

ECOWEEK

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Eurozone: domestic support, global risks

- The ECB meeting account shows a central bank which is confident about the growth outlook despite the recent softness of data
- The concerns relate to global factors which have become more prominent: the threat of trade protectionism ■ This concern is also echoed by the Federal Reserve

The much expected manufacturing, services and composite PMIs for May produced by IHS Markit confirmed what is now looking as a trend: for the eurozone, Germany and France all series were down except for the French manufacturing PMI. However, the indices remain at high levels so we should speak of 'softening' or 'easing' rather than 'declining'. Semantic nuances don't stop analysts from feeling a certain unease. After all, the eurozone PMIs, following their decline, are now at a level not seen in the past twelve months.

The question of "what's going on" is covered at length in the account of the ECB meeting of 25-26 April published on 24 May. In summary three things are happening: 1) temporary factors like the harsh winter have weighed on growth; 2) after surprisingly strong sentiment, data are returning to normal, with underlying momentum remaining intact; 3) supply side bottlenecks in some countries (e.g. Germany) and sectors (e.g. construction) are weighing on growth. Enough reasons for not being carried away by the softening of many survey data in recent months. In this respect, the European Commission eurozone consumer confidence for May published on 23 May provided additional comfort. Looking ahead, the drivers of final demand (consumption, investment, government spending, exports) still look robust: a slightly expansionary fiscal policy, job creation, wage gains, low interest rates, earnings growth, rising capacity utilisation, global trade growth. With sentiment data weakening however, a prudent observer will pay particular attention to sources of downside risk, which are essentially of a global nature. If oil prices were to keep on rising, the drag on growth would of course increase. In addition there is the threat of increased protectionism. In its insistence on this factor the ECB is joined by the Federal Reserve: the FOMC meeting minutes refer to trade as a source of uncertainty. Monitoring comments of company executives will become particularly important: trade-related uncertainty over an extended period of time would end up weighing on investment intentions considering that investment projects, once launched, are hard to stop. This in turn could spill over to hiring intentions and end up impacting households.

PURCHASING MANAGER INDICES														
	Manufacturing							Services						
	EURO ZONE	AUSTRIA	FRANCE	GERMANY	IRELAND	ITALY	NETHERLANDS	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	
Jun-17	57.4	60.7	54.8	59.6	56.0	55.2	58.6	54.7	55.4	56.9	54.0	57.6	53.6	58.3
Jul-17	56.6	60.0	54.9	58.1	54.6	55.1	58.9	54.0	55.4	56.0	53.1	58.3	56.3	57.6
Aug-17	57.4	61.1	55.8	59.3	56.1	56.3	59.7	52.4	54.7	54.9	53.5	58.4	55.1	56.0
Sep-17	58.1	59.4	56.1	60.6	55.4	56.3	60.0	54.3	55.8	57.0	55.6	58.7	53.2	56.7
Oct-17	58.5	59.4	56.1	60.6	54.4	57.8	60.4	55.8	55.0	57.3	54.7	57.5	52.1	54.6
Nov-17	60.1	61.9	57.7	62.5	58.1	58.3	62.4	56.1	56.2	60.4	54.3	56.0	54.7	54.4
Dec-17	60.6	64.3	58.8	63.3	59.1	57.4	62.2	55.8	56.6	59.1	55.8	60.4	55.4	54.6
Jan-18	59.6	61.3	58.4	61.1	57.6	59.0	62.5	55.2	58.0	59.2	57.3	59.8	57.7	56.9
Feb-18	58.6	59.2	55.9	60.6	56.2	56.8	63.4	56.0	56.2	57.4	55.3	57.2	55.0	57.3
Mar-18	56.6	58.0	53.7	58.2	54.1	55.1	61.5	54.8	54.9	56.9	53.9	56.5	52.6	56.2
Apr-18	56.2	58.0	53.8	58.1	55.3	53.5	60.7	54.4	54.7	57.4	53.0	58.4	52.6	55.6
May-18	55.5		55.1	56.8					53.9	54.3	52.1			

Source: Markit, BNP Paribas

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Economic scenario

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