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EUROZONE: SURVEY DATA SIGNALS UPSIDE RISK TO H2 GDP OUTLOOK

Berenberg Macro Flash

Eurozone economic sentiment (ESI), October

	Economic sentiment	Consumer confidence
Actual:	114.0	-1.0
Previous:	113.1	-1.0 (flash)
Consensus:	113.3	-1.0
Berenberg:	113.2	-1.0

European sentiment rises to the highest since 2001: More good news from one of our favourite European leading indicators. The Eurozone economic sentiment index surged to a 17-year high of 114.0 in October after 113.0 in September suggesting that economic momentum is improving further. This indicates some upside risk to our call that GDP growth will slow slightly in the second half of 2017 (0.5% qoq) from a strong second quarter (0.7% qoq). The gains in sentiment are broad based with good news from all major sectors and most countries amid a favourable global backdrop. The political turmoil in Catalonia or the earlier rise in the euro exchange rate did not have any negative impact on the outlook so far, the sub-index for export orders in manufacturing climbed in October to a 6-year high.

Eurozone industrial confidence index at all-time high: The confidence level in the Eurozone increased across all sectors in October. The industrial confidence indicator rose to the highest level ever recorded (+1.2 to 7.9). Furthermore, the services sector indicator increased to 16.2 in October from 15.4 in September, a 10 year high. In line with services, consumer confidence (-1.0 in October vs. -1.2 in September) climbed to the highest level since April 2001. Construction confidence (0.2 in October vs. -1.7 in September) reached a 10 year high.

Impressive results from Southern Europe and Spain: The most anticipated numbers to be released today were from **Spain**. It did not disappoint. Despite the political turmoil in Catalonia, which make up 20% of Spanish GDP, the ESI surged to 110.2 (+0.3 versus September), the highest level since the end of 2015. This might help to strengthen the cards of the Madrid government in the negotiations with Catalonia and creates some upside risk to our call that GDP will slow to 0.6% qoq over the next two quarters from 0.8% qoq in 3Q 2017. The Spanish service confidence subindex surged to a 15 year high, while construction confidence jumped to a 7 year high.

The rest of the Southern European countries performed well too. The **Portuguese** ESI (+1.2 to 115.6) jumped to the highest level since March 2000 supported by a strong uptick in manufacturing and consumer confidence. The latter rose to the highest level ever recorded since the survey started in 1987. In **Italy** (+1.0 to 111.9) the ESI increased to an 11 year high amid a strong rise in manufacturing and retail trade confidence which is good news for the Gentiloni government ahead of the next parliamentary elections in spring 2018. This creates upside risk to our 1.5% 2017 GDP forecast in Italy as well as our 2.7% 2017 GDP forecast in Portugal.

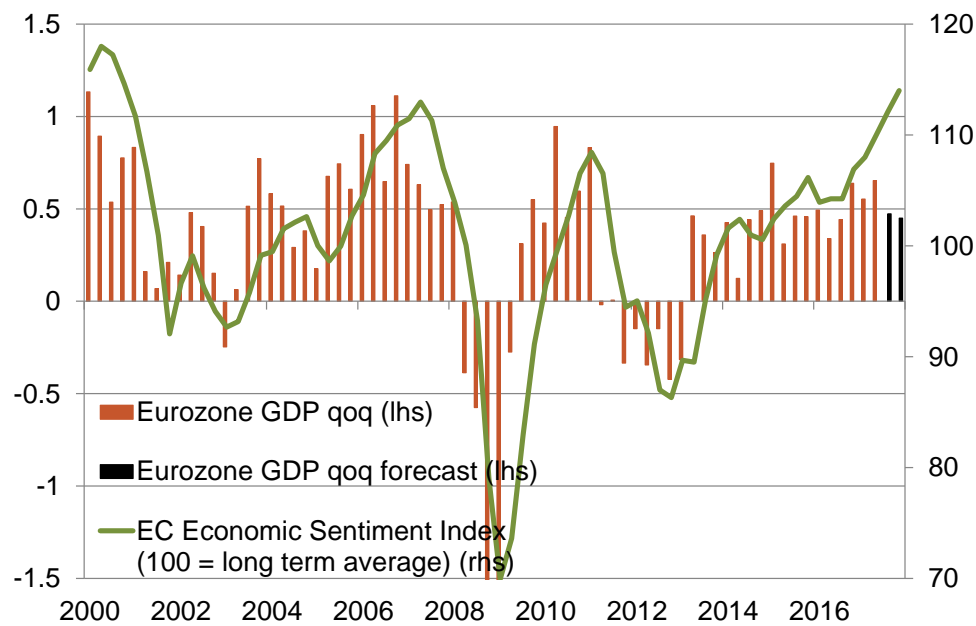
In **France** the ESI took a breather and declined somewhat from a 6 year high reached in September (-1.6 to 110.0). Nevertheless, the French construction confidence index continued to climb to a 9 year high. The **German** ESI (+2.1 to 114.5) improved significantly to a six year high as the manufacturing sector continues to boom. It also signals that economy is suffering from any uncertainty related to the change in the gov-



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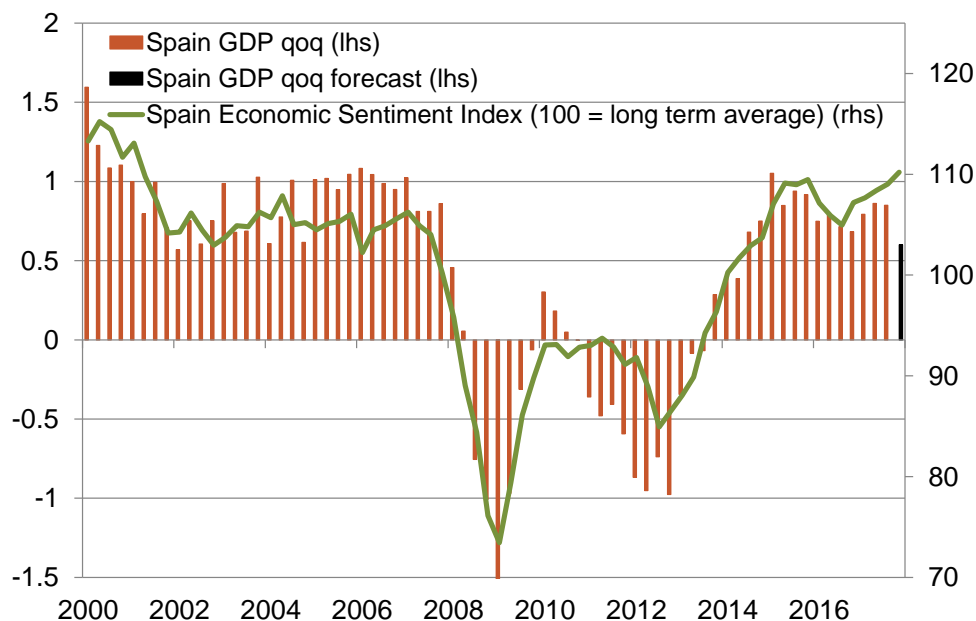
ernment's coalition parties. In the U.K. the ESI improved to a 3-month high in October (+1.5 to 110.7), supported by a massive increase in construction confidence (+17.2 to 10.7) to the highest level since 1989, indicating that the U.K. economy remains resilient despite difficult Brexit negotiations.

Eurozone economic sentiment index (quarterly average) vs. GDP qoq growth (in %)



Source: European Commission, Eurostat. October's economic sentiment index reading is a proxy for 4Q 2017

Spain economic sentiment index (quarterly average) vs. GDP qoq growth (in %)



Source: European Commission, Eurostat. October's economic sentiment index reading is a proxy for 4Q 2017

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Eurozone economic sentiment, by sector

	OCT	SEP	AUG	JUL	JUN	MAY
Economic sentiment	114.0	113.1	111.9	111.3	111.1	109.3
Industry	7.9	6.7	5.0	4.5	4.5	2.8
Services	16.2	15.4	15.1	14.2	13.3	12.8
Consumer	-1.0	-1.2	-1.5	-1.7	-1.3	-3.3
Retail	5.5	3.0	1.6	3.9	4.4	2.0
Construction	0.2	-1.7	-3.3	-1.8	-3.5	-5.6

Eurozone economic sentiment, by country

	OCT	SEP	AUG	JUL	JUN	MAY
Germany	114.5	112.4	111.9	112.5	111.9	109.5
France	110.0	111.6	110.8	108.9	109.5	107.6
Italy	111.9	110.9	109.1	105.5	106.1	106.1
Spain	110.2	109.9	109.3	107.9	108.9	108.4

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