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Business sentiment stabilises, but at a low level

■ Recent business surveys such as the purchasing managers' indices, point towards a broad-based stabilisation in October ■ This is a welcome development after a prolonged downward trend ■ However, in a historical perspective, the recent readings are low or, looking at the manufacturing sector, very low. This points to an ongoing subdued growth environment ■ Going forward, a sideways movement of these surveys should increase the likelihood of a growth acceleration: when the frequency of bad news drops, confidence should eventually rebound, fuelling spending, all the more so given the very accommodative financial and monetary conditions.

When on holidays, it has been raining for days in row, the mere decline in intensity of the rainfall will be met with relief, triggering hope that sunshine is about to arrive. One would almost forget that, when rushing outside without an umbrella, you will still get wet. It is useful to keep this metaphor in mind when analysing the business survey data for October. Starting with the (rather) good news, in the US, the ISM indices for manufacturing and non-manufacturing rebounded, reaching respectively 48.3 (47.8 in September) and 54.7 (52.6). The IHS Markit purchasing managers' index (PMI) for US manufacturing edged up slightly (51.3 versus 51.1) but the opposite happened with the services PMI (50.6 versus 50.9).

In the eurozone, the manufacturing PMI hardly changed (45.9 versus 45.7 in September). Germany did a bit better, as well as France, but the climate continued to worsen in Spain. Italy was stable. The eurozone services business activity index improved somewhat (52.2 versus 51.6) on the back of a slight uptick in Germany, a healthy increase in France and Italy and a decline in Spain. In China, the Caixin manufacturing PMI increased slightly (from 51.4 to 51.7) but the opposite happened in services. Finally, in Japan, both manufacturing and services weakened further. All in all, with the exception of Japan, the purchasing managers' data suggest that business sentiment is stabilising. In Germany this has also been confirmed by the ifo business climate index which remained stable in October after having been on a downward trend since early 2018. In France on the other hand, the INSEE business climate weakened slightly.

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PURCHASING MANAGERS' INDICES							
	Manufacturing			Services			Sample
	Level (Oct. 19)	Decile	Change Oct/Sept	Level (Oct. 19)	Decile	Change Oct/Sept	
US							
ISM Manuf.	48,3	2	0,5				2000 - 2019
ISM Services				54,7	5	2,1	2000 - 2019
PMI Manuf.	51,3	2	0,2				2007 - 2019
PMI Services				50,6	1	-0,3	2009 - 2019
Eurozone							
PMI Manuf.	45,9	1	0,2				2000 - 2019
PMI Services				52,2	4	0,6	2000 - 2019
Germany							
PMI Manuf.	42,1	1	0,4				2000 - 2019
PMI Services				51,6	3	0,2	2000 - 2019
France							
PMI Manuf.	50,7	5	0,6				2000 - 2019
PMI Services				52,9	4	1,8	2000 - 2019
Italy							
PMI Manuf.	47,7	2	-0,1				2000 - 2019
PMI Services				52,2	5	0,8	2000 - 2019
Spain							
PMI Manuf.	46,8	2	-0,9				2000 - 2019
PMI Services				52,7	5	-0,6	2000 - 2019
China							
PMI Manuf.	51,7	7	0,3				2004 - 2019
PMI Services				51,1	1	-0,2	2005 - 2019
Japan							
PMI Manuf.	48,4	2	-0,5				2001 - 2019
PMI Services				49,7	5	-3,1	2007 - 2019

Source: ISM - Institute for Supply Management, Markit, BNP Paribas

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When using these indicators to assess the dynamics of GDP growth in Q4, it is important to keep in mind that the fluctuations in the PMI tells us something about the change in the pace of growth of the economy (a stable PMI thus corresponds to an unchanged growth rate). When gauging the growth rate per se, one should focus on the level of the PMI. In most countries, this provides a sobering conclusion with the services PMIs below long-term averages and even more so for the manufacturing indices. France is a noteworthy exception, something which is also reflected in the INSEE business climate index which remains above its long-term average.

These points remind us that the assessment of the economic environment very much depends on the chosen perspective. The stabilisation of business surveys which had been trending down is of course welcome news but more evidence is needed before one can state that the trough has been reached. As such, stabilisation is only a first step, but an important one. Going forward, a sideways movement of these surveys should increase the likelihood of a growth acceleration: when the frequency of bad news drops, confidence should eventually rebound, fuelling spending, all the more so given the very accommodative financial and monetary conditions.

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