

# ECOWEEK

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## Foreign versus domestic drivers of weaker sentiment

■ Since early 2018, based on the purchasing manager indices, a large number of countries have witnessed a decline in the assessment of new export orders which was bigger than the decline of the general climate in manufacturing ■ This suggests a dominance of foreign demand shocks, rather than domestic shocks, in explaining slower overall growth ■ The drop in new export orders echoes the significant slowdown in world trade growth. This is probably related to slower Chinese growth and, in many countries, slower growth in capital expenditures, which have a higher import content than consumption. Trade-related uncertainty may also play a role

Since early 2018, survey indicators, starting from a high level, have weakened across the globe. This global cooling of the economic temperature is visualised in chart 2. It shows a heatmap based on the Markit purchasing manager index (PMI) for the manufacturing sector. A reading well above 50 corresponds to robust growth, whereas numbers below reflect a chillier or even cold environment. Chart 3 provides similar information for the new export orders component of the PMI survey.

Comparing charts 2 and 3, one notices that the assessment of export orders one year ago was, in general, slightly less upbeat than the overall PMI number. The latter remained at a high level for longer than export orders. Finally, several eurozone countries (France, Germany, Italy, Austria) and the eurozone as a whole saw a very significant deterioration in the outlook for exports.

Chart 1 presents the data in a different way, with on the horizontal axis the change versus one year ago of the manufacturing PMI and on the vertical axis the change in the new export orders series. When a country is below the diagonal line, it means that the drop in export orders is bigger than the decline of the overall PMI. This would indicate that the country has suffered a foreign demand shock. The majority of countries are in this situation and in certain cases the distance to the diagonal line is considerable (Austria, the Netherlands, Poland, Japan, etc). Countries like Italy, Turkey are above the diagonal line, which indicates that the worsening of the domestic environment has been even bigger than the shock coming from abroad.

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Economic scenario

CHANGE IN PMI MANUFACTURING AND NEW EXPORT ORDERS

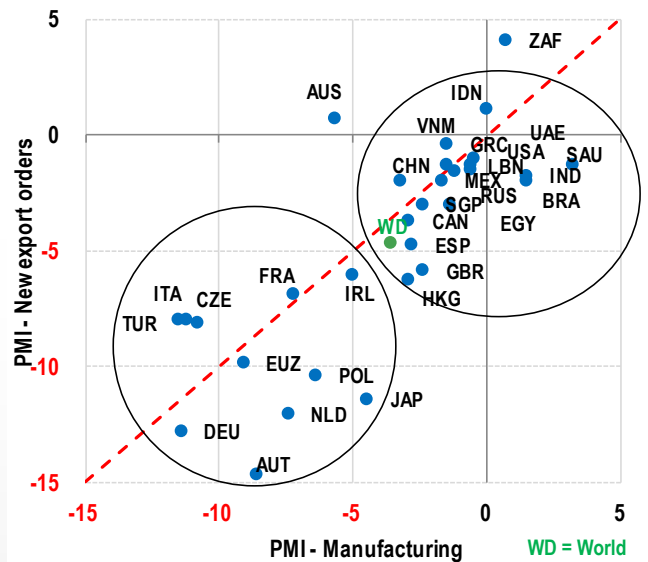


Chart 1

Source: Markit PMI, BNP Paribas

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Italy has entered recession in the second half of last year and the significant rise in bond yields has quite likely played a role, both directly (more expensive financing) and indirectly (as an indicator of heightened country-specific uncertainty related to government finances). Turkey has seen major tensions in financial markets in the summer of last year and faced with a big increase in inflation and interest rates, the country has entered recession. Australia is an interesting case: the PMI weakened moderately although export sentiment hardly changed so here again, domestic factors may be at play.

Chart 1 also highlights two clusters. The one top right consists of countries where the change in the PMI and in the export order book has been moderate and sometimes even positive. The bottom left cluster has countries where both series have declined significantly.

Most of these countries are from the European Union and the intense intra-EU trade implies that negative shocks in one country create spillovers to other: close to 30% of Austrian exports and 24% of Dutch exports go to Germany so for these countries the absence of growth in Germany in the second half of 2018 is particularly important.

The observation that many countries have witnessed a significant drop in the export orders assessment echoes the important slowdown in growth of world trade volume. This in turn is probably related to the Chinese growth slowdown. Slower gross fixed capital formation, which is observed in many countries and which has a higher import content than consumption, could also play a role, as well as the escalation of tensions in trade relationships.

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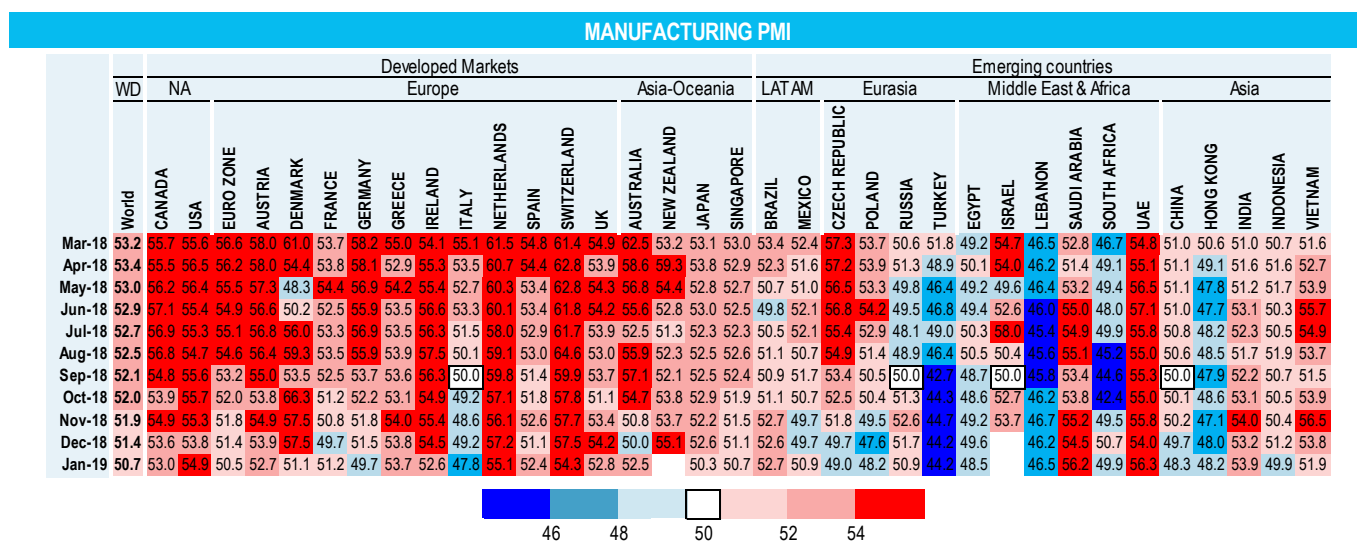


Chart 2

Source: Markit PMI, BNP Paribas

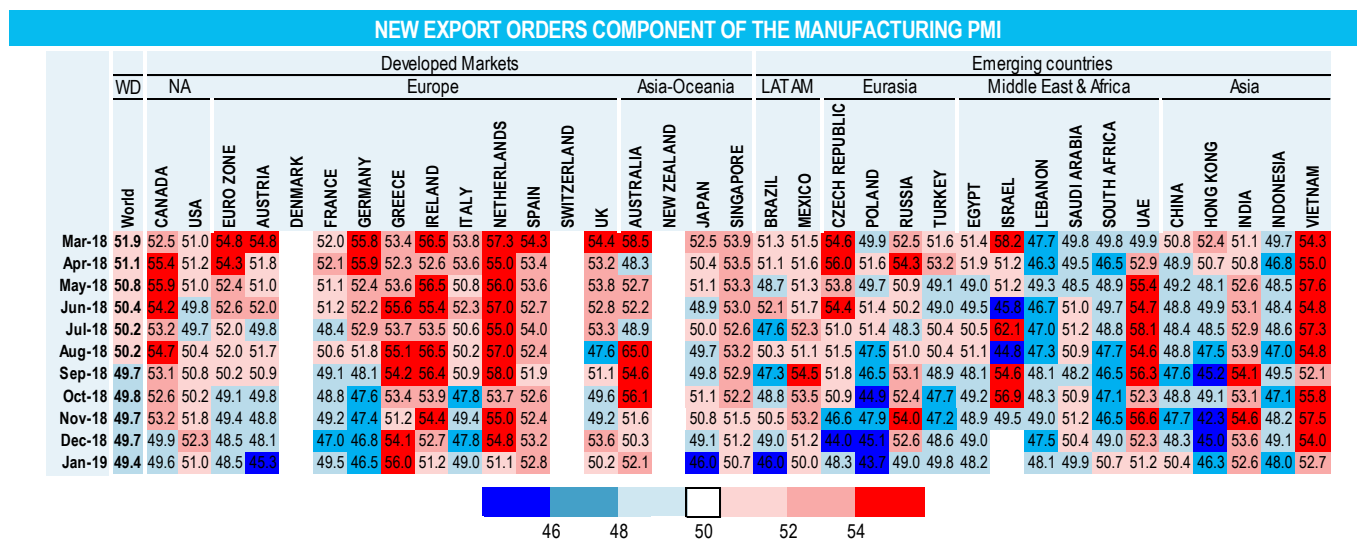


Chart 3

Source: Markit PMI, BNP Paribas

