

ECONOMIC PULSE

EUROZONE: ECONOMIC IMPROVEMENT AGAINST A BACKGROUND OF EPIDEMIC RESURGENCE

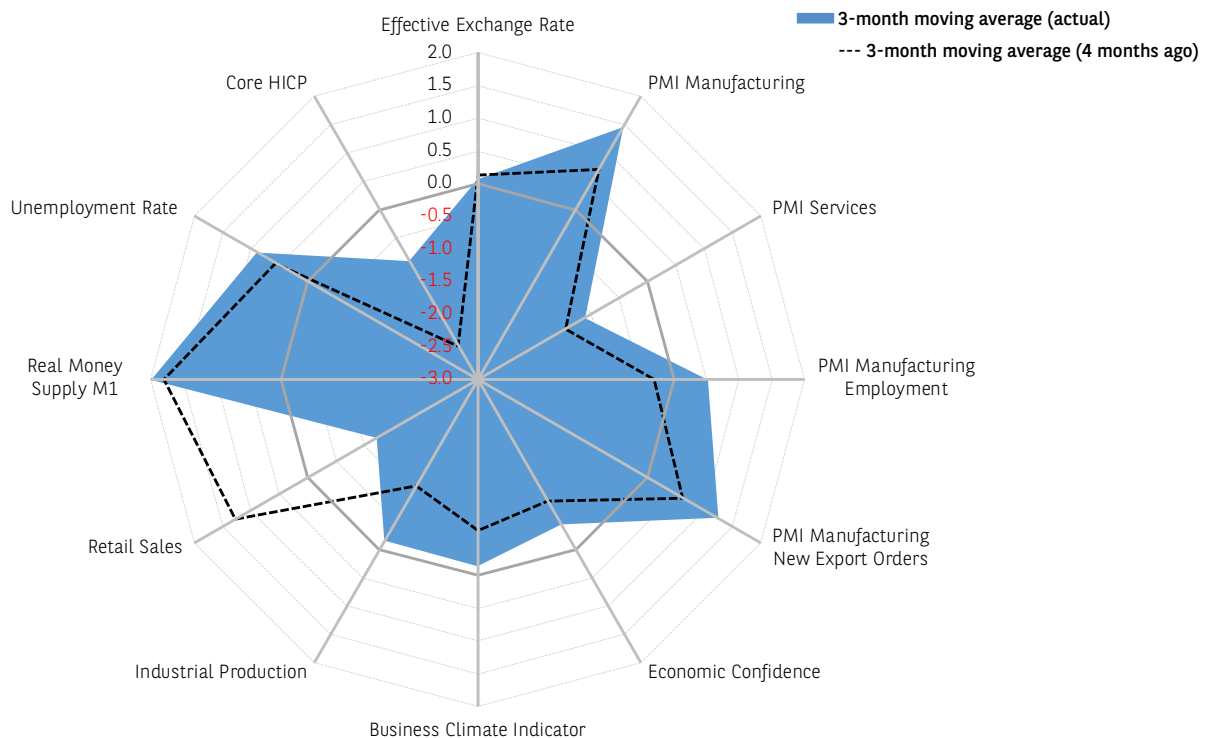
The resurgence of the Covid-19 pandemic in Europe has led to new health measures in most countries: restrictions were extended to the entire territory of France; Germany tightened its border controls; and Italy extended restrictions until the end of April. Given this difficult situation, the eurozone economy sent some signs of improvement over the last three months, compared to the previous quarter. These dynamics are displayed in the chart below, with the blue area beyond the dotted line for almost all indicators.

Without over-optimism, the latest data send positive signals about the eurozone recovery, partly reflecting the adaptation of European populations to the health measures in force. The manufacturing sector has done particularly well. The Purchasing Managers Index (PMI) for the sector has been on a rising trend since the spring of 2020 and the improvement over recent months has been clear. Indeed, in March, it reached a new record high of 62.5, driven in part by the strength of the 'new export orders' and 'employment' components (which hit 62.4 and 54.7 respectively). All of these indicators are above their long-term average.

Hard data are starting to confirm this performance. Industrial production in the eurozone has rebounded significantly over the past year. It is also observed in the services sector. However, the latter continues to be more directly affected by health measures. Although the services sector PMI gained ground in March (taking it to 48.8, from 45.7 in February) after several months of stagnation, it remains below 50, and thus in contraction territory. A sustained recovery in the services sector relies on consumer spending. This in turn will be supported by consumer confidence within the eurozone – which has in fact improved, but remains below pre-crisis levels. A rapid and lasting economic recovery will only be possible when the pandemic is brought fully under control, in other words once the vaccination campaigns in eurozone member states have been stepped up. Fiscal and monetary policy will remain accommodating until a return to more normal economic conditions. The European Central Bank, in particular, will be careful to ensure favourable financing conditions for economic agents. The current marked increase in inflation results largely of temporary factors, and will not change the monetary policy stance.

Louis Boisset

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

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 -3 and +2. 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.

