

## ECONOMIC PULSE

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## EUROZONE: SECTOR AND REGIONAL HETEROGENEITY HELPS LIMIT THE DETERIORATION IN THE CYCLICAL ENVIRONMENT

According to our Pulse, the Eurozone's cyclical situation has deteriorated over the past three months (the blue area is smaller than the area within the dotted lines). Hard data have dropped sharply but the decline in business climate surveys has been much milder. This difference is due to statistical distortions. For retail sales and production, the sharp decline in growth rates in year-on-year terms since May reflects a normalisation after the previous 3-month average was inflated by very favourable base effects in March and April.

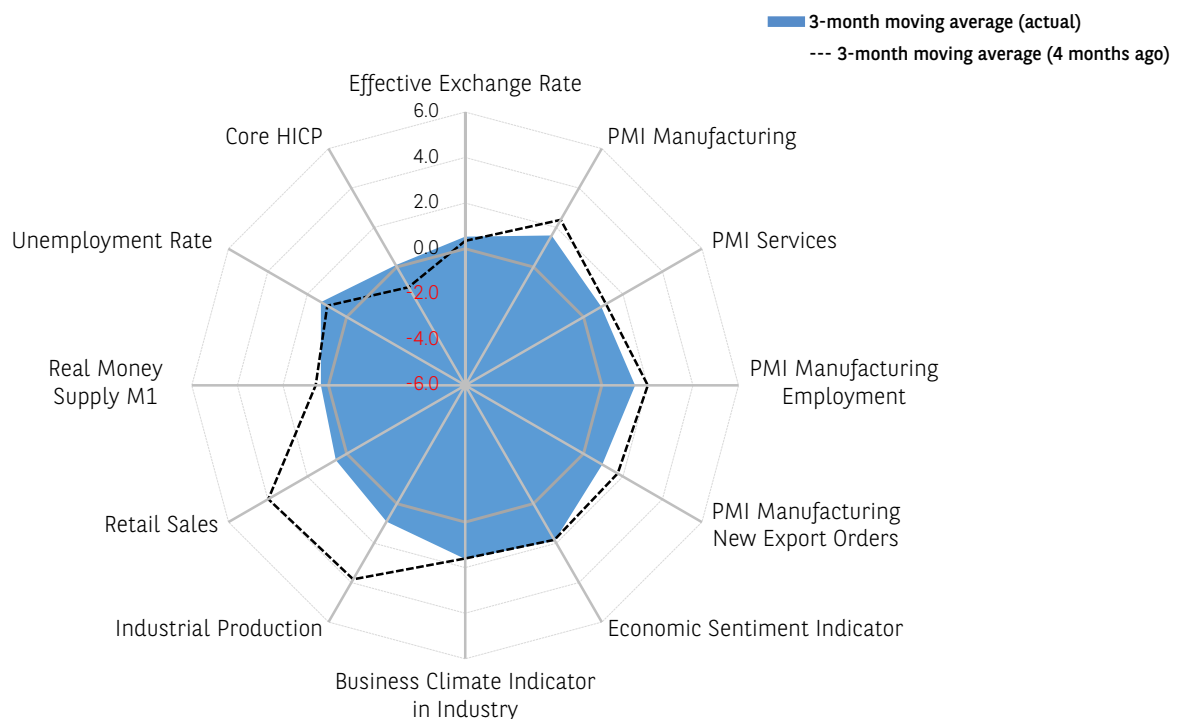
The growth rates remain rather high in September 2021, with retail sales up 2.2% and manufacturing output up 5.8% y/y. Yet current headwinds are also having an impact. Retail sales growth would surely be much stronger without the inflation surge (4.1% y/y in October, the highest level since July 2008). Fortunately, a buoyant labour market has helped buffer the shock so far. The unemployment rate keeps falling, dropping to 7.4% of the labour force in September, just a 10th of a percentage point short of the all-time low of 7.3% in February-March 2008<sup>1</sup>. Supply problems are more clearly hampering production. They have hit the automobile industry and Germany especially hard, given the auto industry's heavy weighting in the country. Industrial production (excluding construction) declined slightly at the Eurozone aggregate level in September 2021 (-0.2% m/m), but this masks sharper declines in Germany (-1.4% m/m, after a decline of 3.4% m/m in August) and France (-1.3% m/m, after an increase of 1.1% m/m). In Spain and Italy, production increased very slightly (+0.2% m/m and +0.1% m/m, respectively). Above all, of the Eurozone's four biggest economies, Germany is the only one where production is registering a decline on a year-on-year basis (-1.1%).

Looking at the results of business climate surveys, Markit's PMI indexes declined again in October, albeit less than in September: the composite index was down 2 points (after a 2.8-point decline), services PMI was down 1.8 points (after a 2.6-point decline) and manufacturing PMI was down 2.4 points (after a 3.3-point decline). Of the four biggest Eurozone countries, Germany once again reported the biggest decline in composite PMI, although it was also smaller than in September (-3.5 points and -4.5 points, respectively). In Italy, composite PMI declined 2.4 points (after 2.5 points). The decline was smaller in France (-0.6 points, the same as in September) and in Spain (-0.8 points, after -3.6). As to the European Commission's economic sentiment indicator, the results were actually positive: the indicator picked up slightly to 119, buoyed by the services sector. This good news should help alleviate fears about the extent of the expected slowdown in Q4 GDP after the vigorous growth reported in Q3 (+2.2% q/q).

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1. In March 2020, the unemployment rate dropped even lower to 7.1%, but we set aside this result because it coincides with the beginning of the Covid-19 pandemic and might be biased by the first lockdown measures.

## QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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 +6. 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.



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