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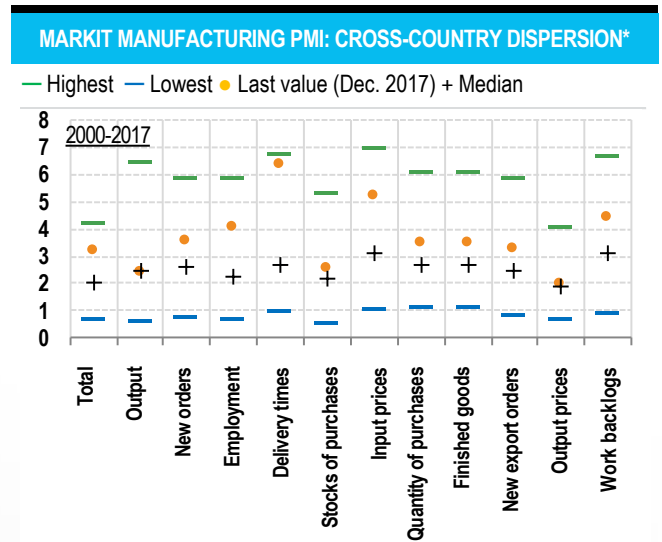
Eurozone: all together now?

- Eurozone growth has been robust in 2017 and the growth acceleration has been pretty much shared across eurozone members
- The cross-country dispersion of cyclical performance indicators has narrowed compared to the cyclical peak but has increased in 2017
- A favourable cyclical environment is a good opportunity to undertake policies aimed at narrowing structural dispersion

For the good functioning and the stability of a monetary union, it is important that economic performance of its members is sufficiently homogeneous, i.e. that cross-country dispersion is low. Two factors can cause sudden increases in dispersion: a global recession (like in 2008-2009) because some countries are more resilient than others to economic downturns and asymmetric shocks which hit one or a limited number of countries. The economic and financial environment has improved significantly in recent years so one would expect that cyclical dispersion has declined.

In order to have a detailed picture, the chart shows for the Markit PMI manufacturing index and its sub-series the dispersion (calculated as the cross-sectional standard deviation) for individual countries (Austria, France, Germany, Italy, the Netherlands, Spain. Although data are available for Greece they were excluded from the sample because they introduce too much of a bias). For each series, the minimum, maximum, median and most recent dispersion are shown.

Several observations can be made: 1. in general, the most recent observation is well below the cyclical high but still above the median (output and output prices are exceptions, they're at the median) which implies that dispersion is not that low; 2. dispersion is high for employment where Austria, Germany, the Netherlands and Ireland have high index values compared to the rest; 3. it is also high for work backlogs (Germany and France have higher index values than the rest; data are missing for Austria); 4. dispersion is very high for delivery times and input prices. In both cases, the situation in Ireland, Germany and the Netherlands points towards rising supply-side bottlenecks with significantly longer delivery times and higher input price inflation pressure than in the other countries. This illustrates the challenge of the ECB in setting its monetary policy stance. Indeed, in 2017 the manufacturing PMI dispersion has actually increased with Germany, the Netherlands and Austria powering ahead, Ireland, France and to a lesser extent Italy seeing strong rises whereas Spain's PMI hardly moved. These results are also a reminder of the necessity to seize the opportunity of a strong cyclical environment to undertake structural economies policies aimed at narrowing dispersion in the longer run.



*Austria, France, Germany, Ireland, Italy, Netherlands, Spain ** inverted scale
Sources: Markit, BNP Paribas

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Economic scenario

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