



# Confidence Indicators

November 7th, 2007

## *Continued sentiment decline in October*

- **Economic sentiment continued to deteriorate in October, albeit at a more moderate pace than in the previous month.**
- **Consumer confidence declined marginally. Among businesses, confidence in services remained stable, while the industrial and construction sectors fell.**
- **Employment expectations have stabilised after a sharp fall last month.**
- **Price expectations remain at high levels, but have moderated in October.**

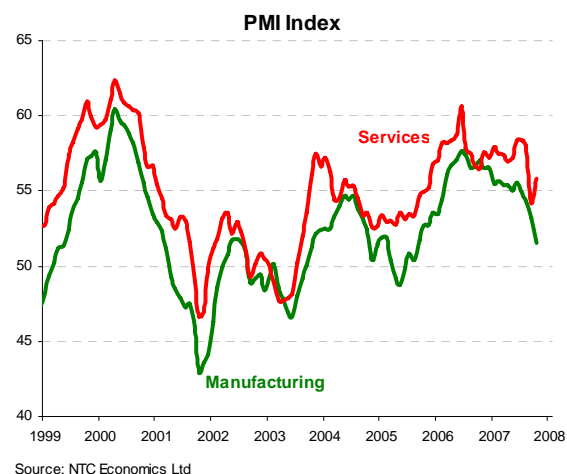
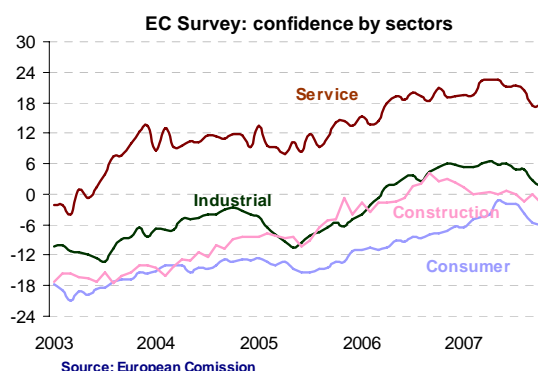
Economic sentiment continued to deteriorate in October in the euro area, from 106.9 to 105.9, after a sharp decrease of more than 3 points in September. The cumulated drop since July is of more than 5 points, suggesting that recent financial events are having an impact on business and consumer confidence. Across major countries, sentiment deteriorated in Germany and Spain, but remained stable in France and Italy.

The index of **consumer confidence** has lost half a point in October, moderating the downward trend initiated in July. Since the peak in June, it has fallen by 4.4 points and has lost all the gains of the first half of the year. Most forward looking components of the index behaved well in October, with the exception of the savings projected for the coming 12 months, which lost 3 points.

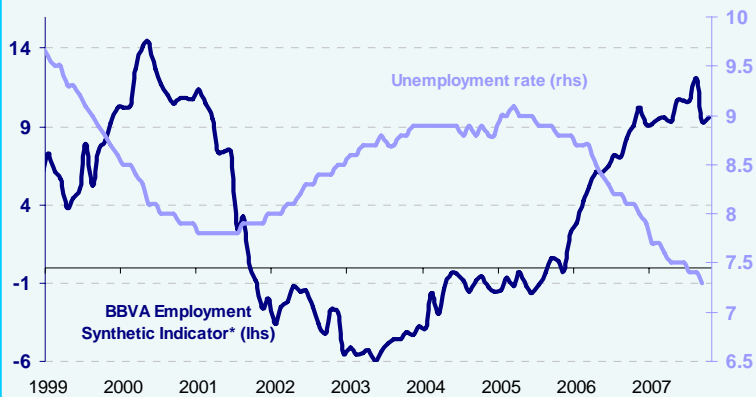
**Business confidence in the industrial sector** edged down further after a drop two points in September. Production expectations for the future barely moved, but projected order books fell by two points while the stocks of finished goods increased. **Export order books**, which do not enter the average industrial index, fell from 3.3 to 2.0, while new export orders from the manufacturing PMI survey have also dropped by two points, from 53.4 to 51.4. This suggests that the appreciation of the euro *vis-à-vis* the dollar may start having an impact on export demand. **Service sector confidence** did not move after a large decrease in September, and cumulates a fall of 3.8 points over the last three months. Confidence in **construction** lost the gains of last month, as both order books and expected employment deteriorated. In addition, the sub-index of activity over the past three months, which does not enter the construction average index, lost almost 4 points in October and 6.6 since July.

**The PMI composite indicator** did not budge. The index for the service sector recovered a small part of its losses in September, whereas industry PMI deteriorated further.

EUROPE RESEARCH UNIT

Miguel Jiménez  
[mjimenezq@grupobbva.com](mailto:mjimenezq@grupobbva.com)

### EC - Survey: Employment Expectations



Source: Datastream and BBVA

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

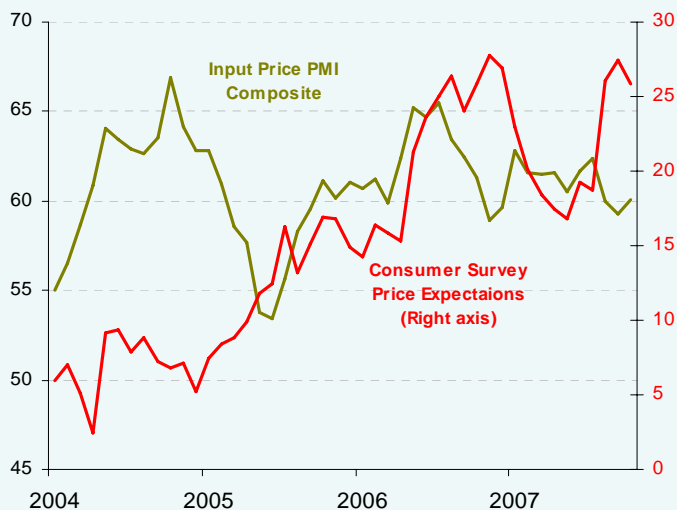
### Employment Expectations

*A pause after the fall*

The BBVA Employment Synthetic Indicator has barely moved this month, in contrast with the substantial deterioration of last month. Better employment expectations in services and retailing compensated the worsening in construction and industry. Over the past quarter the improvement in services has not been enough to compensate the decrease in other components. Employment indicators from PMIs point in the same direction, falling in manufacturing and stabilizing in services.

Consumers' unemployment expectations continued to worsen in October, following a trend that started at the beginning of the Summer.

### Price Expectations



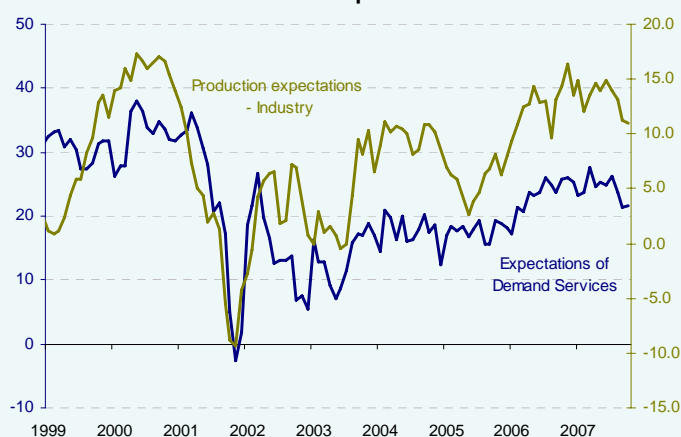
### Inflation Expectations

*No further deterioration of consumer price expectations*

Consumer price expectations moderated last month despite recent increases in oil and food prices, reverting marginally the sharp upward trend they experienced since May. They remain at a high level, though.

Input price expectations from PMI surveys edged up, as the rise in the service index more than compensated the fall in manufacturing. Output price expectations in services and manufacturing continued its moderate downward pace, both in the EC and the PMI surveys, although they remain positive. Price expectations in the retail sector keep rising strongly.

### Economic expectations



### Economic Expectations

*Stable in all fronts*

Expectations of future business activity paused in October after sizeable drops in previous months. The level is still well above zero in both services and industry.

Consumer forward looking expectations increased only very marginally, after large falls in the previous two months. The index remains above the historical average but is in negative territory, which points to some deceleration of consumer expenditure.