

Eurozone | The PMIs fall in May, but are still in line with a steady growth in Q2

Miguel Jimenez González-Anleo / Agustín García Serrador / Diego Torres Torres / Massimo Trento / Miguel Abellán Ossenbach

Eurozone: confidence decreases in the services sector

The composite PMI in the eurozone decreased by 0.5 points to 53.4 in May, according to Markit's flash estimate, in line with our forecasts (BBVA Research: 53.6; consensus: 53.9), while the average of the second quarter so far recorded an improvement of 0.3 points over the figure for 1Q15. The behaviour of the index in May was due to the decline in confidence for the services sector by 0.8 points to 53.3, that was not offset by the increase in the manufacturing sector, growing to 52.3 (from 52 in April). Analysing the sub-indices, the moderation of these indicators could be maintained in June as new orders received, especially in business, have risen at a slower pace, backlogs of work decreased again and business expectations worsened. However, employment has increased at the fastest rate in four years, since the companies believe that the depreciation of the euro will favour the export sector in the coming months, easing some doubts of a possible negative impact, greater than anticipated, of the slowdown in emerging economies. Furthermore, while the German data are a bit disappointing, the economic situation on the periphery continues to strengthen.

Although information for 2Q15 is limited to confidence data, the slight improvement in the PMI so far this quarter suggests that the growth rate could be consolidated or could even accelerate slightly, in line with our scenario that envisages quarterly GDP growth of 0.4-0.5% QoQ in 2Q15.

Regarding the PMI's indicators of inflation trends, the rising price of oil and imported products (linked to the depreciation of the euro) as well as wage costs might be starting to move to the final prices. However, we can highlight clear differences by country: while in Germany the companies have begun to pass on the costs linked to wage increases and the depreciation of the euro to consumer prices, in France price adjustments continue.

The activity is slowing in Germany and gains some traction in France, while the momentum on the periphery persists

The German composite PMI has dropped substantially in May (from 54.1 to 52.8 points), recording a deeper fall in the services sector than in manufacturing, with new orders (internal and external) and business expectations increasing at a slower pace. However, despite the reduction of backlogs of work and rising staff costs, German companies continue to create jobs, especially in the service sector.

For the fourth consecutive month, the composite PMI in France remains above the threshold of 50 (from 50.6 in April to 51). The May improvement is the result of an increased services index (+0.2 points to 51.6), especially in its business expectations and backlogs of work components, and a less negative value of the manufacturing sector (+1.3 points to 49.3), mainly due to the increase in new export orders. Albeit slow, job creation continues for the third consecutive month.

With respect to the periphery, the press release stressed that the momentum continues, with confidence rising at high rates and a remarkable level of job creation.

Figure 1

Eurozone, Germany and France's PMIs

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

Source: Markit Economics

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