



Confidence Indicators

September 6th, 2007

Markets' turmoil starts affecting confidence

- **Economic sentiment loses ground in August, showing already some impact of recent financial turbulence.**
- **Consumer confidence deteriorates.**
- **Industrial confidence remains broadly stable, thanks to an improvement in orders.**
- **Sharp increase of consumers' price expectations.**

Confidence indicators were less positive in August, following a trend that started some months ago, although they remain at high levels. The impact of financial turmoil is not fully visible yet, and not clearly distinguishable from that trend, as the information is usually collected in the first two or three weeks of the month. However, forward looking components of confidence indicators seem to reflect the impact of new financial market conditions.

Consumer confidence dropped by 1.3 points from -1.8 to -3.1, continuing a downward trend initiated in May. However, the level is still higher than the one recorded during the first months of this year and stands well above the historical average. The drop in August was caused by a deterioration in unemployment perspectives (which more than compensates the large improvement of past month) and in the evaluation of the general economic situation. The fall since May has affected all components of the index.

Business confidence in the manufacturing sector barely moved (-0.1 point), with order book levels recovering from decreases during last month and compensating the deterioration of production expectations. Over the past four months the indicator has fallen by 1.7 points and now stands at the level of last Autumn, but is still high levels as compared with the historical average. The relative stability in August has been widespread across all euro area countries.

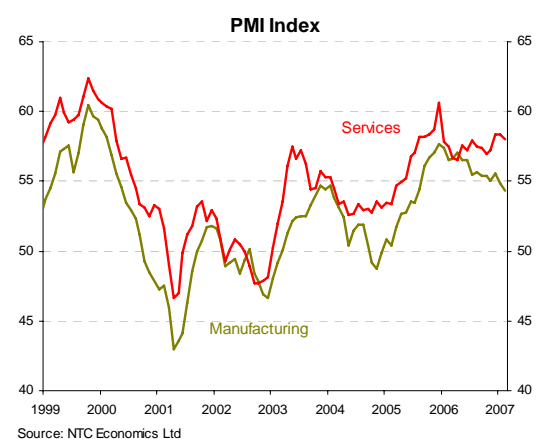
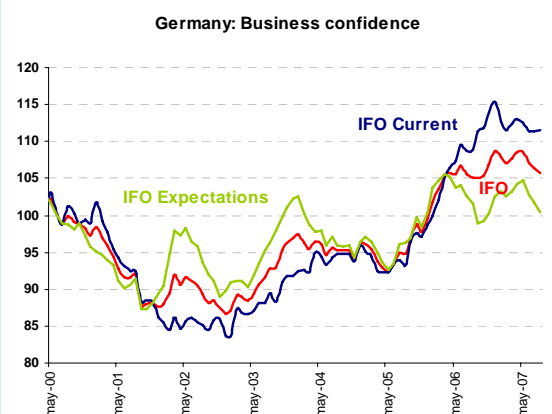
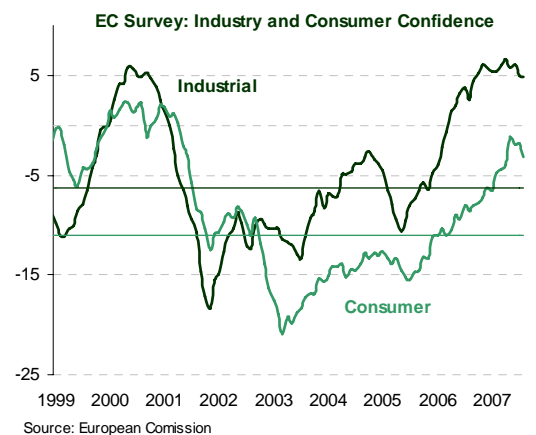
In Germany, the **IFO** index of business climate has receded for the third consecutive month due to the fall of its expectations components, while the current situation component improved marginally. The composite index lost 0.6 points in August, and almost three points since the peak in May.

PMI indices for the euro zone edged down last month, with the manufacturing index losing 0.6 points and the services output indicator 0.3 points. The composite PMI indicator has been very stable since the summer of 2006, hovering around 57, and stands now at 57.4 after losing one decimal point in August.

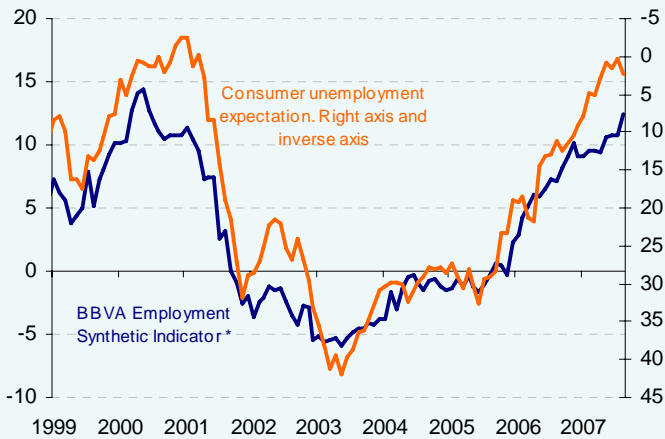
Overall, it seems that confidence indicators are now receding after having reached their peaks several months ago, although they still remain high by historical standards.

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EC - Survey: Employment Expectations



* Constructed from Manufacturing, Construction and Retail employment expectations from EC Survey Data.

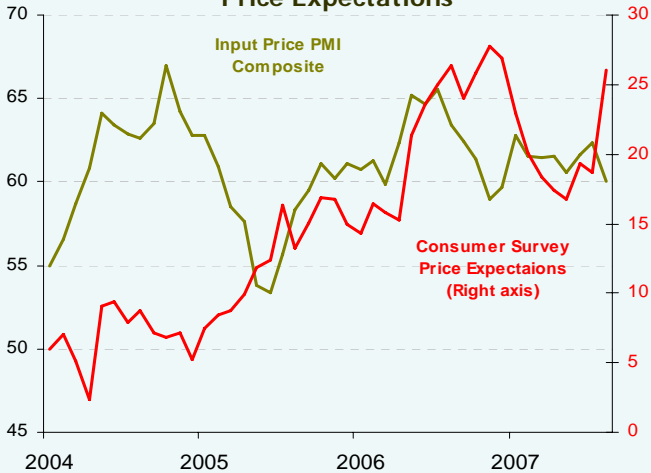
Employment Expectations

An improvement based on retailing and services

Despite the deterioration of employment expectations in the industrial sector, the BBVA Employment Synthetic indicator increased markedly in August on the back of improvements in retailing and services. In contrast, the unemployment component of the EC survey of consumer confidence has inverted during the summer its long run trend improvement, losing two points in August.

Employment indices from PMI surveys also dropped last month, both in the manufacturing and the service sector.

Price Expectations



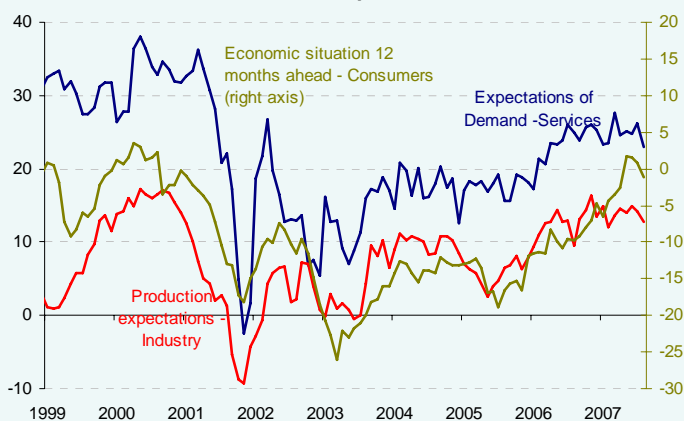
Inflation Expectations

Consumer expectations rise sharply

Consumer expectations for the next 12 months from the EC survey jumped markedly in August from 18.7 to 26.0, to reach a similar level to that of end 2006. The increase was particularly large in Germany, Italy, Belgium and the Netherlands. For businesses, price expectations edged down both in the industry and the service sector, continuing the drop observed in July.

Within PMI indices, input price expectations dropped substantially from 62.4 to 60.0, reflecting in particular a fall in the manufacturing sector, where the index lost almost five points to a level not observed since end 2005. Output price expectations also edged down in both sectors, albeit more moderately.

Economic expectations



Economic Expectations

Deterioration in August

The evaluation of consumers of the general situation over the coming year fell by almost two points in August, accelerating the trend observed since May. However, its level remains very high by historical standards.

Production expectations in industry and demand expectations in services also decreased substantially, by 1.5 and 3.3 points, respectively. They reflect the loss of momentum already seen in July, but very likely also the loss of confidence due to problems in financial markets.