

ECONOMIC PULSE

EUROZONE: THE RECOVERY CONTINUES BUT MOMENTUM IS SLOWING

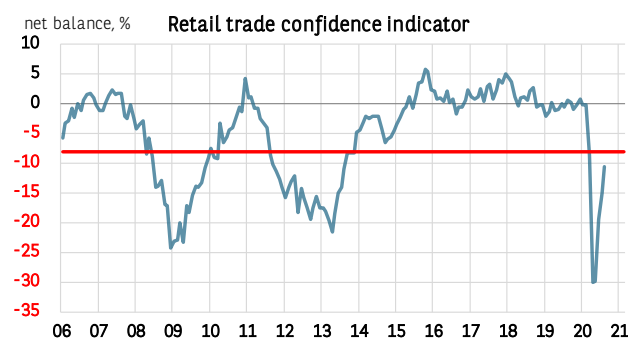
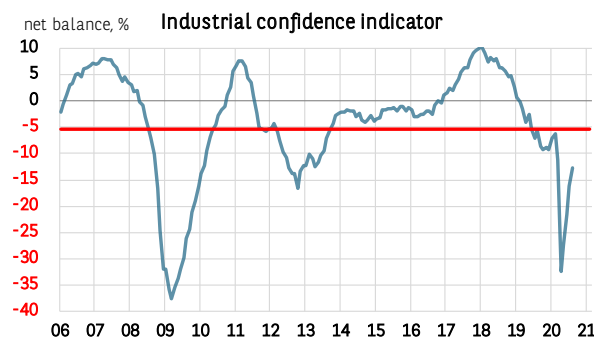
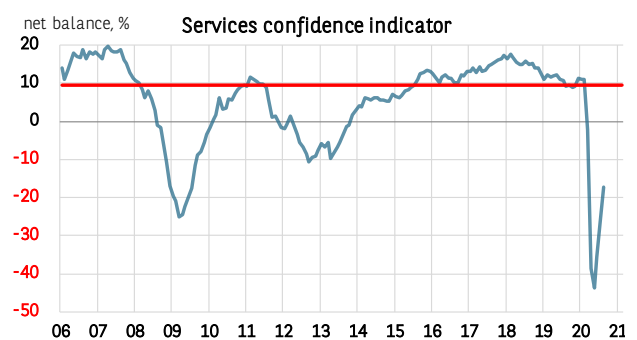
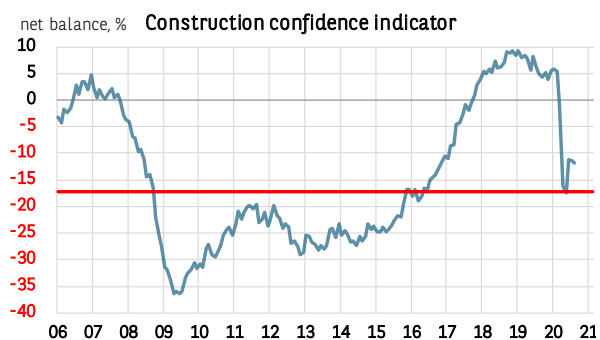
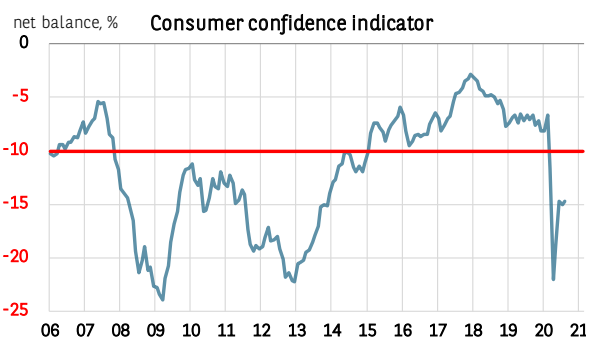
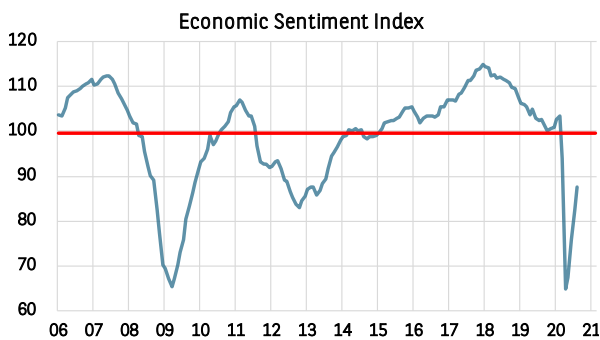
The latest flash PMIs had raised some concern given the weakening of the composite index for the eurozone (from 54.9 to 51.6) and Germany (from 55.3 to 53.7) and an even bigger decline in France (from 57.3 to 51.7). Services weakened across the board, whereas manufacturing improved in Germany but deteriorated in France whilst being virtually unchanged for the eurozone. Considering that the PMI surveys ask whether the situation has improved or worsened versus the month before, there is a risk over over-interpreting a decline in the data: when the numbers have been strong in recent months –as has been the case as of late- a weakening versus the previous month does not automatically mean a change in trend.

This point was emphasized by INSEE when commenting its latest business surveys for France. It noted the slight easing of expectations

in August, which comes after a very significant rebound in activity, so this probably reflects the feeling of survey participants that the catching up of their companies' activity towards normal levels will slow down somewhat. To put it differently: the rebound continues in France, although momentum may ease somewhat going forward. In Germany, the ifo business climate has improved further in August, in particular in manufacturing and, to a lesser degree, in services. The assessment of the current situation was markedly more positive and expectations improved slightly.

The European Commission's economic sentiment indicator (ESI) –which covers industry, services, consumers, retail trade and construction- continued its improvement in August. Construction sector sentiment worsened slightly but there was a significant increase in industry

EUROZONE: EUROPEAN COMMISSION SURVEYS



— HISTORICAL AVERAGE FROM 1985

SOURCE: EUROPEAN COMMISSION SURVEYS, BNP PARIBAS



and retail trade and even more so in services. Consumer sentiment saw a very small improvement and is now back at the level of last June. Expectations however recorded a broad-based weakening: after recovering strongly in the previous 3 months, they edged down in manufacturing and slipped for the first time in 4 months in services. In retail trade a slight setback could be noted in August. There was good news on the other hand on the employment front where the expectations indicator increased, reflecting significantly improved employment plans in retail trade, industry, and services. Construction saw a worsening of employment plans. For the time being, households remain unconvinced: their unemployment expectations were broadly unchanged.

Comparing the big four eurozone countries, some differences can be noted. The ESI for France rose strongly in August (from 82.2 to 91.5). Consumer sentiment was stable, construction saw a slight improvement whereas industry and in particular services and retail trade picked up significantly. Germany also saw a significant increase (from 88.4 to 94.3), in particular in industry and even more so services. In Italy, the ESI rose somewhat (from 77.9 to 80.6). The movement was broad-based with services and retail trade being key drivers. In Spain, the index eased (from 90.6 to 88.1) on the back of weaker results in services, retail trade, construction and consumer sentiment.

Finally, focusing on certain expectations data, manufacturing production expectations improved in Germany but weakened in France, Italy and Spain. A similar picture emerges in terms of the evolution of expected demand over the next 3 months in services. For this series, a big drop can be noted in Spain. This country also saw a sharp deterioration in the expected business situation in retail trade. In France, there was a modest weakening whereas Germany and, even more so, Italy, saw an improvement.

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