

ECONOMIC PULSE

EUROZONE: RISKS LOOM OVER THE RECOVERY

The Eurozone’s macroeconomic environment remains highly uncertain in the midst of a resurgence of the pandemic in most of the member states. New health restrictions, though generally less severe than in the first wave of the Covid-19 pandemic, constitute another drag on the region’s economic recovery and catching-up dynamics.

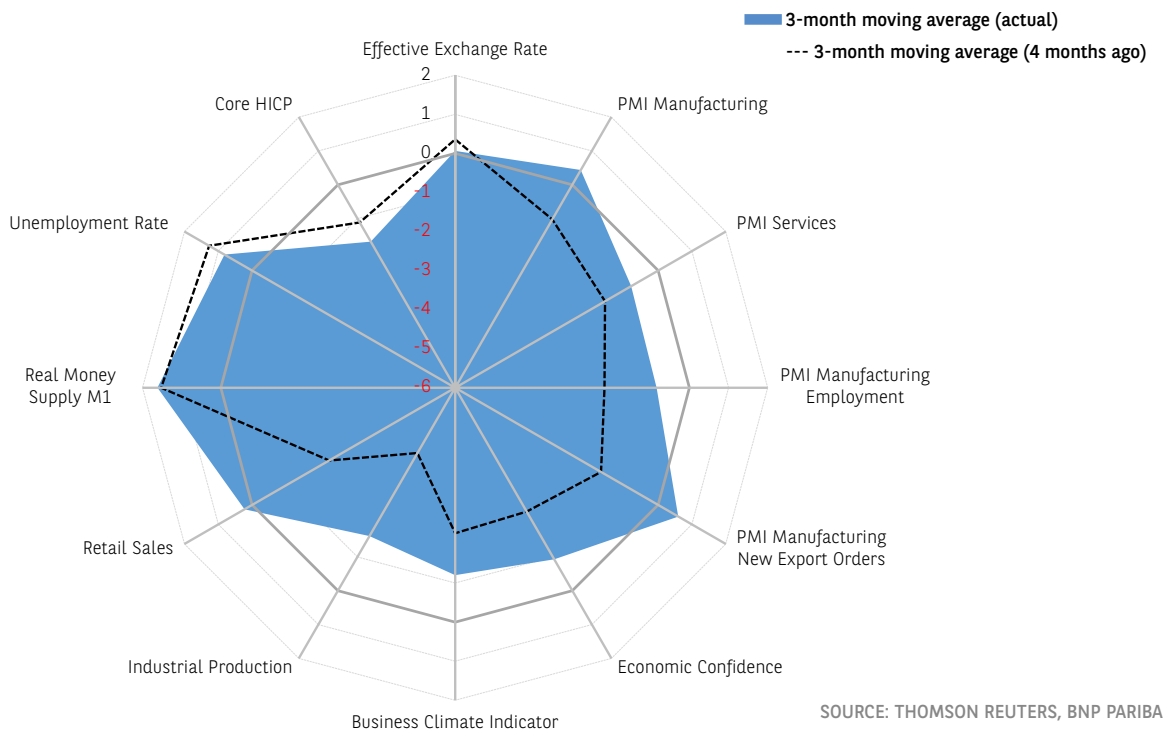
In recent months, the Eurozone’s economic development has been marked by divergent catching-up movements between the manufacturing and the services sectors. Manufacturing activity has continued to recover over the past few months, and the Purchasing Managers Index (PMI) for the sector rose above its long-term average to 54.8 in October, from 53.7 in September and 51.7 in August. This robust performance is due in part to the improvement in the “new export orders” sub-component of the index, which has increased continuously from a low point of 18.9 in April to 56.3 in October, the highest level since January 2018. In the services sector, in contrast, growth dynamics has reversed itself since July. After rebounding very strongly after April, the services PMI has fallen back to only 46.9 in October, from 54.7 in July. These disappointing performances can be

attributed to social distancing and other sanitary restrictions that apply mainly to the services, which are also highly dependent on consumer behaviour. Consumers are still worried, and the consumer confidence index for the Eurozone remains relatively low compared to pre-pandemic levels. Uncertainty remains high, not only regarding the health issues but also the economy. The Eurozone unemployment rate rose to 8.3% of the active population in September, an increase of 1.1 point since March 2020. This is still lower than the long-term average, but it could mark the beginning of a more substantial rise.

Faced with this Covid-19 shock, the Eurozone inflation has continued to ease, and has slipped into negative territory since August (-0.2% year-on-year and -0.3% in September and October). Core inflation (i.e. adjusted for the more volatile components) has dropped to record low levels (+0.2% year-on-year in October).

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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.

