



Confidence Indicators

October 3th, 2007

A sharp loss of confidence in September

- **Economic sentiment has further deteriorated in September, especially in services and retailing, pointing to a moderation in overall activity.**
- **Consumers were particularly concerned about the economic outlook over the next year.**
- **Employment expectations suggest that the peak in activity is behind us.**
- **Price expectations remain relatively high, but moderating somewhat among producers.**

In September, confidence indicators deteriorated further following a downward movement started 4 months ago, and still remain 7 points above its historical average. This deterioration in confidence has been broad based but more marked in retailing and services. Overall, these indicators point to a further moderation in activity in the near future.

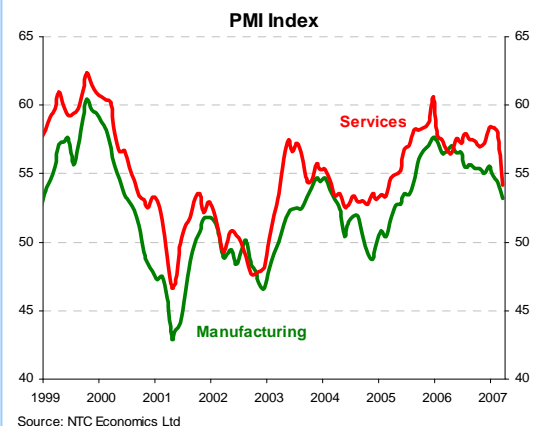
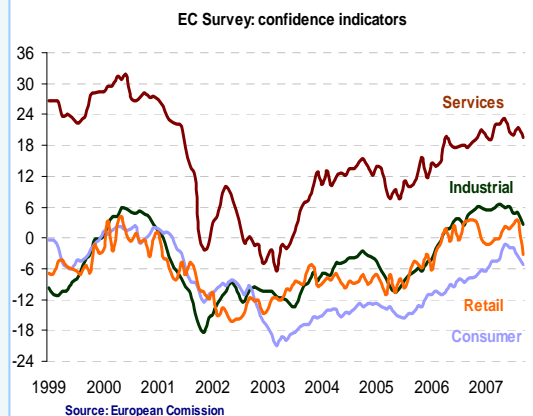
Consumer confidence fell more than expected in September, from -4 to -5, going back to the level recorded at the beginning of the year although still 6 points above its historical average. Consumer surveys revealed that consumers were worried in particular about the general economic situation over the next 12 months (a fall by 3 points). In addition, employment expectations have decreased for the second month in a row.

Business confidence in the industrial sector fell by 2 points in September for the third consecutive month, although it remains 4 points above its historical average, with some improvement of activity expectations for the months ahead (1 points). Similarly, confidence in the service sector decreased by almost 3 points, with a deterioration in all its sub-components. Finally, expectations in the retail sector plunged, with a loss of almost 7 points, with expectations on activity for the months ahead falling by 9 points.

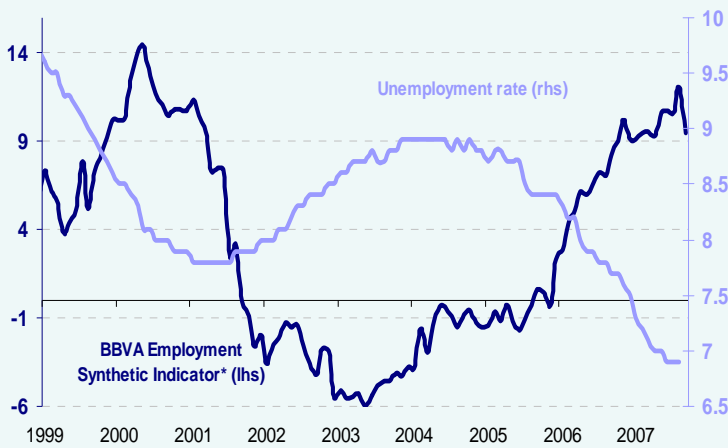
The PMI composite indicator has decreased from 57.4 to 54.7, to a level in line with its historical average. The sharp correction in services (-3.8 points) has reduced the gap with the manufacturing sector.

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EC - Survey: Employment Expectations



Source: Datastream and BBVA

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

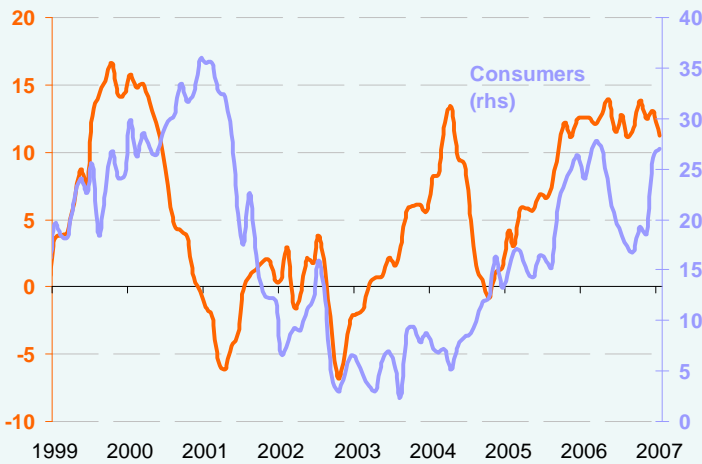
Employment Expectations

Leaving the peak

The BBVA Employment Synthetic Indicator decreased markedly in September mainly due to a sharp fall in business confidence in retailing and services. The industrial sector is the only sector where employment expectations have not deteriorated.

If this trend is maintained, we could start seeing some rebound in the unemployment rate in the medium term.

EC surveys: Price expectations



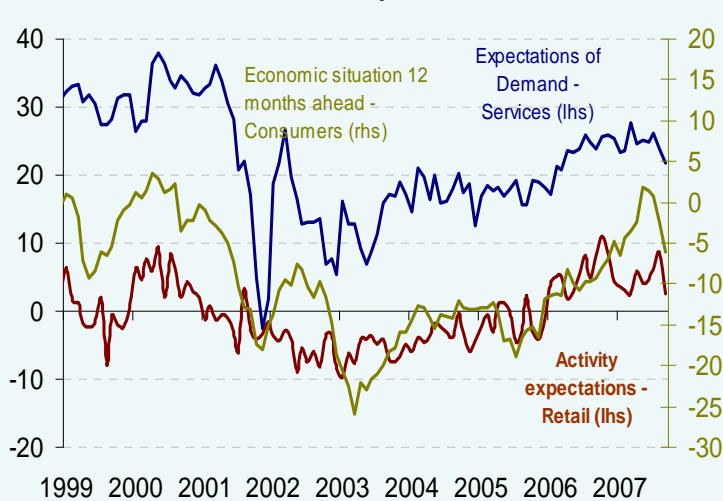
Inflation Expectations

Still in the upper bound but with some sings of moderation

Despite rising oil prices, producers in the industrial sector are expecting a moderation of input prices. They are also expecting lower output prices, especially in the industry and services sectors where expectations about activity and demand have worsened during September.

On the other hand, consumers' price expectations increased again in September, but to a lesser extent than in August. This rise has been more substantial in France and Italy (by 10 and 6 points, respectively).

Economic expectations



Source: European Commission and BBVA

Economic Expectations

Pointing to a moderation in activity

Activity expectations among both retailers and consumers have decreased notably over the third quarter. Hence, it is not likely a further acceleration in private consumption in the near future.

Alternatively, expectations among firms in industry and services have not significantly changed during September.