

ECONOMIC PULSE

EUROZONE: REASONS FOR HOPE

The resurging pandemic and tighter sanitary restrictions in many Eurozone countries pose a new threat to the economic recovery after the first wave of virus was generally brought under control. The latest economic indicators for the Eurozone suggest that economic momentum is slowing. However, there has not been a collapse like the one observed in late March and April.

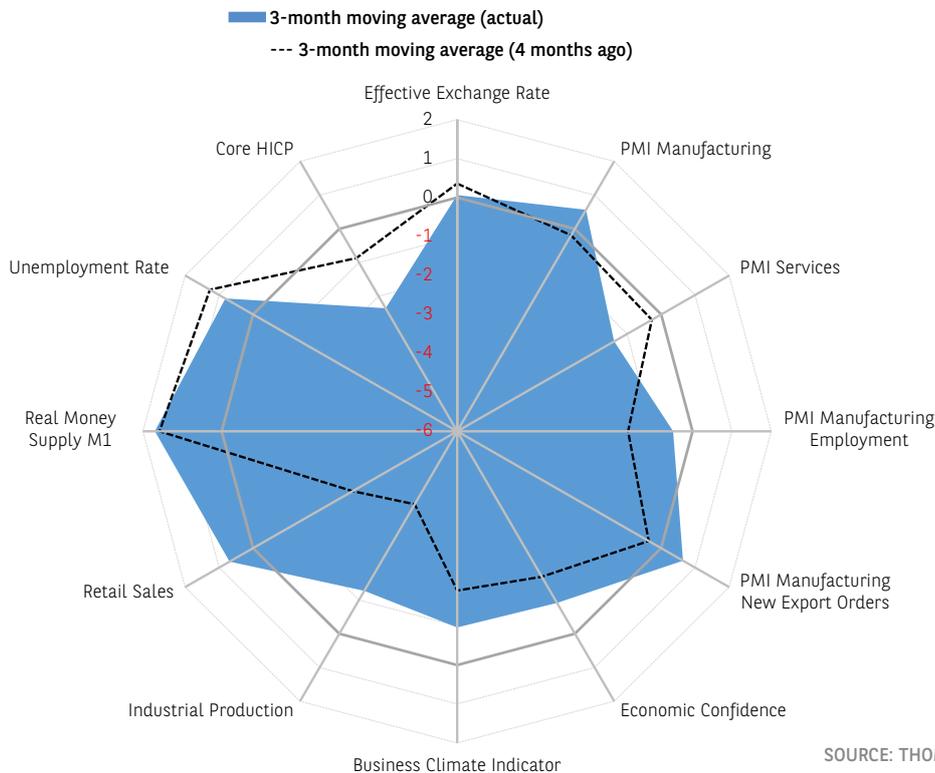
The new health restrictions are not as severe and public support is still abundant. The Eurozone's manufacturing sector remains relatively dynamic. Despite a slight decline in November (the first since March), the Purchasing Managers Index (PMI) for the manufacturing sector is still higher than its long-term average (52.9 after 56.3 in October). This robust momentum is partially due to the strength of the underlying "new export orders" component of the manufacturing PMI, while the "employment" component continues to rise, although it held below the 50 threshold (48.5 in November, up from 47.2 in October).

The Eurozone's services sector, which is more directly impacted by health restrictions, reported a sharper deterioration in business in November. The services PMI dropped to 41.3 (from 46.9 the previous

month), which is far below the long-term average. Yet this decline was not on the same scale as the one in March and April. Business in the services sector continued to be hit by relatively weak household confidence, which after rebounding, has begun to erode again since October. Uncertainty is still high concerning the health situation and employment: so far, the very promising prospects of a vaccine have failed to fully restore the confidence of European consumers. Although fiscal support continues to hold down the unemployment rate (which rose slightly to 8.3% of the active population in September, which is still below the long-term average), Eurozone inflation continues to fall. Prices fell in November (-0.3% year-on-year) for the fourth consecutive month. The core inflation rate has stagnated at a low of +0.2% year-on-year (y/y). Faced with these trends, the European Central Bank (ECB) is expected to announce additional monetary stimulus measures at its next monetary policy meeting on 10 December.

Louis Boisset

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 +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.

