

# ECOWEEK

N° 17-28// 13 July 2017

## Time for structural policy

■ Eurozone economic growth is robust. This dynamism is shared amongst its members ■ However, important structural differences remain ■ The favourable cyclical environment calls for an economic policy to boost potential GDP growth and strengthen the resilience

Eurozone growth is robust. 7 out of 8 countries have a manufacturing PMI way above the 50 line (Greece is just above that level). For the services PMI 4 out of 5 are in that position (Italy is lagging a bit). Convergence has increased: since the start of EMU the dispersion for GDP growth, core inflation, fiscal balance, current account balance has declined. The Great Recession did see an increased divergence in terms of unemployment and output gap but since then this has improved a lot.

There is a risk of being “blinded by the light”, of looking too much at the cyclical picture and paying insufficient attention to persistent structural differences between eurozone countries. These differences are an important issue. They imply that in the long run some countries will be able to grow faster than others, e.g. because they benefit from stronger productivity growth. Citizens in slow growth countries may feel left behind. They also imply that some countries will be less resilient to shocks than others, because they have a high public sector debt burden (which would mean little or no policy leeway to support growth in case of a recession), because private sector debt is high (which weighs on final demand responsiveness to monetary easing) or because, as is the case in Italy and Portugal, non-performing loans are still high.

As a consequence, boosting potential GDP growth and economic resilience are important objectives for structural economic policy. The current environment is supportive for such a policy. There is no longer a need for short-term fire-fighting and to the extent that some of these efforts could create some headwind in the short run, countries are now better positioned to cope with them. Finally, policies conducted in individual countries create positive externalities and make the eurozone as a whole more robust.

William De Vijlder

EUROZONE: PURCHASING MANAGER INDEX																
	Manufacturing										Services					
	EZ	AT	FR	BD	GR	IR	IT	NL	ES	EZ	FR	BD	IR	IT	ES	
Aug-16	51.7	52.1	48.3	53.6	50.4	51.7	49.8	53.5	51.0	52.8	52.3	51.7	59.7	52.3	56.0	
Sep-16	52.6	53.5	49.7	54.3	49.2	51.3	51.0	53.4	52.3	52.2	53.3	50.9	56.2	50.7	54.7	
Oct-16	53.5	53.9	51.8	55.0	48.6	52.1	50.9	55.7	53.3	52.8	51.4	54.2	54.6	51.0	54.6	
Nov-16	53.7	55.4	51.7	54.3	48.3	53.7	52.2	57.0	54.5	53.8	51.6	55.1	56.0	53.3	55.1	
Dec-16	54.9	56.3	53.5	55.6	49.3	55.7	53.2	57.3	55.3	53.7	52.9	54.3	59.1	52.3	55.0	
Jan-17	55.2	57.3	53.6	56.4	46.6	55.5	53.0	56.5	55.6	53.7	54.1	53.4	61.0	52.4	54.2	
Feb-17	55.4	57.2	52.2	56.8	47.7	53.8	55.0	58.3	54.8	55.5	56.4	54.4	60.6	54.1	57.7	
Mar-17	56.2	56.8	53.3	58.3	46.7	53.6	55.7	57.8	53.9	56.0	57.5	55.6	59.1	52.9	57.4	
Apr-17	56.7	58.1	55.1	58.2	48.2	55.0	56.2	57.8	54.5	56.4	56.7	55.4	61.1	56.2	57.8	
May-17	57.0	58.0	53.8	59.5	49.6	55.9	55.1	57.6	55.4	56.3	57.2	55.4	59.5	55.1	57.3	
Jun-17	57.4	60.7	54.8	59.6	50.5	56.0	55.2	58.6	54.7	55.4	56.9	54.0	57.6	53.6	58.3	

Sources: Markit, BNP Paribas

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ECONOMIC RESEARCH DEPARTMENT

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# On our radar screen

## Eurozone: cyclical convergence, structural differences

■ The Eurozone has seen cyclical convergence in recent years with a reduced dispersion across of variables like fiscal balance, unemployment, inflation ■ Structural differences remain sizeable and influence long-term growth as well as the resilience to shocks

The eight following charts illustrate the points made in this week's editorial. With the exception of the chart on non-performing loans, the charts show the evolution of the cross-sectional standard deviation for different economic variables. It is useful to look at the dynamics but also at the level: the standard deviation of unemployment has declined in recent years but, looking at the scale, remains at a high level. The dispersion in terms of productivity (output per hour) has fluctuated quite a bit but the range has been narrow. On average however, the standard deviation is high.

The picture which emerges is quite mixed. On the positive side one should note

1. The declining standard deviation of the fiscal balance, which moreover converges to a low level
2. The decline in the standard deviation of the output gap
3. The declining standard deviation of core inflation

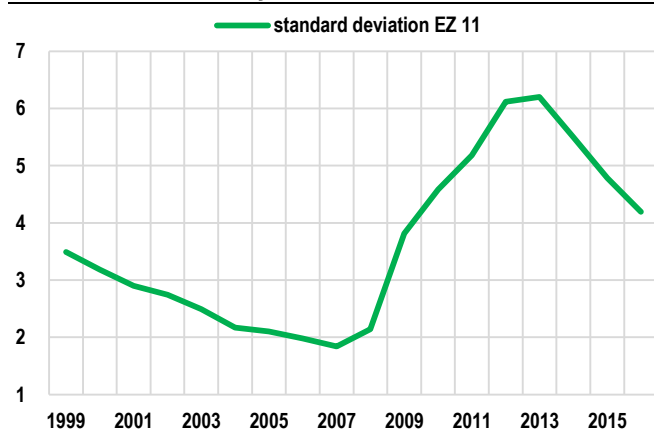
On a less positive or even negative note we have

1. The high dispersion in the unemployment rate.
2. Moreover the dispersion remains well above the low point before the Great Recession
3. The jump in the standard deviation of public sector debt, with no subsequent decline
4. The jump in the standard deviation of private sector debt, with no subsequent decline
5. Labour productivity fluctuates a lot and the standard deviation remains high
6. In several countries the banking sector still has a high level of non-performing loans

Sizeable structural differences imply that countries will grow at different speeds which may complicate the conduct of monetary policy, which of course applies to the Eurozone as a whole. In addition, they also reflect differences in terms of resilience to economic shocks, fiscal policy leeway and responsiveness to monetary policy.

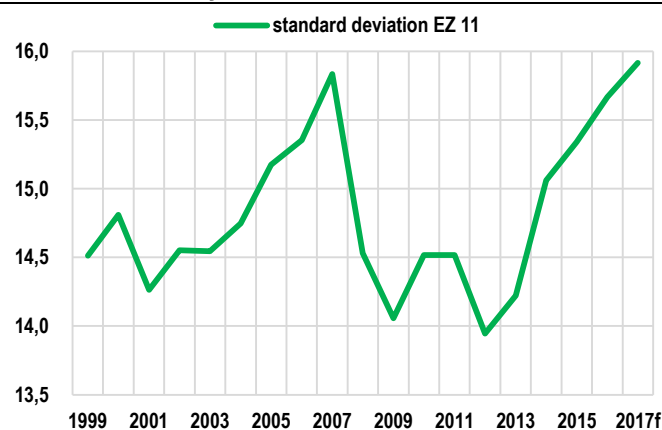
William De Vijlder

Harmonised unemployment rate, %



Sources: Eurostat, BNP Paribas

Labor productivity (per hour worked) (2016 PPP USD)



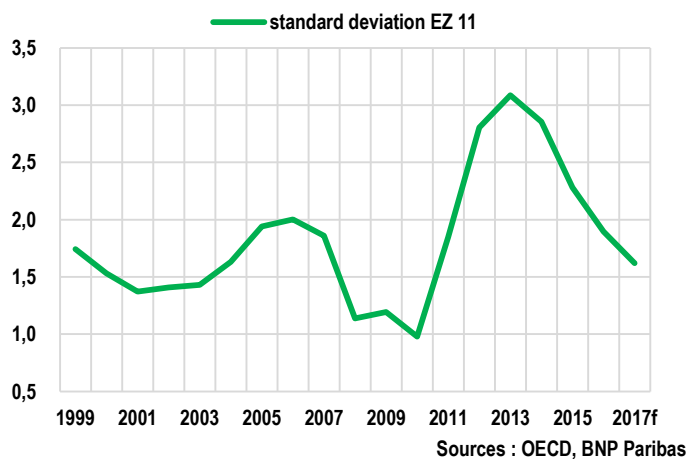
Sources: The Conference Board, BNP Paribas



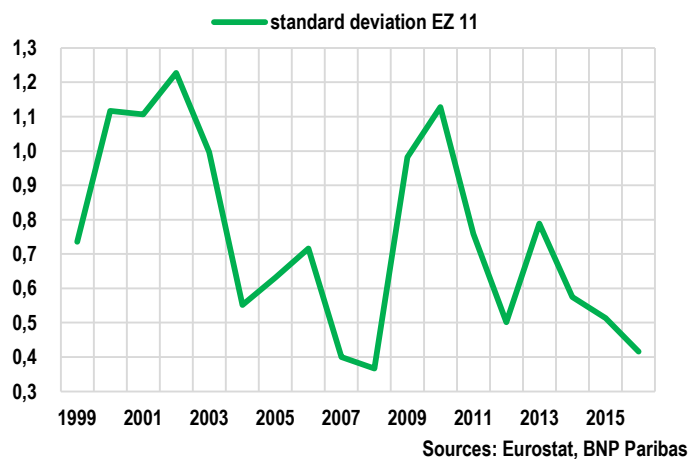
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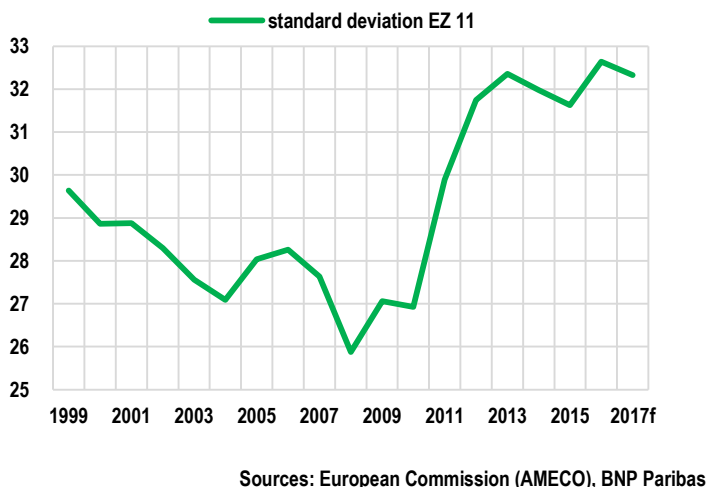
## Output gap, %



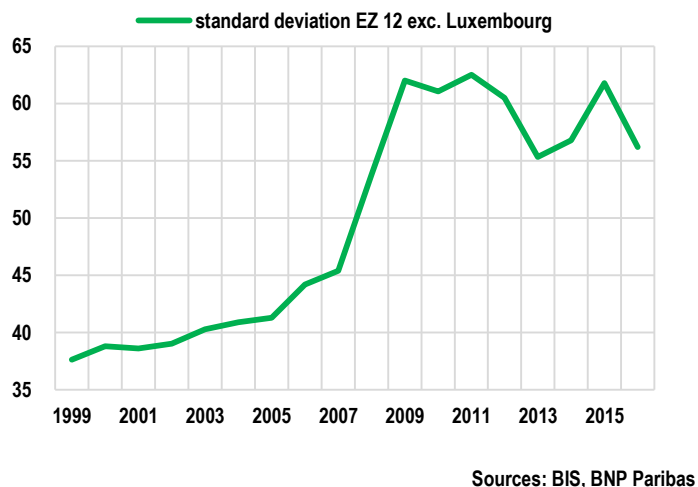
## Harmonised core CPI, y/y%



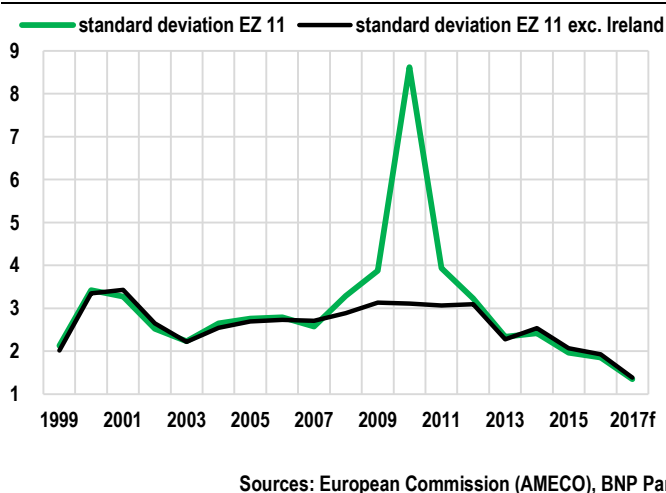
## General government consolidated gross debt, % of GDP



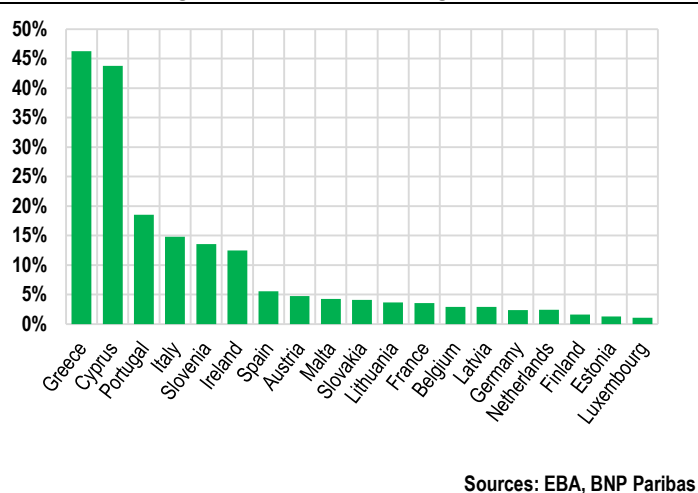
## Total credit to the private non-financial sector, % of GDP



## Fiscal balance, % of GDP



## Non-performing loans as a % of total gross loans



EZ 11: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain ; EZ 12: EZ 11 + Greece  
 f: forecast


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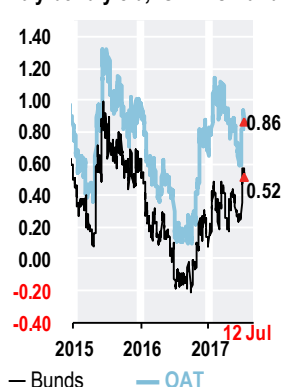
## Markets overview

## The essentials

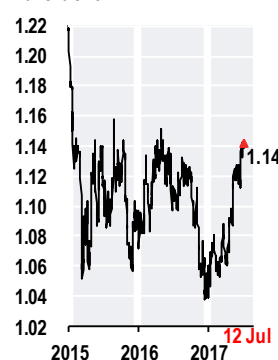
Week 7-7 17 &gt; 12-7-17

➔ CAC 40	5 145	➔ 5 222	+1.5 %
➔ S&P 500	2 425	➔ 2 443	+0.7 %
➔ Volatility (VIX)	11.2	➔ 10.3	-0.9 %
➔ Euribor 3M (%)	-0.33	➔ -0.33	+0.0 bp
➔ Libor \$ 3M (%)	1.31	➔ 1.30	-0.2 bp
➔ OAT 10y (%)	0.94	➔ 0.86	-7.3 bp
➔ Bund 10y (%)	0.57	➔ 0.52	-5.4 bp
➔ US Tr. 10y (%)	2.39	➔ 2.33	-6.6 bp
➔ Euro vs dollar	1.14	➔ 1.14	+0.3 %
➔ Gold (ounce, \$)	1 210	➔ 1 222	+1.0 %
➔ Oil (Brent, \$)	46.9	➔ 47.8	+1.8 %

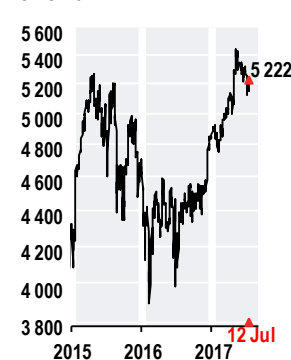
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



## Money &amp; Bond Markets

Interest Rates	highest' 17	lowest' 17
€ ECB	0.00 at 02/01	0.00 at 02/01
Eonia	-0.36 at 02/06	-0.37 at 05/06
Euribor 3M	-0.33 at 02/01	-0.33 at 10/04
Euribor 12M	-0.15 at 02/01	-0.16 at 23/06
\$ FED	1.25 at 15/06	0.75 at 02/01
Libor 3M	1.30 at 07/07	1.00 at 02/01
Libor 12M	1.75 at 15/03	1.68 at 06/01
£ BoE	0.25 at 02/01	0.25 at 02/01
Libor 3M	0.30 at 05/01	0.29 at 21/06
Libor 12M	0.65 at 09/01	0.61 at 14/06

At 12-7-17

Yield (%)	highest' 17	lowest' 17
€ AVG 5-7y	0.47 at 17/03	0.18 at 21/06
Bund 2y	-0.68 at 27/06	-0.96 at 24/02
Bund 10y	0.52 at 06/07	0.09 at 02/01
OAT 10y	0.86 at 06/02	0.59 at 14/06
Corp. BBB	1.44 at 01/02	1.29 at 26/06
\$ Treas. 2y	1.34 at 03/07	1.14 at 24/02
Treas. 10y	2.33 at 13/03	2.14 at 26/06
Corp. BBB	3.55 at 14/03	3.46 at 14/06
£ Treas. 2y	0.28 at 29/06	0.01 at 28/02
Treas. 10y	1.34 at 26/01	0.87 at 14/06

At 12-7-17

10y bond yield &amp; spreads

5.36%	Greece	484 pb
3.10%	Portugal	258 pb
2.25%	Italy	173 pb
1.63%	Spain	111 pb
0.89%	Ireland	37 pb
0.86%	France	34 pb
0.86%	Belgium	34 pb
0.72%	Netherlands	20 pb
0.67%	Austria	15 pb
0.56%	Finland	4 pb
0.52%	Germany	

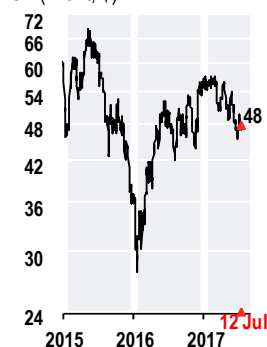
## Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	48 at 26/06	-22.2%
Gold (ounce)	1 156 at 03/01	-2.5%
Metals, LME	2 639 at 03/01	-1.7%
Copper (ton)	5 462 at 08/05	-1.7%
CRB Foods	325 at 24/04	+1.0%
wheat (ton)	146 at 24/04	+29.0%
Corn (ton)	130 at 23/03	+0.6%

At 12-7-17

Variations

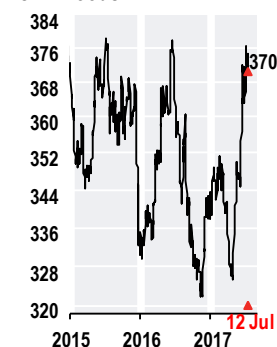
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



## Exchange Rates

1€ =	highest' 17	lowest' 17	2017
USD	1.14 at 29/06	1.04 at 03/01	+8.3%
GBP	0.89 at 11/07	0.84 at 19/04	+3.8%
CHF	1.10 at 11/07	1.06 at 08/02	+2.7%
JPY	129.11 at 11/07	115.57 at 17/04	+4.9%
AUD	1.49 at 01/06	1.37 at 23/02	+2.2%
CNY	7.75 at 11/07	7.22 at 03/01	+5.7%
BRL	3.69 at 06/07	3.24 at 15/02	+7.6%
RUB	68.67 at 11/07	59.66 at 17/04	+6.7%
INR	73.72 at 06/07	68.18 at 07/04	+3.0%

At 12-7-17

Variations

## Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 432 at 05/05	4 749 at 31/01	+7.4%	+7.4%
S&P500	2 453 at 19/06	2 239 at 02/01	+9.1%	+0.8%
DAX	12 889 at 19/06	11 510 at 06/02	+10.0%	+10.0%
Nikkei	20 230 at 20/06	18 336 at 14/04	+5.1%	+0.2%
China*	74 at 12/07	59 at 02/01	+27.1%	+16.7%
India*	553 at 12/07	445 at 03/01	+17.9%	+14.4%
Brazil*	1 792 at 22/02	1 639 at 21/06	+6.5%	-1.0%
Russia*	622 at 03/01	497 at 22/06	-14.3%	-19.9%

At 12-7-17

Variations

\* MSCI index



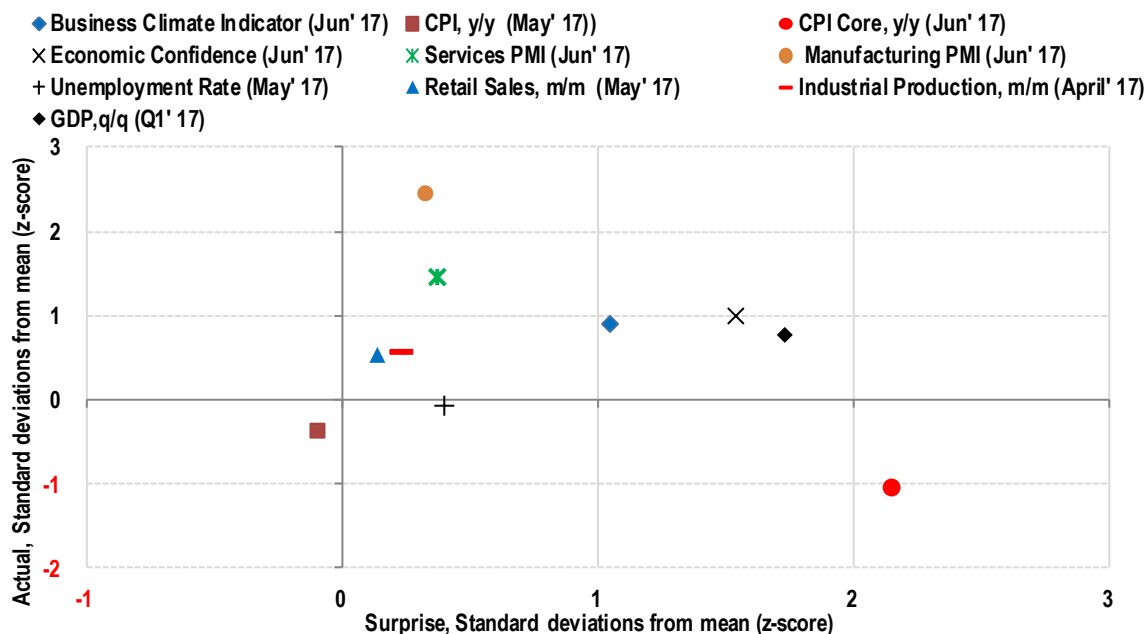
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## Pulse

## Eurozone: Strong growth

Our new pulse indicator shows the buoyant economic situation: most indicators are above their long-term average (Y-axis) and their most recent readings have been above expectations (X-axis). Compared to the long-term average, core inflation remains an issue.



Note: z-score is a score which indicates how many standard deviations an observation is from the mean:  $z = (x - \mu) / \sigma$  where  $x$ : observation,  $\mu$ : mean,  $\sigma$ : standard deviation.

On the X-axis,  $x$  corresponds at the last known surprise for each indicator represented on the graph,  $\mu$  and  $\sigma$  corresponds respectively to the mean and the standard deviation of the last 24 value for monthly data and the last 8 quarters for quarterly data.

On the Y-axis,  $x$  corresponds at the last known value of indicator,  $\mu$  and  $\sigma$  corresponds respectively to the mean and the standard deviation for this indicator since 2000.

Sources: Eurostat, Markit, BNP Paribas

## Indicators preview

An important week for the Eurozone with several data releases and, of course, the ECB meeting

## To watch from 17 to 21 July 2017

Date	Country	Event	Period	Survey	Prior
17/07/2017	US	Empire Manufacturing Survey	July	15,0	19,8
18/07/2017	Eurozone	ECB Bank Lending Survey			
	Eurozone	HICP, m/m	June		-0,1%
	Eurozone	HICP Core, y/y	June		1,1%
	UK	RPI, m/m	June		0,4%
19/07/2017	US	Housing Starts	June	1170k	1092k
	US	Building Permits	June	1210k	1168k
20/07/2017	US	Philadelphia Fed manufacturing survey	July	23,7%	27,6%
	Eurozone	ECB Governing Council Meeting	July		0,0%
	Eurozone	Consumer Confidence	July		-1,3
	UK	Retail Sales Ex Auto Fuel, m/m	June		-1,6%
	Japan	BOJ Monetary Policy Statement			
21/07/2017	Eurozone	ECB Survey of Professional Forecasters			



## Economic scenario

### UNITED STATES

- GDP growth keeps on a decent 2% pace and may have picked-up in Q2. However the fiscal outlook remains uncertain. A fiscal stimulus still is possible, but it would not be implemented before end-2017. Potential effects are thus uncertain.
- The labour market is buoyant than ever. Still, the support to households' disposable income is not as strong as it looks as wage inflation remains limited.
- With inflation relatively muted at this stage of the cycle, the Fed is in no rush to increase rates.. We forecast the Fed Funds target rates to come at 1.25/1.50% by year-end, 2/2.5% by mid 2018.

Annual growth, %	2016	2017 e	2018 e
<b>GDP</b>	<b>1.6</b>	<b>2.2</b>	<b>2.6</b>
Private consumption	2.7	2.8	2.8
Gross Fixed Capital Formation	-0.5	5.0	5.5
Exports	0.4	3.0	2.6
Consumer Price Index (CPI)	1.3	2.0	2.5
CPI ex food and energy	2.2	2.1	2.7
Unemployment rate	4.9	4.6	4.2
Current account balance	-2.6	-2.8	-3.1
Fed. Govt. Budget Balance (% of GDP)	-3.1	-2.9	-3.5
Gross Fed. Govt. Debt (% GDP)	75.9	76.2	76.8

### CHINA

- After a period of stabilisation since Q2 2016, growth is expected to slow down moderately in the short term.
- Exports should continue to rebound and infrastructure projects will continue to drive investment. However the downside risks are high due to the reduction in industrial production capacity, risks of a downturn in the real estate market and greater financial instability, and slow growth of household revenues.
- The authorities are expected to maintain an expansionist fiscal policy, while the central bank continues to tighten monetary conditions very cautiously.

Annual growth, %	2016	2017 e	2018 e
<b>GDP</b>	<b>6.7</b>	<b>6.6</b>	<b>6.4</b>
Industrial output	6.0	6.5	6.0
Gross Fixed Capital Formation (nominal)	8.1	8.5	8.0
Exports (nominal)	-7.7	6.0	5.0
Consumer Price Index (CPI)	2.0	1.8	2.3
Producer Price Index (PPI)	6.0	6.5	6.0
Current account (% GDP)	1.8	1.4	1.1
Gen. Govt. Balance (% of GDP)	-3.8	-3.2	-3.0
Foreign reserves (\$bn)	3 011	3 024	3 072

### EUROZONE

- The recovery is getting stronger and broader: the dispersion of economic performances among member states is receding.
- Despite the cyclical recovery, core inflation still shows no sign of a convincing upward trend. For the recovery to enter its inflationary phase the economy has to improve further, until the point at which wages will tend to increase.
- The level of slack remains uncertain though. Broader measures of labor underutilization reach 18%, double the level of the current unemployment rate. The ECB is expected to remain cautious.

Annual growth, %	2016	2017 e	2018 e
<b>GDP</b>	<b>1.7</b>	<b>1.9</b>	<b>1.6</b>
Private consumption	1.9	1.5	1.4
Gross Fixed Capital Formation	3.5	1.9	2.6
Exports	2.9	4.5	3.9
Consumer Price Index (CPI)	0.2	1.6	1.4
CPI ex food and energy	0.9	1.1	1.4
Unemployment rate	10.0	9.3	8.8
Current account balance	3.3	3.6	3.5
Gen. Govt. Balance (% of GDP)	-1.5	-1.4	-1.3
Public Debt (% GDP)	91.3	90.3	89.0

### FRANCE

- A clear growth acceleration is underway. Higher rates of growth should resume. Households' consumption is supported by the jobs recovery but restrained by the upturn in inflation. Investment and exports dynamics are favourable. Risks lie slightly on the upside.
- We expect the output gap to slowly narrow and the unemployment rate to progressively decline, containing the rise in inflation.
- Fiscal policy should continue to combine growth supportive measures and consolidation ones. The fiscal deficit should not be a lot more reduced but it should remain below the 3% threshold.

Annual growth, %	2016	2017 e	2018 e
<b>GDP</b>	<b>1.1</b>	<b>1.6</b>	<b>1.6</b>
Private consumption	1.8	1.4	1.6
Gross Fixed Capital Formation	2.7	2.4	3.1
Exports	1.2	2.9	3.7
Consumer Price Index (HCPI)	0.3	1.3	1.0
CPI ex food and energy	0.6	0.7	0.9
Unemployment rate	10.1	9.6	9.3
Current account balance	-0.9	-1.1	-0.9
Gen. Govt. Balance (% of GDP)	-3.4	-3.0	-2.8
Public Debt (% GDP)	96.3	96.3	96.2

Sources: BNP Paribas Group Economic Research, European Commission ; e: Estimates and forecasts



## Economic forecasts

%	GDP Growth			Inflation		
	2016	2017 e	2018 e	2016	2017 e	2018 e
<b>Advanced</b>	<b>1.7</b>	<b>2.0</b>	<b>1.9</b>	<b>0.8</b>	<b>1.7</b>	<b>1.9</b>
United-States	1.6	2.2	2.6	1.3	2.0	2.5
Japan	1.0	1.4	1.0	-0.1	0.6	0.7
United-Kingdom	1.8	1.8	1.1	0.6	2.6	2.6
<b>Euro Area</b>	<b>1.7</b>	<b>1.9</b>	<b>1.6</b>	<b>0.2</b>	<b>1.6</b>	<b>1.4</b>
Germany	1.8	2.0	1.9	0.4	1.8	1.7
France	1.1	1.6	1.6	0.3	1.3	1.0
Italy	1.0	1.2	0.6	-0.1	1.6	1.2
Spain	3.2	2.8	2.2	-0.3	2.1	1.6
<b>Emerging</b>	<b>4.1</b>	<b>4.6</b>	<b>4.9</b>	<b>4.4</b>	<b>3.2</b>	<b>3.5</b>
China	6.7	6.6	6.4	2.0	1.8	2.3
India	7.1	7.5	7.9	4.5	4.6	4.9
Brazil	-3.6	0.5	3.0	8.8	3.6	4.0
Russia	-0.2	1.4	1.6	7.1	4.5	4.5
<b>World</b>	<b>3.1</b>	<b>3.5</b>	<b>3.7</b>	<b>2.8</b>	<b>2.6</b>	<b>2.8</b>

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts,)

## Financial forecasts

Interest rates, %		2017				2018				2016	2017e	2018e
		Q1	Q2e	Q3e	Q4e	Q1e	Q2e	Q3e	Q4e			
<b>US</b>	Fed Funds	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.75	1.50	2.50
	Libor 3m \$	1.15	1.20	1.50	1.75	1.90	2.05	2.25	2.45	1.00	1.75	2.45
	T-Notes 10y	2.40	2.20	2.60	3.00	3.10	3.25	3.25	3.25	2.45	3.00	3.25
<b>Ezone</b>	Taux "refi" BCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.00	0.00	0.25
	Euribor 3 mois	-0.33	-0.33	-0.36	-0.36	-0.36	-0.36	-0.16	0.05	-0.32	-0.36	0.05
	Bund 10y	0.33	0.29	0.60	0.80	1.00	1.20	1.40	1.50	0.11	0.80	1.50
	OAT 10y	0.97	0.74	1.05	1.25	1.45	1.65	1.80	1.90	0.69	1.25	1.90
<b>UK</b>	Base rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.25	0.25	0.50
	Gilts 10y	1.07	1.00	1.10	1.25	1.40	1.55	1.80	2.00	1.24	1.25	2.00
<b>Japan</b>	BoJ Rate	-0.06	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.06	-0.10	-0.10
	JGB 10y	0.07	0.06	0.07	0.08	0.08	0.08	0.08	0.08	0.05	0.08	0.08

Exchange Rates		2017				2018				2016	2017e	2018e
		Q1	Q2e	Q3e	Q4e	Q1e	Q2e	Q3e	Q4e			
<b>USD</b>	EUR / USD	1.07	1.10	1.07	1.04	1.05	1.06	1.08	1.10	1.05	1.04	1.10
	USD / JPY	111	115	117	120	118	116	114	112	117	120	112
	GBP / USD	1.25	1.31	1.30	1.30	1.30	1.29	1.29	1.29	1.24	1.30	1.29
	USD / CHF	1.00	1.00	1.05	1.08	1.07	1.06	1.04	1.05	1.02	1.08	1.05
<b>EUR</b>	EUR / GBP	0.86	0.84	0.82	0.80	0.81	0.82	0.84	0.85	0.85	0.80	0.85
	EUR / CHF	1.07	1.10	1.12	1.12	1.12	1.12	1.12	1.15	1.07	1.12	1.15
	EUR / JPY	119	127	125	125	124	123	123	123	123	125	123

Source : BNP Paribas Group Economic Research / GlobalMarkets (e: Estimates & forecasts)





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