Bloomberg.com

5 de Mayo de 2004

European Economies: Service Industries Expand for 10th Month

May 5 (Bloomberg) -- Service industries in the dozen euro nations, the largest part of the region's economy, expanded for a 10th month in April as rising demand for exports spurred spending on products such as computer software.

An index based on a survey of 2,000 purchasing managers compiled for Reuters Group Plc by NTC Research Ltd. rose to 54.5 from March's 54.4. A reading above 50 indicates an expansion. The euro rose to a four-week high after the report, trading at $1.2162 at 12:20 p.m. in Frankfurt.

Companies that sell services to other businesses, such as SAP AG, the world's largest maker of business-management software, are gaining from increased export demand as consumer spending stagnates. Sales abroad helped manufacturing in the euro region grow at the fastest pace in more than three years in April and boosted business confidence to a three-year high.

``The main reason for the improvement is from the export side, via manufacturing,'' said Rajeev Demello, who helps manage the equivalent of $7.3 billion at Pictet & Cie in Geneva. ``There's a transmission of business to services from manufacturing.''

Improved business confidence, helped by the euro's 6 percent retreat against the dollar from a record on Feb. 18, and faster inflation have wiped out speculation about an interest-rate cut at tomorrow's meeting of the European Central Bank.

Rising Global Demand

``Demand from the U.S. and Asia is rising sharply, and that has an impact on companies that provide services to manufacturing companies,'' said Elwin de Groot, chief economist at Fortis Bank Nederland in Amsterdam. ``Consumer spending is still the weak point of the economy.''

European households have been less upbeat than companies about the economic recovery amid rising unemployment. German joblessness rose for a fourth straight month in April, pushing up the unemployment rate to 10.5 percent from 10.4 percent, the Nuremberg-based Federal Labor Agency said today.

Retail sales fell 0.2 percent in March from February, the second monthly decline, the European Union's Luxembourg-based statistics office said today.

Highlighting the fragile state of the region's recovery, today's report showed a sub-index for business expectations fell to 64.2, the lowest level since June 2003, from 66.1 in March. The index for outstanding business declined to 50, indicating stagnation. The new business indicator remained at 53.6.

ECB Predicts Recovery

The ECB is sticking to its prediction of accelerating economic growth this year as a global recovery, led by the U.S. and Asia. A similar gauge of the U.S. service economy compiled by the Institute for Supply Management probably held near a record for April, an economist survey showed before a report to be released at 10 a.m. in Washington.

China's economy will grow 8.7 percent this year, according to a forecast by the Chinese Academy of Social Services. That compares with the European Commission's forecast for euro-area growth of 1.7 percent this year, after 0.4 percent last year.

Henning Kagermann, chief executive officer of SAP, last week predicted accelerating growth in software license sales in the second quarter, led by the U.S. market. Dassault Systemes SA, the world's biggest maker of design software, said first-quarter profit rose as businesses started spending on technology again following years of budget cuts.

Signs that exports will continue to prop up euro region growth, means all 34 economists surveyed by Bloomberg News on Friday predict the ECB will leave its benchmark rate unchanged at 2 percent tomorrow. The region's inflation rate rose to 2 percent in April from 1.7 percent in March.

Grasser Sees No Rate Cut

``If you look at the current inflation level, if you look at record oil prices, you will see that the forecast for Europe is toward 2 percent or slightly above,'' Austrian Finance Minister Karl-Heinz Grasser said in an interview in Vienna. ``That's why I don't see any scope for a cut in interest rates.''

Investors have also scaled back expectations for an ECB rate cut. The yield on the three-month interest rate futures contract for June settlement rose 19 basis points since the end of March to 2.07 percent, the same as the current money market rate.

Also boosting the services industry, tourism companies such as hotels and travel agents, especially in Spain, are recovering after the March 11 attacks in Madrid, which killed 191 people. The Spanish services PMI rose to 55.7 in April after slumping to 53.9 in March from 59.1 the month before.

``The decline in the service PMI at the European level in March was exacerbated by the Madrid bombing, and there was a sharp decline in the Spanish PMI number,'' said Luigi Speranza, an economist at BNP Paribas in London.

Spain's tourism industry will post a 2.4 percent gain in revenue this year, said Exceltur, a trade group. Two-thirds of 1,200 Spanish tourism-related businesses polled by Exceltur said revenue didn't drop after the bombings. Of those that posted declines, 49 percent said sales have rebounded since.

To contact the reporter on this story:
Jeffrey T. Lewis in the Madrid bureau, or at jtlewis@bloomberg.net