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Eurozone: Mixed signals

■ Survey data released this week provide mixed signals with an improvement of consumer confidence, a weakening of the Ifo business climate index in Germany and a stabilisation of the INSEE indicator in France ■ The IHS Markit PMIs show a stabilisation in recent months in manufacturing, at a subdued to low level, and in services, at a more satisfactory level ■ Several drivers of domestic demand remain supportive ■ Nevertheless, unease remains, mainly for reasons on which the eurozone has no control and where the risk of further tariff increases is top of the list.

When the signals are mixed, making up one's mind is anything but easy. This is true in life, but also in gauging the economic environment and outlook. This point is well illustrated by survey indicators for May released this week.

The flash estimate of the European Commission's consumer confidence indicator showed an increase and confirmed the positive trend since the start of the year. The IHS Markit flash Purchasing Managers Index (PMI) for Germany again showed the divergence between the service sector, which continues to grow at a relatively robust pace, and manufacturing where output fell again. The Ifo business climate index weakened further, driven by a deterioration in the assessment of the current situation, the outlook remaining unchanged. In manufacturing, the outlook even improved for the first time since September last year. The business climate in services dropped considerably, in particular on the back of a worsening of the current environment and a bleaker outlook. Construction continues to boom.

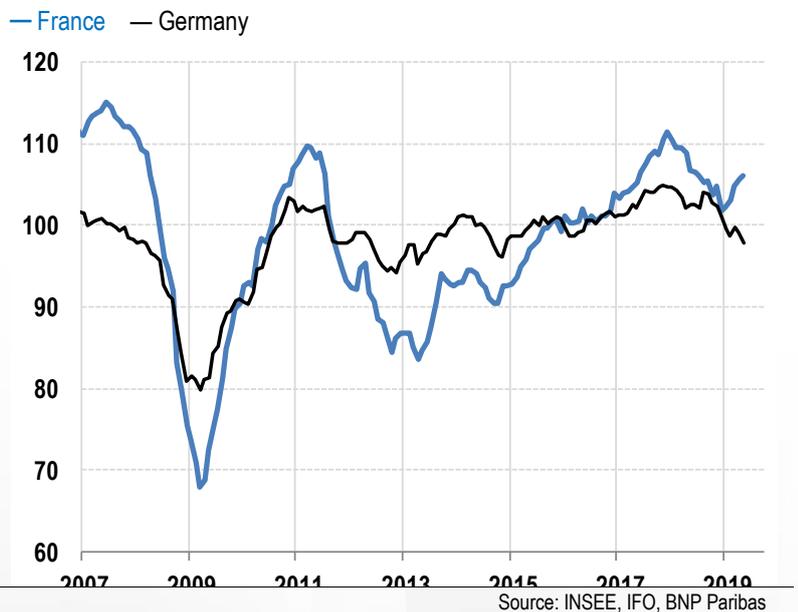
In France, the IHS Markit flash PMI paints a more upbeat picture than in Germany: *"Modest growth was driven by the service sector, which posted its quickest expansion since last November. Meanwhile, manufacturers saw another fall in production, although the rate of decline eased and was only fractional overall."*¹ According to INSEE, the business climate was stable in May (it had troughed at the end of last year) on the back of a significant improvement in manufacturing and a weakening in retail trade and, to a lesser extent, in services. The employment climate weakened as well, although it remains at a high level.

For the eurozone as a whole, the composite flash PMI was virtually unchanged from April. Manufacturing output was down again whereas services continue to grow, albeit at a slower pace.

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¹ Source : IHS Markit Flash France PMI press release, 23 May 2019

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When the eyes are too close to the screen, one runs the risk of only seeing pixels, so taking some distance may be necessary to see the picture. The PMI heatmap shows that manufacturing is in contraction territory in the past four months in the eurozone and, in Germany, in the past five months. The levels are well below 50, in particular in Germany. Recently there has been a stabilisation however. Over the same period, some improvement can be noted in France, where the index has crossed the 50 marker. There is some improvement of new export orders as of late, but the level is still below 50. Germany is far below this borderline between growth and contraction.

Finally, services have essentially been stable (and above 50) for several months in the eurozone, France has left behind its soft patch of the turn of the year and Germany, confronted with a weak fourth quarter, has rebounded in the first quarter. The index is again well above 50 and is doing even slightly better than one year ago. Add to this the usual list of supportive fundamentals (employment levels, job creation, growth of negotiated wages –which at 2.24% is at a level not seen since the end of 2012–, low interest rates and easy access to finance), and one would look at the future with some degree of comfort.

Whether this will materialise in the growth numbers depends very much on the external environment. The WTO's world trade outlook indicator which was released this week suggests that weakness will extend into the second quarter. In addition, a lot will depend on how the trade negotiations between the US and China will develop – a solution looks more distant than ever –, what happens to Brexit and what the US will eventually decide on how it deals with automobile imports, a topic which is key for Germany and Europe. In a nutshell, the soft and hard data provide reasons for comfort but unease remains, mainly for reasons on which the eurozone has no control.

William De Vijlder

HEATMAP OF THE EUROZONE

	Manufacturing								Services						New export orders					
	EURO ZONE	AUSTRIA	FRANCE	GERMANY	IRELAND	ITALY	NETHERLANDS	SPAIN	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN
Jun-18	54.9	56.6	52.5	55.9	56.6	53.3	60.1	53.4	55.2	55.9	54.5	59.5	54.3	55.4	52.6	51.2	52.2	55.4	52.3	52.7
Jul-18	55.1	56.8	53.3	56.9	56.3	51.5	58.0	52.9	54.2	54.9	54.1	57.4	54.0	52.6	52.0	48.4	52.9	53.5	50.6	54.0
Aug-18	54.6	56.4	53.5	55.9	57.5	50.1	59.1	53.0	54.4	55.4	55.0	58.0	52.6	52.7	52.0	50.6	51.8	56.5	50.2	52.4
Sep-18	53.2	55.0	52.5	53.7	56.3	50.0	59.8	51.4	54.7	54.8	55.9	58.7	53.3	52.5	50.2	49.1	48.1	56.4	50.9	51.9
Oct-18	52.0	53.8	51.2	52.2	54.9	49.2	57.1	51.8	53.7	55.3	54.7	57.2	49.2	54.0	49.1	48.8	47.6	53.9	47.8	52.6
Nov-18	51.8	54.9	50.8	51.8	55.4	48.6	56.1	52.6	53.4	55.1	53.3	57.1	50.3	54.0	49.4	49.2	47.4	54.4	49.4	52.4
Dec-18	51.4	53.9	49.7	51.5	54.5	49.2	57.2	51.1	51.2	49.0	51.8	56.3	50.5	54.0	48.5	47.0	46.8	52.7	47.8	53.2
Jan-19	50.5	52.7	51.2	49.7	52.6	47.8	55.1	52.4	51.2	47.8	53.0	54.2	49.7	54.7	48.5	49.5	46.5	51.2	49.0	52.8
Feb-19	49.3	51.8	51.5	47.6	54.0	47.7	52.7	49.9	52.8	50.2	55.3	55.9	50.4	54.5	46.4	49.3	42.2	52.4	50.3	48.3
Mar-19	47.5	50.0	49.7	44.1	53.9	47.4	52.5	50.9	53.3	49.1	55.4	55.3	53.1	56.8	44.8	47.2	38.9	53.4	47.9	51.9
Apr-19	47.9	49.2	50.0	44.4	52.5	49.1	52.0	51.8	52.8	50.5	55.7	54.7	50.4	53.1	45.9	48.2	39.3	53.0	52.0	52.4
May-19	47.7		50.6	44.3					52.5	51.7	55.0				46.8	49.6	42.6			

Chart 2

Source: Markit, BNP Paribas

