



Confidence Indicators

February 6th, 2008

Broad deterioration of confidence in January

- **Economic sentiment fell significantly among consumers, while PMIs dropped for services and remained stable for manufacturing.**
- **Inflation expectations increased in manufacturing but eased in other sectors.**
- **Consumers' expectations on future prospects deteriorate rapidly.**

Economic sentiment in the euro area fell significantly in January from 103.4 to 101.7, its largest drop since September. Since May, the loss has been of almost 10 points and the level is now close to the benchmark level (100). This fall in economic sentiment was particularly pronounced in the retailing sector (-4) and construction (-2.8), but it was also apparent in services, where confidence fell back by 1.2 points after a marginal improvement (0.2) in the previous month, continuing its downward trend. In contrast, industrial economic sentiment decreased only by 0.4 points after a larger drop (-1) in December.

In industry, the fall was mostly due to a somewhat downbeat assessment of order book levels, for the first time in negative territory since May 2006. In services, however, most sub-components decreased. In particular, the assessment of the business economic situation over the last 3 months dropped by almost 3 points. In retailing, both incoming and past business activity deteriorated sharply.

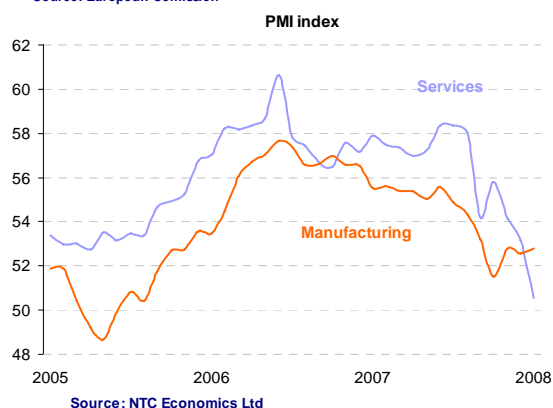
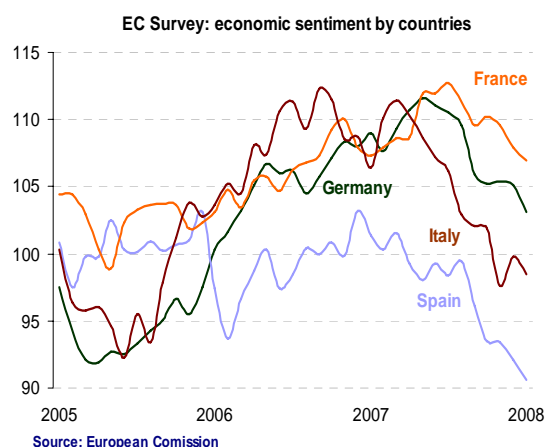
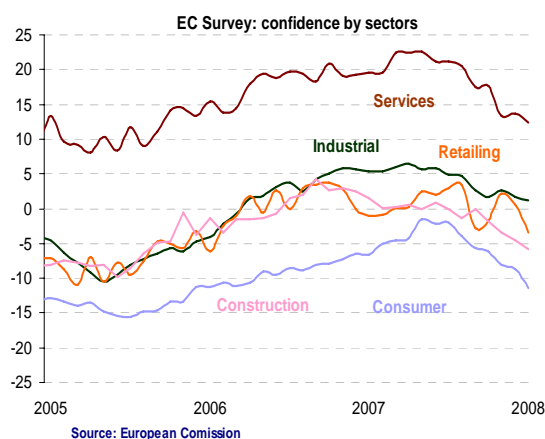
Consumer confidence dropped from -8.7 to -11.5 in January. All its components fell, but in particular the assessment of the general economic situation over the next 12 months, which attained levels not seen since 2005.

Across countries, the loss of confidence was more significant in Germany (-2) and Spain (-1.5). In Germany, confidence in construction and services edged up, but was more than offset by the drop experienced in retailing (-3.2) and industry (-2.3). In Spain, a significant improvement in confidence in the retailing sector (+4) was offset by the decline in services (-3.7) and industry (-1).

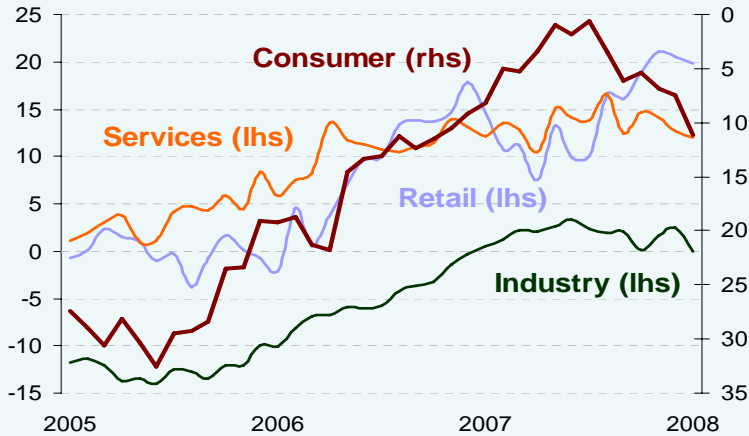
PMI indicators presented a large deterioration in services and were broadly stable for manufacturing, maintaining the pattern of recent months. The services PMI recorded levels below the historical average and decreased by 2.5 points (from 53.1 to 50.6). The fall was led by business activity, which is now close to the benchmark level of 50. In contrast, manufacturing PMIs improved and recovered the level reached in the previous month.

EUROPE RESEARCH UNIT

César Miralles
Cesar.miralles@grupobbva.com



EC Survey: employment expectations



Source: European Commission

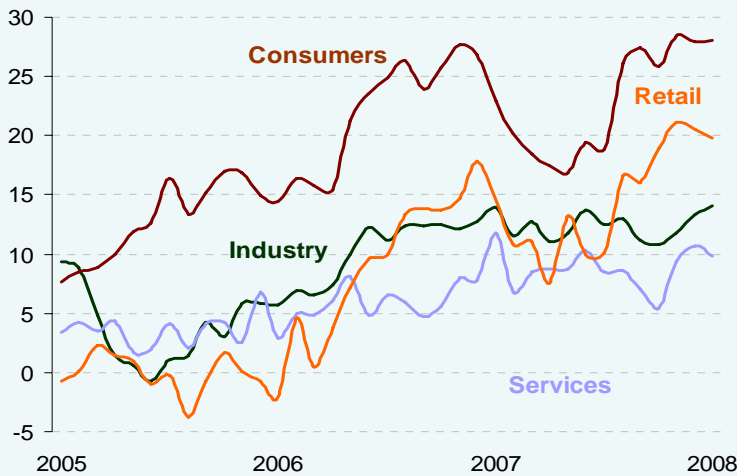
Employment Expectations

A sharp drop in industry and among consumers

Employment expectations fell in January in services and retailing, but still remained at high levels. In industry, employment expectations deteriorated significantly in January (by 3 points) reversing the improvement of the past two months, but remain close to historical maximum. PMI surveys recorded a slightly decline in employment expectations in manufacturing and no changes in services. In both sectors, employment expectations from PMI surveys remain at very high levels.

Unemployment expectations of consumers deteriorated further. In January they rose from 7.5 to 11.1 (inverted scale in the graph) and have now worsened by 6 points since October.

EC Survey: price expectations by sectors



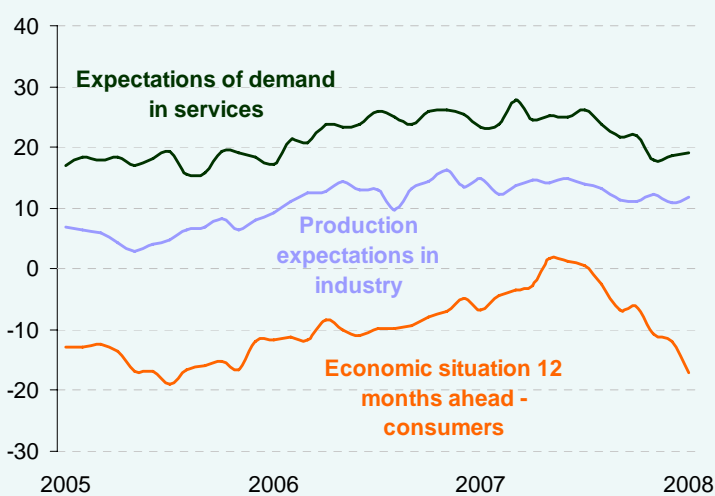
Source: European Commission

Inflation Expectations

Higher prices anticipated in industry

In January output price expectations worsened further in industry following a trend initiated in November. In contrast, price expectations declined in other sectors, in particular in services (from 11.2 to 9.8), retail (from 20.6 to 19.8), and construction (from 9.3 to 5.9). Similar sub-indices from the PMI surveys also recorded a significant increase in price expectations among producers in industry, but a decline in services. Consumer price expectations have remained broadly unchanged over the past two months.

EC Survey: economic expectations



Source: European Commission

Economic Expectations

Consumers very pessimist on future prospects

Among producers, forward-looking sub-components improved slightly in January. In services, demand expectations recovered as in December, though only marginally compared with the big drop in November. In manufacturing, expectations recovered the small drop in the previous month. From PMI surveys, business expectations increased by almost 1 point in manufacturing, while they remained stable in services.

In contrast, consumers consider that the economic outlook is worsening quickly. The EC survey recorded a sharp decline in January, a drop of 5 points from -12 to -17 (similar to the large decline in November).