



Confidence Indicators

March 7th, 2008

Confidence continues to fall, but services PMI rebound in February.

- **Economic sentiment continues to fall across businesses and consumers, although the PMI index for services recovered part of the large falls in previous months.**
- **Inflation expectations confirm the moderation form the previous month.**
- **Confidence on employment prospects start looking more negative than several months ago.**

Economic sentiment in the euro area continued its downward trend in February, almost reaching the benchmark level of 100 (fall from 101.7 to 100.1). The deterioration of economic sentiment was constant in the last 9 months, since May 2007, and the loss since August has been of more than 9 points. The fall was present in most sectors (services: from 12.6 to 9.6; industry: from 1.1 to 0.1; construction: from -6.0 to -7.2; consumer: from -11.5 to -12) except retailing, where the economic sentiment increased from -3.2 to 0.8, rebounding from the last drop in the previous two months.

In the industrial sector, all components deteriorated except the production trend observed in the past three months. Production expectations fell by 2.3 points. In services, the component of expected demand for the coming 3 months lost more than 6 points

Across countries, the loss of confidence was very large in Italy (-3.6) and Spain (-3.1), while Germany had a slight improvement (+0.6) due mainly to the retailing sector (+11). With a solid increase of confidence in retailing in the last month (+11.5), Italy could not stop the general decrease of economic sentiment due to the significant drop experienced in services (-12.1), although both sectors are very volatile. In Spain the decline of confidence was mainly caused by the building sector (-11.2). In France the loss of confidence was also important (-1.8).

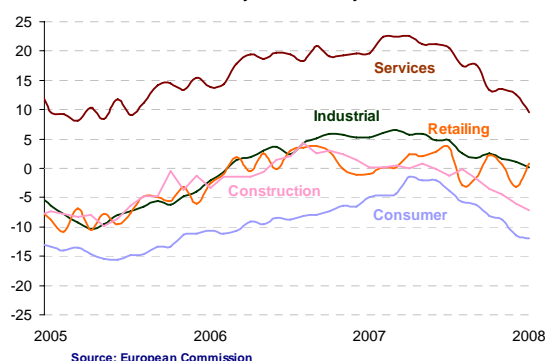
Services **PMI** rebounded somewhat from the abrupt losses in recent months and stand now at 52.3, while it was above 58 in August 2007. The improvement this month is due to the high level attained by incoming new business (+2.5 points). Manufacturing PMI's fell by 0.4 points from 52.7 to 52.3, with exports new orders worsening (-1.2). The composite PMI indicator gained one point (51.8 to 52.8).

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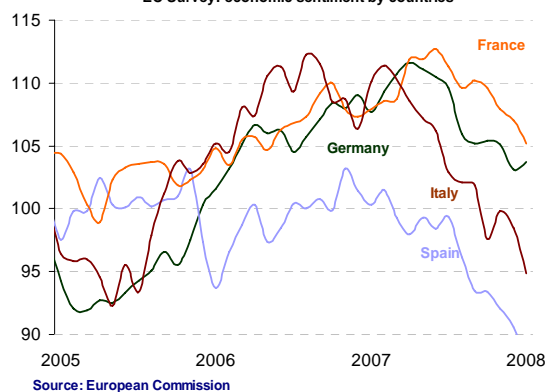
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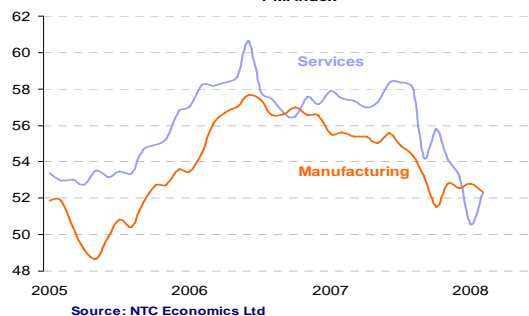
EC Survey: confidence by sectors

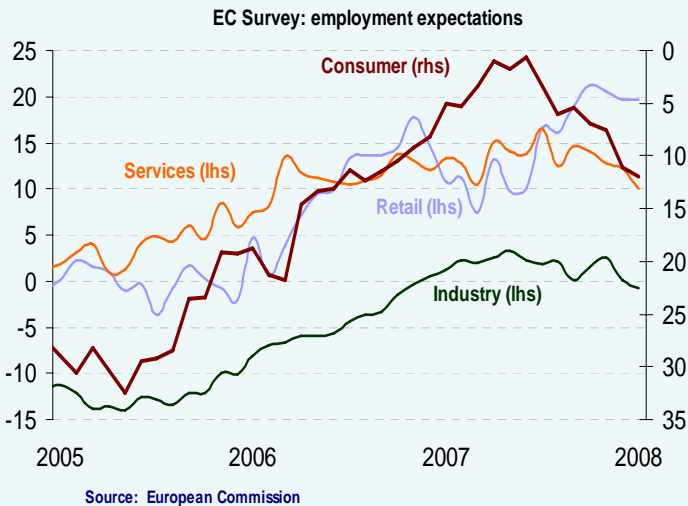


EC Survey: economic sentiment by countries



PMI index





Employment Expectations

Significant drop in services

In February, employment expectations fell among producers and consumers. In services they experienced a significant drop (2 points). In industry the fall was similar and the index entered in negative territory, not reached since November 2006. In contrast, retailers expectations remained stable and close to the historical maximum. On the consumer side, employment expectations worsen further, accumulating a drop of 6.9 points since November 2007.

PMI surveys recorded a slight decline in employment expectations in manufacturing and some improvement in services. In both sectors, employment expectations remain at very high levels, above 50.

Inflation Expectations

Less inflation pressures

In February price expectations continued the moderation they started to show last month.

Prices expectations declined especially in services (from 10.0 to 6.7) and construction (from 7.3 to 4.2), continuing the trend initiated in January. In industry they fell somewhat and for consumers they remained stable, although at very high levels. The retail sector recorded no change (19.7).

PMI surveys also point to moderating price expectations, with the composite index falling by 0.3 points for input prices and by 0.7 points for output prices.

Economic Expectations

Continued downwards trend

Forward looking confidence indicators continue their moderating trend. This month the major fall was in services, where demand expectations recorded a large decline of almost two points (from 11.6 to 9.3). Production expectations in industry were also less upbeat this month, although their trend remains broadly stable since August, with only minor falls.

Consumer expectations on the general economic situation has been deteriorating rapidly since June 2007, but have moderating their fall this month (-0.6). Other, more personal, forward looking questions to consumers also reflect downbeat responses: savings over the coming 12 months (-0.4) and major purchases over the next 12 months (-0.5).

