

# ECONOMIC PULSE

## EUROZONE: AN ECONOMIC RECOVERY SLOW IN THE MAKING

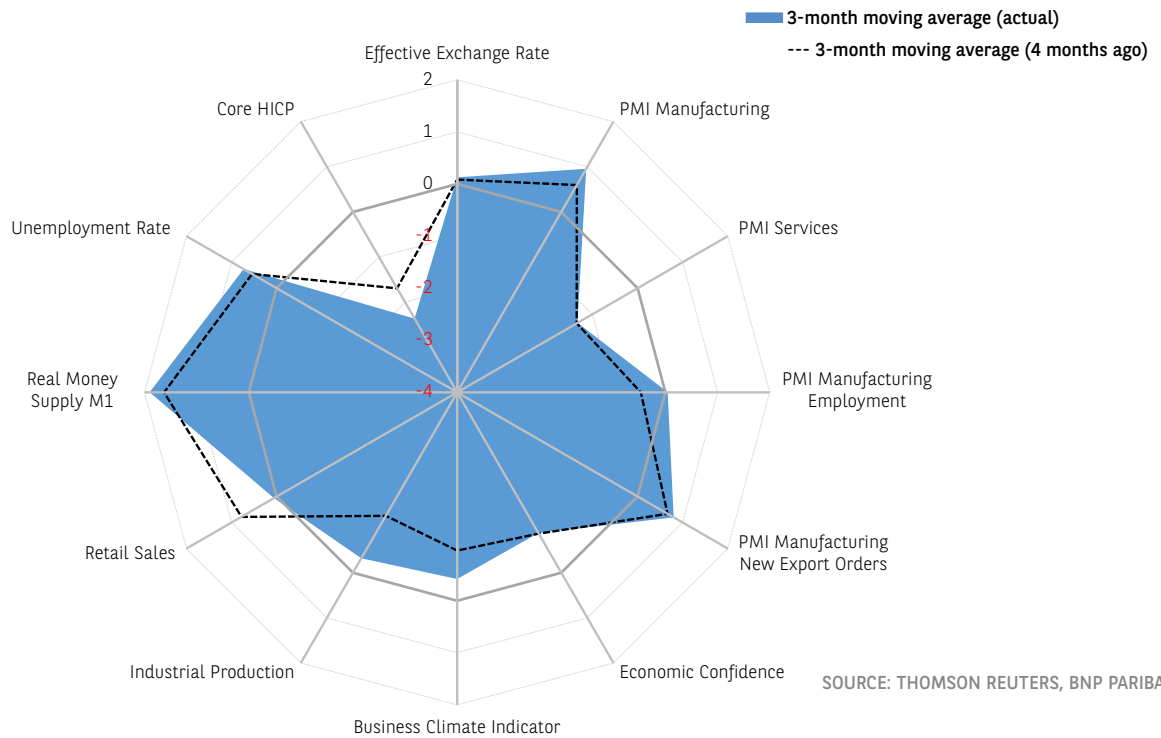
The Covid-19 pandemic is showing signs of improvement in the European countries as well as in the United States. Despite the persistently high number of cases in some countries, and fears of the accelerated spread of new variants, the reduction in new daily cases combined with the roll-out of vaccination campaigns are brightening the economic horizon. As we have pointed out several times, a robust and lasting normalisation of the economic situation will depend on gaining full control over the Covid-19 pandemic and on the renewed confidence of economic agents.

Yet the Eurozone economy is struggling to recover in the midst of persistent lockdown measures and health restrictions. After a robust economic rebound in late spring 2020, the recovery phase has virtually levelled off thereafter. Unsurprisingly, the Eurozone's services sector remains particularly hard hit. The services purchasing managers index (PMI) has deteriorated slightly over the past three months compared to the previous three months, and is still low relative to its long-term average. At only 44.1 in February 2021, the services PMI has not risen above 50, the threshold separating economic expansion from contraction, since summer 2020. Sector activity will only improve once economic agents regain confidence. In this respect, both the global economic

sentiment and, more specifically, consumer confidence indexes are still deteriorated in the Eurozone. Although the rise in unemployment has been contained so far, it could begin to accelerate again over the course of the year. The signals are much more encouraging for the Eurozone's manufacturing sector. For several months, manufacturing PMI has levelled off at a high level and has even notably increased to 57.7 in February 2021, after 54.8 in January. The "new export orders" component is still going strong in the midst of a rapid normalisation of world trade, which by November 2020 had already returned to the year-end 2019 level. Eurozone export companies are benefiting notably from the economic recovery in China, a major trading partner. Faced with a persistently uncertain economic environment, monetary policy will continue to be accommodative. Although Eurozone inflation rose sharply in January 2021, this movement could be short-lived and inflation could hold below the ECB's 2% target for quite some time. The narrow M1 money supply aggregate continues to be very dynamic and is growing much more rapidly than the historical average.

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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 -4 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.

