PMI	56,0	55,4	55,6	55,5
France	Composite PMI	50,1	50,5	-	50,3
	Manufacturing PMI	51,4	50,0	52,0	51,3
	Services PMI	49,8	50,6	50,1	50,1

Source: Markit Economics

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