

# ECOWEEK

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## Global economy: Starting to look a bit better

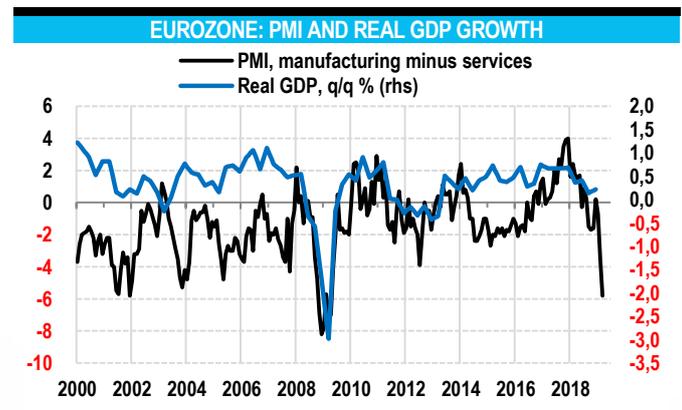
■ Strong job creation in March in the US has brought relief after the disappointing data the month before ■ The Chinese manufacturing indices have rebounded and crossed the 50 level ■ In the eurozone, the pressure on the manufacturing sector continues but the services PMI has improved. Retail sales have beaten expectations ■ For the manufacturing sector, a lot will depend on how uncertainty evolves. In this respect there are hopeful signs. The likelihood that an agreement will be reached between the US and China has increased whereas in the UK, cross-party negotiations seek to avoid a hard Brexit.

One swallow does not make a summer but, continuing the metaphor, the recent news flow shows that the swallows are becoming more numerous. In the US, 196.000 jobs were added in March, a number which was well above consensus expectations. After last week's improvement in surveys for Germany (IFO except for manufacturing) and France (INSEE), this week's increase in the Chinese official manufacturing PMI (from 49.2 to 50.5) and the second consecutive increase in the Caixin manufacturing PMI (from 49.9 to 50.8) was greeted with relief. It suggests that stimulus measures are starting to have some impact and raises hope with Chinese trading partners that the export outlook will improve. For the time being, it is more about hope than hard data.

The Chinese PMIs have barely moved above the critical 50 level and the export component of the eurozone PMI has deteriorated further in March, dropping to a dismal 44.8. Declines were registered in Austria, France, Germany and Italy, whereas Spain, the Netherland and Ireland saw an improvement. However, focussing too much on the manufacturing sector holds the risk of ignoring what is happening elsewhere. At the sector level, the chart shows that the divergence between manufacturing and services has increased further. Last December, for the eurozone, the PMI indices were respectively at 51.4 and 51.2. In March, a gap has opened of close to 6 points (47.5 for manufacturing, 53.3 for services). The services PMI has picked up again in March on the back of a significant improvement in Italy and Spain and despite a worsening in France where it dropped from 50.2 to 49.1. Importantly, eurozone retail sales beat expectations, rising 0.4% in February versus January and 2.8% versus February 2018. Other recently released data for the eurozone also give reasons for confidence. In the fourth quarter of 2018, the business investment rate (gross fixed capital formation divided by gross value added) was 23.7% (23.4% in the third quarter) and the job vacancy rate increased to 2.3% (from 2.1% in the previous quarter).

Against this background, whether a near term stabilisation of growth in manufacturing will occur also depends on how uncertainty evolves, a factor which has acted as a major headwind in recent months. News on the negotiations between the US and China seem to indicate an increasing likelihood of reaching an agreement. On Brexit, recent developments have shown how risky is to make any call but avoiding a hard Brexit –which is what the current discussions are all about- would obviously contribute to a significant reduction in uncertainty for business.

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