

ECONOMIC PULSE

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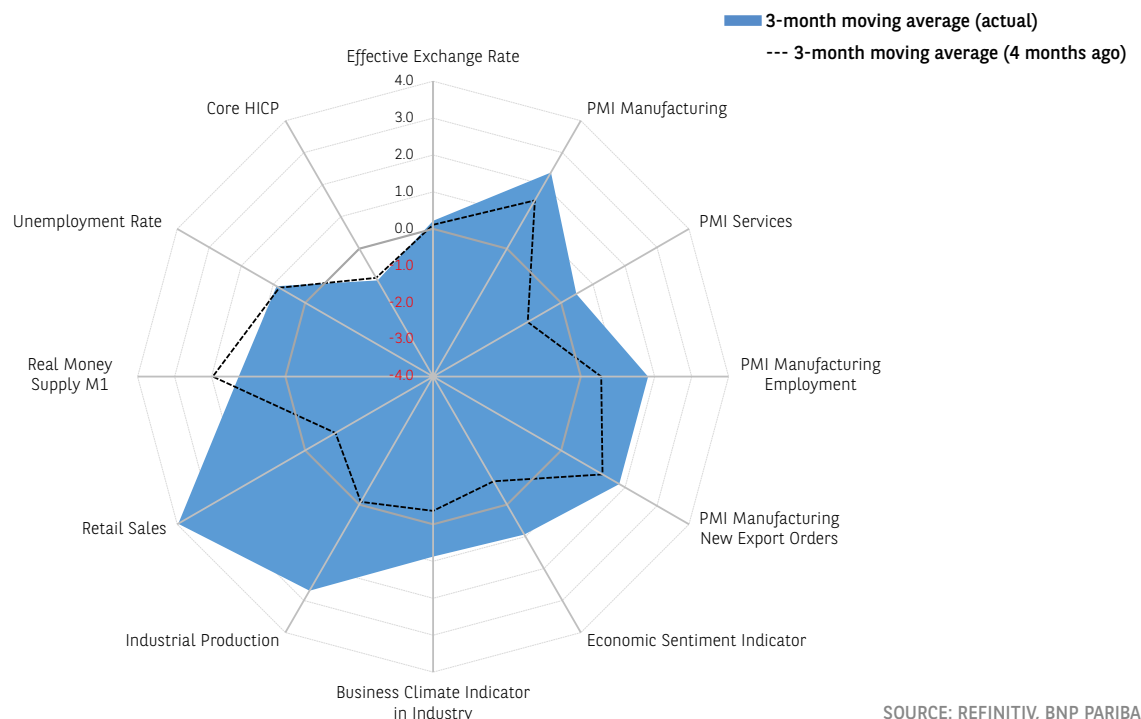
EUROZONE: WHEN WILL THE ECONOMY REACH ITS CYCLICAL PEAK?

The Eurozone has still not reached its cyclical peak. The situation has continued to improve over the past three months and the recovery has now spread to all parts of the economy. After rising strongly since April 2020, the Purchasing Managers Index (PMI) for the manufacturing sector levelled off at a very high level in June (63.1). Manufacturing PMI is still going strong, although the indicator suffered from a dip in the “new export orders” component, which slipped to 60.9 in June. Yet this level is still high compared to its long-term average. The “jobs” component of the manufacturing PMI also levelled off at a high level (57.8 in June). Hard data confirm these survey results: industrial production increased massively in April, for the second consecutive month, partly due to a strong base effect. In the tradeable services sector, where it is reasonable to expect activity to rebound more belatedly, the services PMI picked up again. After 50.5 in April and 55.2 in May, it rose to 58 in June 2021, the highest level since early 2018. The gradual lifting of health restrictions in most of the Eurozone countries combined with the acceleration of vaccination campaigns are creating a brighter outlook. The European Commission’s business sentiment index continued to rise to 114.5 in May 2021, the highest level since January 2018, and well above the long-term average. Moreover, Eurozone household confidence is now well above pre-pandemic levels. This favourable momentum is reflected in retail sales, which accelerated strongly in April. All of this augurs well for an ongoing catching-up movement in the Eurozone, especially since consumers have accumulated considerable savings last year.

Fears of rising inflation must be kept in perspective. The upsurge in prices in recent months is largely due to temporary factors, especially those linked to oil price trends. Core inflation is still low relative to the long-term average and to the European Central Bank’s 2% target. The persistently high “halo” of unemployment (which takes into account discouraged workers and those forced to accept short-time jobs) does not point towards an uncontrolled rise in inflation. Nominal wages in the Eurozone also slowed in Q1 2021, after accelerating in the previous quarters.

Louis Boisset

EUROZONE: 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 +4. 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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