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European Services Expanded in April on Software, Banking

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 tourism recovered and 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. Economists surveyed by Bloomberg News expected an increase to 55, according to the median of 27 forecasts. A reading above 50 indicates an expansion.

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. Sales abroad helped manufacturing in the euro region grow at the fastest pace in more than three years in April, an NTC report published Monday showed. They also pushed 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."

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.

"We see a strengthening in the corporate side of the economy," said Ricardo Salgado, chief executive officer of Banco Espirito Santo SA, Portugal's third-biggest lender by assets.

Spanish Tourism

Tourism companies such as hotels and travel agents, especially in Spain, are also recovering, overcoming the effects of the March 11 attacks in Madrid, which killed 191 people.

"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.

ECB Sees Recovery

European Central Bank policy makers have said the recovery so far this year has been slower than they had predicted last year because of sputtering consumer spending. They still expect economic growth to accelerate this year as a global recovery, led by the U.S. and Asia, and the euro's 7 percent retreat against the dollar since Feb. 18 boosts exports.

China's economy will grow 8.7 percent this year, according to a forecast by the Chinese Academy of Social Services. The U.S. economy may expand 4.6 percent, the International Monetary Fund said on April 21. That compares with the European Commission's forecast for euro-area growth of 1.7 percent this year, after 0.4 percent last year.

The ECB probably won't trim its benchmark interest rate at its meeting tomorrow, according to a Bloomberg survey of 34 economists. The central bank cut its benchmark rate to 2 percent in June of last year, the lowest level in any of the euro countries in more than 5 decades.

"The ECB expects a gradual recovery, and the economic data pretty well sticks to that scenario," said Christoph Hausen, a senior economist at Gothaer Asset Management in Frankfurt. Investors have 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.

Rising Unemployment

ECB and executive expectations of a recovery has yet to feed through to employment. The jobless rate in the euro area has been unchanged at 8.8 percent for 13 consecutive months.

German unemployment rose by 23,000 in April, adjusted for seasonal swings, Reuters reported today, citing unidentified people who have seen the figures from the Federal Labor Agency.

In March, the number of job seekers increased the most in a year as Germany struggles to recover from three years of near stagnation. The government last week pared its growth forecast for this year to 1.5 percent as persistent unemployment crimps consumer spending.

``The German market has deteriorated brutally and it's not getting better," said Manuel Sastre, a general manager of Hewlett-Packard Espanola, which sells personal computers to businesses and consumers.

``Consumer spending is still the weak point of the economy," said Elwin de Groot, chief economist at Fortis Bank Nederland in Amsterdam.

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