

ECOWEEK

No. 19-26, 28 June 2019

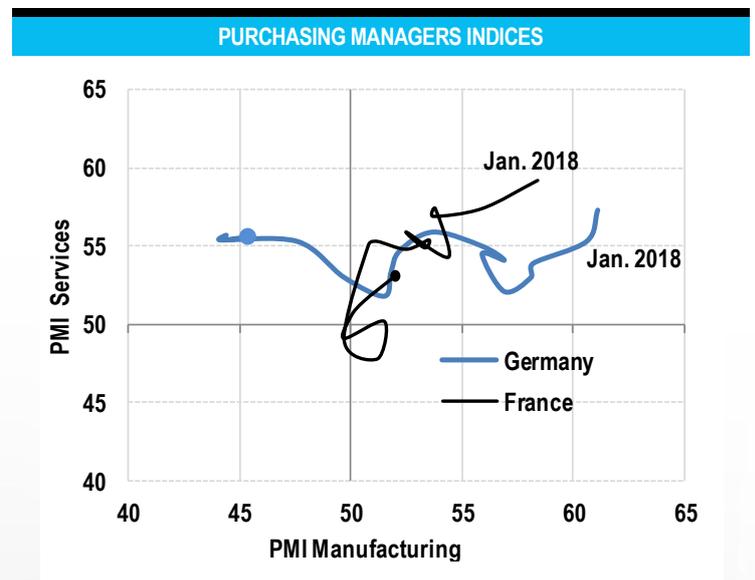
France and Germany: Very different cyclical slowdowns

■ The slowdown since the start of last year is of a different nature in France, where it has manifested itself in manufacturing and services, compared to Germany, where it is very much concentrated in the manufacturing sector ■ Recent data show a somewhat improving picture in France whereas in Germany signs of stabilisation remain tentative ■ Under the hypothesis that concerns about trade relations (US-China, US-Europe) and Brexit will not disappear anytime soon, it seems difficult to expect a significant improvement in the near term. France could however surprise positively on the back of the measures to support the purchasing power of households

The publication this week of important economic data in France and Germany allows for a comparison of the cyclical environment in both countries. In Germany the indicators of the IFO research institute paint a subdued picture. The overall business climate, across sectors, fell in June and is at its lowest level since November 2014. Pessimism about the outlook has grown, although the assessment of the current situation has improved marginally. The dispersion of the assessment by individual firms –a measure of uncertainty– remains high and has increased slightly. Export expectations declined further, reaching a level which corresponds with absence of growth. The automotive industry is particularly gloomy, quite understandably given the slowdown in China –an important export market– and worries about US tariff increases targeting this sector.

In France, INSEE published several data. The overall business climate was stable with services doing a bit better and reaching a level not seen since May last year. It is well above the historical average. The industrial sector saw some weakening after picking up in May, although the climate remains above its long-term average. The assessment of order books weakened on the back of a deterioration of export orders, which are well below their long-term average. The climate is stable in June in retail trade and the automotive sector. In the construction sector, the cyclical environment is also stable and remains significantly above the long-term average. Capacity utilisation is very high in this sector and labour market bottlenecks are still increasing. The overall labour market climate improved in June, mainly driven by the services sector.

.../...



Source: IHS Markit, BNP Paribas

p. 3

Markets Overview

p. 4

Pulse & Calendar

p. 5

Economic scenario

ECONOMIC RESEARCH DEPARTMENT



BNP PARIBAS

The bank
for a changing
world

Eco
WEEK

The general picture which emerges is that France is doing somewhat better. This is confirmed by the chart. Since January 2018, which more or less corresponds to the peak of the cycle in terms of survey data, the manufacturing and services purchasing managers indices declined in tandem in France, but recently a rebound can be witnessed¹.

In Germany, services weakened less than in France and have, over the past 18 months, fluctuated in a rather narrow range. This suggests that the growth slowdown in Germany finds its origin predominantly in the manufacturing sector. The drop in the PMI for this sector has been huge, for a variety of reasons. A greater exposure to international trade and to China help explain, at least in part, the difference between the two countries in terms of manufacturing sector performance. As far as the near-term outlook is concerned, the PMI and INSEE data for France provide some reasons to be hopeful. In Germany, some indicators show tentative signs of stabilisation (e.g. expectations in the manufacturing sector in recent months). However, under the hypothesis that concerns about trade relations (US-China, US-Europe) and Brexit will not disappear anytime soon, it seems difficult to expect a significant improvement in the near term. France could however surprise positively on the back of the measures to support the purchasing power of households.

William De Vijlder

¹ The dots on the chart show the latest observations (June 2019).

