

ECONOMIC PULSE

EUROZONE : A RECOVERY, BUT THE ROAD AHEAD IS LONG

Are we over the worst? In the short term, that would seem to be the message from the latest economic data for May and June at our disposal. Having hit record lows in April, activity indicators posted a rally in May, and an even steeper recovery in June. This recovery was expected, despite the public health measures still in force, given the ending of the lockdown in the eurozone member states. However, the economic activity is still weaker than in normal periods (pandemic free).

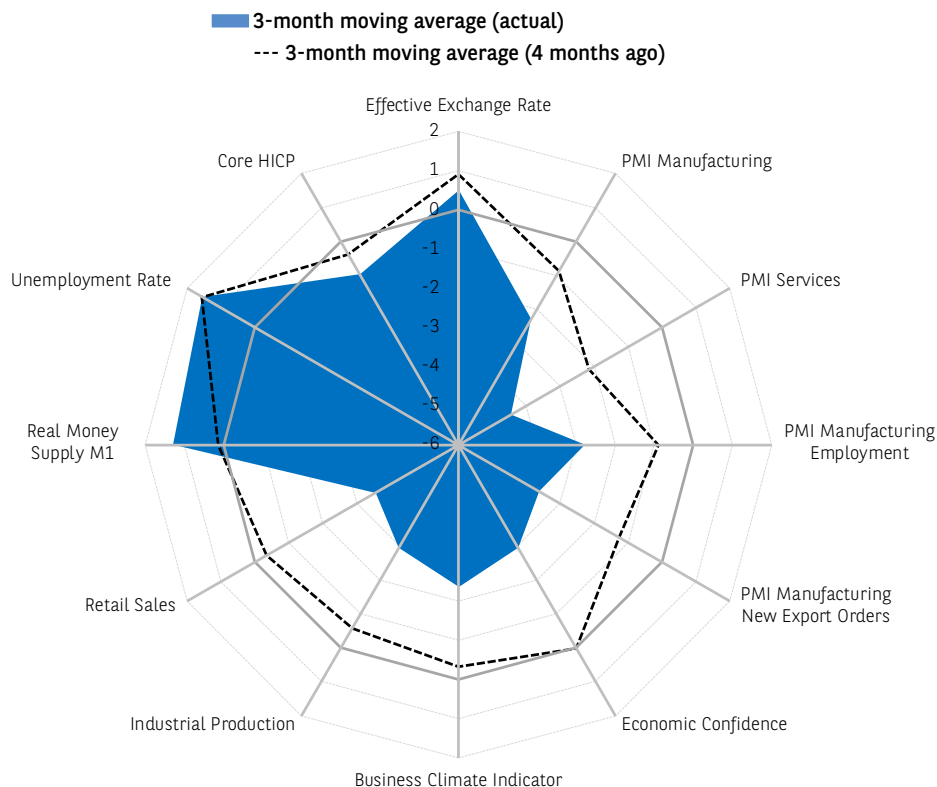
The Purchasing Managers Index (PMI) bounced back in June. The PMI composite was 47.5 (from 31.9 in May and 13.6 in April). Thus the level of economic activity remains very weak. The signal from the Economic Sentiment Index (ESI) is similar. This measure has rallied from a low of 64.8 in April to 75.7 in June. It is nevertheless still substantially below its long-term average (normalised at 100). Hard data on retail sales and industrial production show them at well below their levels of 3 months ago. However, the latest such figures available date from April.

At that point, manufacturing production, for example, had fallen 30% year-on-year. May and June are expected to have brought the beginnings of a recovery.

The M1 measure of money supply has risen rapidly over the past three months. Empirically, real growth in M1 money supply is a good leading indicator for economic activity in the euro zone. M1 grew by 12.5% (y/y in nominal terms) in May 2020, following increases of 11.9% in April and an average of 8.8% in Q1 2020. This trend can explain in part the marked acceleration in the broader M3 measure since the start of 2020. Lending to public authorities explains a significant part of this increase, most notably under the greater intensity of sovereign debt purchasing by Eurosystem. Despite this rapid growth in money supply, total inflation fell in May for the 5th consecutive month, reaching 0.1% (y/y), due in particular to weakness in energy prices. Underlying inflation fell to 0.8% in June.

Louis Boisset

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, 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 +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.

