

Flash Comment

Euro area: PMIs signal that worst is over

- Euro area PMIs surprised positively again in January. Composite PMI rose to 50.4 from 48.3. Hence, we are back above the boom-bust level. The improvement supports our view that the sharpest drop in production happened in Q4.
- We expect the euro area to be in a mild recession with negative growth in Q4 and Q1. The euro area economy faces strong headwinds from ongoing fiscal consolidation and the deleveraging in the bank sector.

Details and outlook

Euro area flash manufacturing PMI rose to 48.7 in January from 46.9 in December. It is somewhat comforting that the PMIs seemed to have bottomed out in October/November and that we will not experience the same deterioration as we did in 2008/2009. Also the new orders components have started to increase. Manufacturing new orders rose to 46.4 from 43.5 and new export orders climbed to 48.2 from 45.4. Confidence also increased sharply in the service sector to 50.5 from 48.8. The composite index increased to 50.4 from 48.3. Overall these numbers are much better than consensus expectations.

Despite the fact that today's PMI numbers surprised positively, they signal around zero growth. We expect negative growth in Q4 of 0.3% q/q and 0.1% in Q1, see *Euro area: Recession expected to be short* published on 23 January 2012. The euro area economy faces strong headwinds from ongoing fiscal consolidation and the deleveraging in the bank sector, which will weigh on both investments and private consumption. However, ECB's introduction of the 3-year LTROs has led to a sharp change in investor sentiment. Today's release is in line with improving forward-looking indicators in both China and the US, which is somewhat comforting as the euro area relies heavily on external demand. Growth in the coming one to two years will improve slightly, but remain low as the unwinding of imbalances in both the public and private sector will continue. The improvement in the leading indicator supports our view that the ECB has delivered the last cut in this cycle and will be on hold for prolonged period of time.

Our six-month forward model indicates that we have passed the bottom, but other models are signalling that there could be a deterioration in the coming month.

German flash service PMI increased sharply to 54.5 in January from 52.4 in December. Confidence in the manufacturing sector increased to 50.9 from 48.4, which was also better than expected. Manufacturing new orders increased to 48.5 from 44.7 and export orders increased from 44.5 to 46.6. Nevertheless, new orders remain at a very low level. French flash manufacturing PMI decreased to 48.5 from 48.9. Service PMI increased to 51.7 from 50.3. The service component has been very volatile recently. Manufacturing new orders decreased to 45.1 from 46.9, while new export orders increased to 50.5 from 47.8. Overall the numbers are much better than expected.

See charts on the following pages.

Key figures (January)

	Act	DB	Con	Previous
Comp	50.4	48.7	48.5	48.3
Manu	48.7	47.6	47.3	46.9
Service	50.5	49.1	49.0	48.8
Man. ord.	46.4	43.5

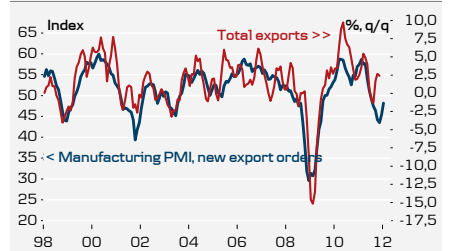
Source: Bloomberg and Danske Bank

Manufacturing PMI has improved



Source: Reuters EcoWin and own calculations

New export orders and export

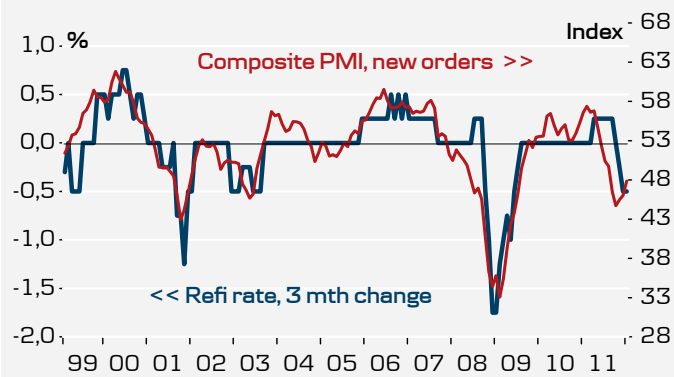


Source: Reuters EcoWin and own calculations

Analyst

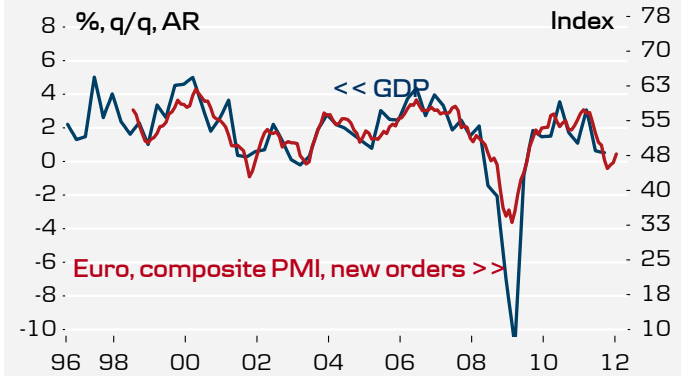
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New orders signal that the ECB will be on hold



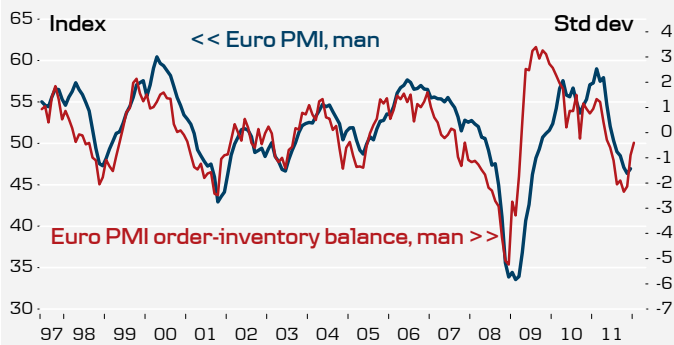
Source: Reuters EcoWin and Danske Markets

Orders are improving



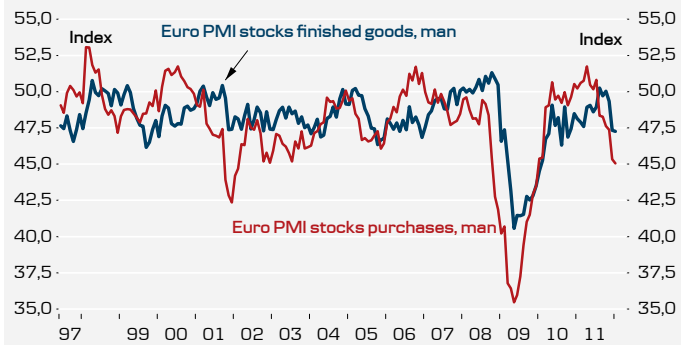
Source: Reuters EcoWin and Danske Markets

Inventory-orders balance is improving



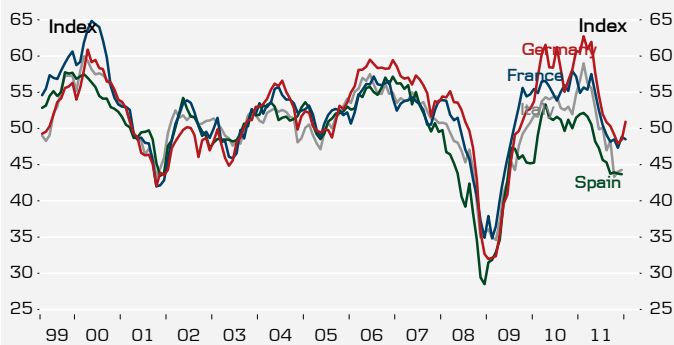
Source: Reuters EcoWin and Danske Markets

Stocks



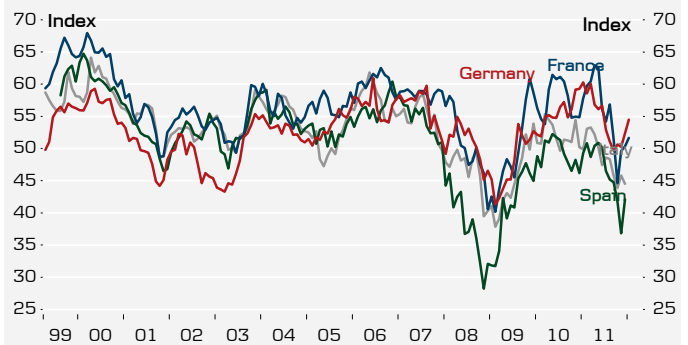
Source: Reuters EcoWin and Danske Markets

Manufacturing PMI



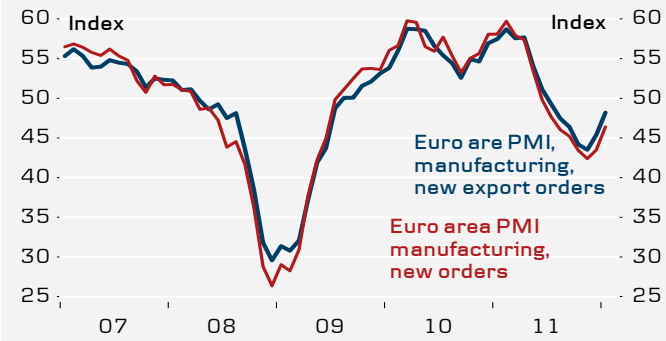
Source: Reuters EcoWin

Services PMI



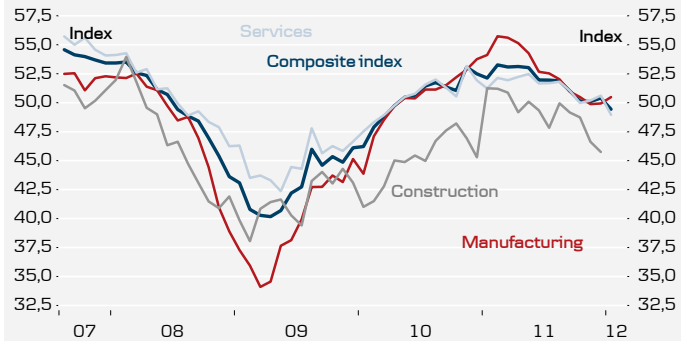
Source: Reuters EcoWin

New orders improving



Source: Reuters EcoWin

Employment around boom-bust level



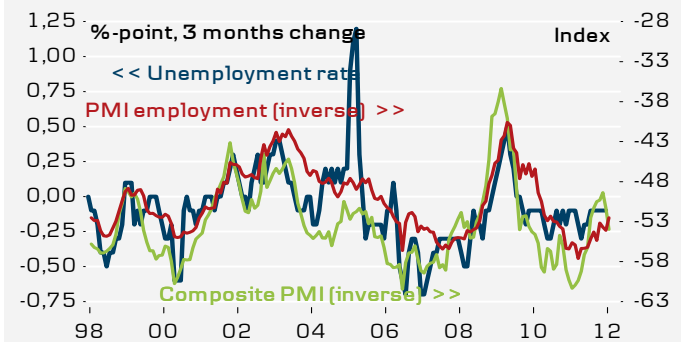
Source: Reuters EcoWin

PMI employment expectations



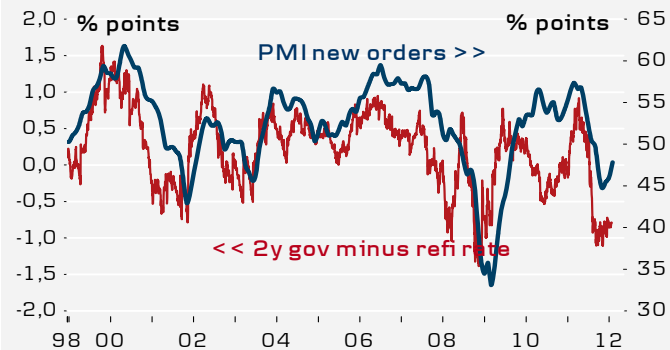
Source: Reuters EcoWin

German composite PMI and employment expectations signal no change in unemployment



Source: Reuters EcoWin

2Y yield spread against refi rate vs. PMI new orders



Source: Reuters EcoWin

Ifo expectations have stabilised. January figures will be released tomorrow



Source: Reuters EcoWin

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