

ECONOMIC PULSE

EUROZONE: CONFIDENCE SURVEYS ON A DOWNWARD SLOPE BUT NOT SLIPPERY

Economic newsflow was particularly rich last week. The first important items, looking in the rear-view mirror, were the first growth estimates for Q4 2021 in France, Germany and Spain¹. Performances were mixed, between the 0.7% q/q contraction in Germany, further strong growth of 2% q/q in Spain and, between these two, growth of 0.7% q/q in France. The contraction in German GDP is in line with estimates drawn from the publication on 14 January of national accounts for 2021. French growth turned out slightly above our expectations (0.6%), a surprise that was all the more positive given that the risk was of a lower figure given supply constraints and inflationary pressures. Spanish growth exceeded our expectations (1.1%) by even more, a performance more in line with the strength of the labour market. Even so, Spain's GDP in Q4 2021 was still 4% below its level in Q4 2019 before the pandemic; Germany's gap has widened to 1.5%, whilst French GDP has now edged 0.9% above its pre-pandemic level. This is still some distance behind the performance in the US, where GDP is now 3.1% above its pre-Covid levels, after another strong and better than expected print in the fourth quarter (1.7% q/q against our forecast of 1.3% q/q).

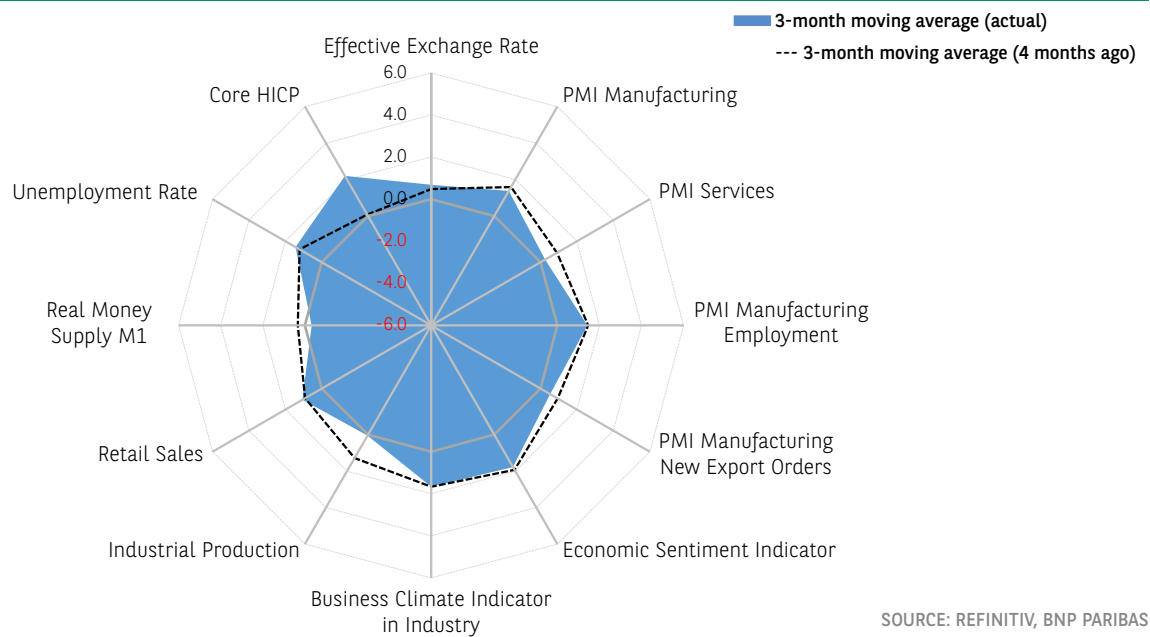
Looking forward now, January's confidence surveys fitted the pattern of recent months: the figures continued to decline while showing a degree of resilience (the blue area on our Pulse is only just within the dotted area). The European Commission's economic sentiment index fell in January, but by much less than in December thanks to a significantly smaller fall in consumer confidence and in the services sector and a rebound in the retail sector, and despite the fact that confidence in construction and industry joined the downward trend. Similarly, Markit's Composite PMI index fell by less in January than in December, with a smaller fall in the services PMI and a recovery in the manufacturing figure. The rebound of these same indicators in Germany and of the Ifo index too, but their continued decline in France (including the INSEE index) leave the same mixed impression, with the positive (like the signs of the beginning of an easing of delivery times and input prices pressures) maybe slightly outweighing the negative however.

Household confidence tends to garner less attention than business climate surveys, but will need to be followed very closely too over the coming months. A more pronounced decline, caused by higher inflation, is something to worry about. The strength of the labour market is certainly having a substantial cushioning effect (in November 2021 the unemployment rate dropped to an historic low of 7.2%), but the risk is that inflation will continue to surprise on the upside and that it will have a more significant negative effect on confidence and economic activity. January could bring the long-awaited peak in inflation (we will find out on Wednesday 2 February with Eurostat's flash estimate). However, uncertainty remains high and inflationary pressures fairly strong: even if this does mark the peak, we do not expect inflation to fall fast on the other side.

Hélène Baudchon

1. At the time of writing, the growth figure for the eurozone as a whole was not yet known. We are expecting +0.4% q/q.

QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

