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## MACRO NEWS

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### EUROZONE SENTIMENT: SOFT DATA SIGNALS UPSIDE RISK FOR COMING QUARTERS

#### Berenberg Macro Flash

Eurozone economic sentiment index (ESI), November

	Economic sentiment	Consumer confidence
<b>Actual:</b>	<b>114.6</b>	<b>0.1</b>
Previous:	114.1	0.1 (flash)
Consensus:	114.6	0.1
Berenberg:	114.5	0.1

**Eurozone economic momentum improves further, sentiment rises to the highest in 17 years:** The Eurozone economic sentiment index surged to 114.6 in November, the highest since 2000 after 114.1 in October. This indicates some upside risk to our call that Eurozone GDP growth will remain stable at its Q3 rate of 0.6% qoq. The gains in economic sentiment were driven by higher confidence among consumers and construction companies. The improvement was broad based across countries, especially in France, the Netherlands and Spain.

So far, the political turmoil in Catalonia, political uncertainty in Germany, upcoming elections in Italy or the rise in the euro exchange rate do not appear to be having any significant negative impact on confidence. The improving global backdrop remains important for the Eurozone economy. The sub-index for export orders in manufacturing climbed in November to a 10-year high. The Eurozone unemployment rate is set to decline further. Company's employment plans saw significant upward revisions, reaching the highest level in more than 30 years in the industry and retail trade sector.

**Impressive results from Southern Europe and France:** Despite the political turmoil in Catalonia, which makes up 20% of Spanish GDP, and some disappointing retail sales figures released yesterday for October (-0.1% yoy vs. +2.2% yoy Bloomberg consensus), the ESI surged to 110.8 (+0.6 versus October), the highest level since the end of 2015. History has shown that higher economic growth and a lower unemployment rate reduces Catalan's urge to vote for independence. Therefore the positive sentiment data 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 in Q4 from 0.8% qoq in Q3. The Spanish industrial confidence sub-index surged to a 19 year high in November. In **France**, the economic outlook brightens amid a strong demand environment (also supported by stronger loan growth) and Macron's labour market reforms. Last week's French PMI composite reading was surprisingly strong, jumping to a 6 year high and raised expectations for a positive ESI reading. Indeed, the ESI accelerated in November to the highest level since the end of 2007 (+1.9 to 112.0) amid an increase in service (6 year high) and construction confidence (9 year high). We stick with our call that France could experience a golden decade.

The rest of the Southern European countries performed well too. **Portugal** is seeing a rapid development in business sector service outsourcing growth and in particular in the IT sector amid attractive tax incentives, good technical universities, cheap labour and high English language proficiency. The Portuguese ESI (+0.2 to 115.8) jumped to the highest level since March 2000 supported by a strong uptick in services and construction confidence. The latter rose to the highest level ever since 2002. In **Italy** (+0.2 to 112.1) the ESI increased to an 11 year high amid a strong rise in services and construction confidence (10 year high) which



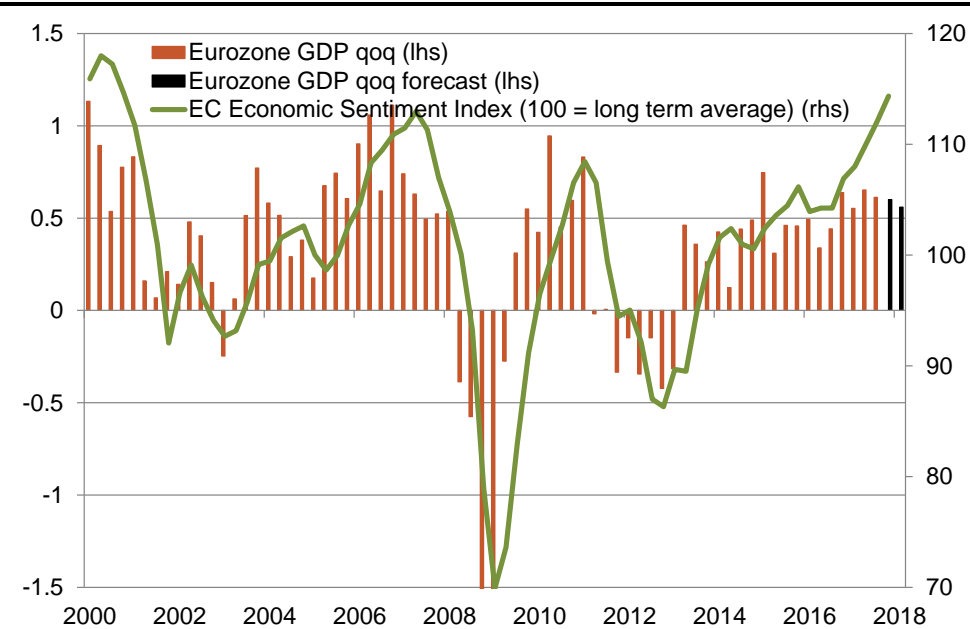
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should help to calm investor's nerves ahead of the next parliamentary elections in spring 2018. This creates upside risk to our 1.6% 2017 GDP forecast in Italy as well as our 2.7% 2017 GDP forecast in Portugal.

The **German** ESI (-0.1 to 114.4) remained very close to a six year high as the manufacturing, construction and services sectors continue to boom despite the uncertainty created by the recent parliamentary election. In the **U.K.** the ESI declined to a 6-month low in November (-1.5 to 108.8), but this could change again next month amid recent improvements in the Brexit negotiations, [which might reduce the likelihood of a damaging hard Brexit](#).

**Eurozone industrial confidence index again at all-time high:** The confidence level in the Eurozone increased across all sectors in November except for retail trade. The industrial confidence indicator rose to the highest level ever recorded (+0.2 to 8.2). Furthermore, the services sector indicator increased to 16.3 in November from 16.2 in October, a 10 year high. In line with services, consumer confidence increased further (0.1 in November vs. -1.1 in October) and is now for the first time since January 2001 above zero. The rise in construction confidence, reaching a 10 year high in November, also appears to be unstoppable for now.

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

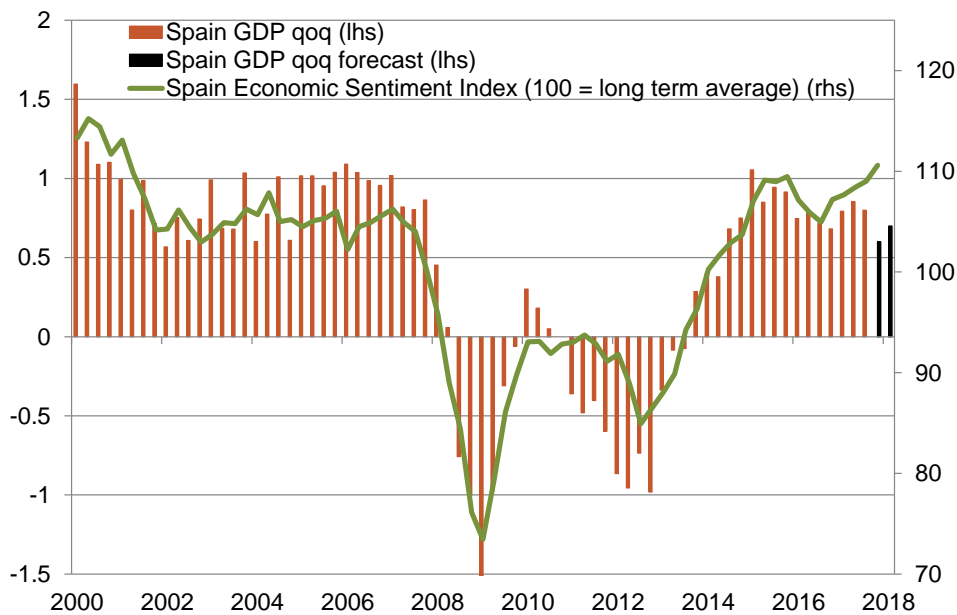


Sources: European Commission, Eurostat. October and November's average economic sentiment index reading is a proxy for 4Q 2017



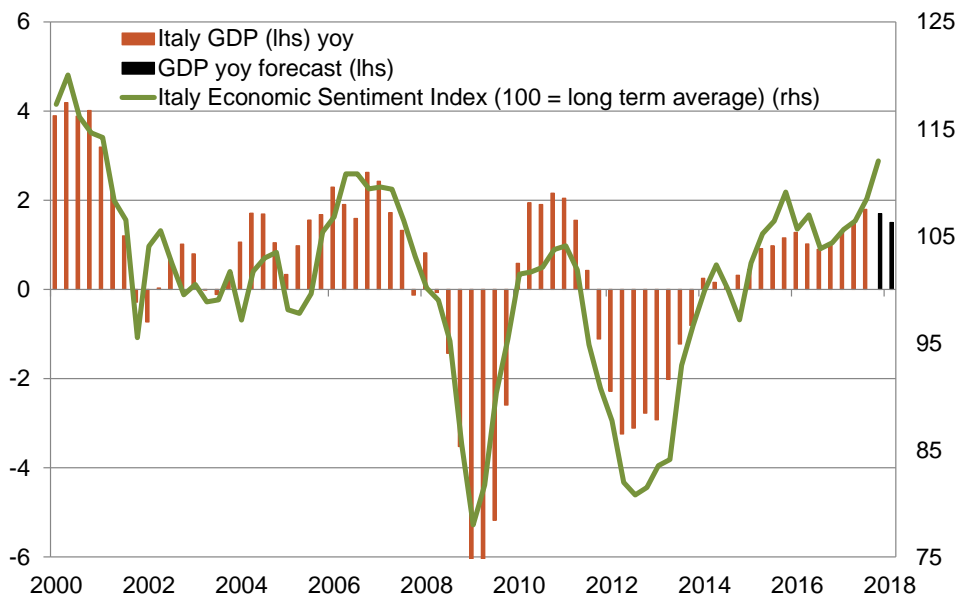
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**Chart: Spain economic sentiment index (quarterly average) vs. GDP qoq (in %)**



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

**Chart: Italy economic sentiment index (quarterly average) vs. GDP yoy growth (in %)**

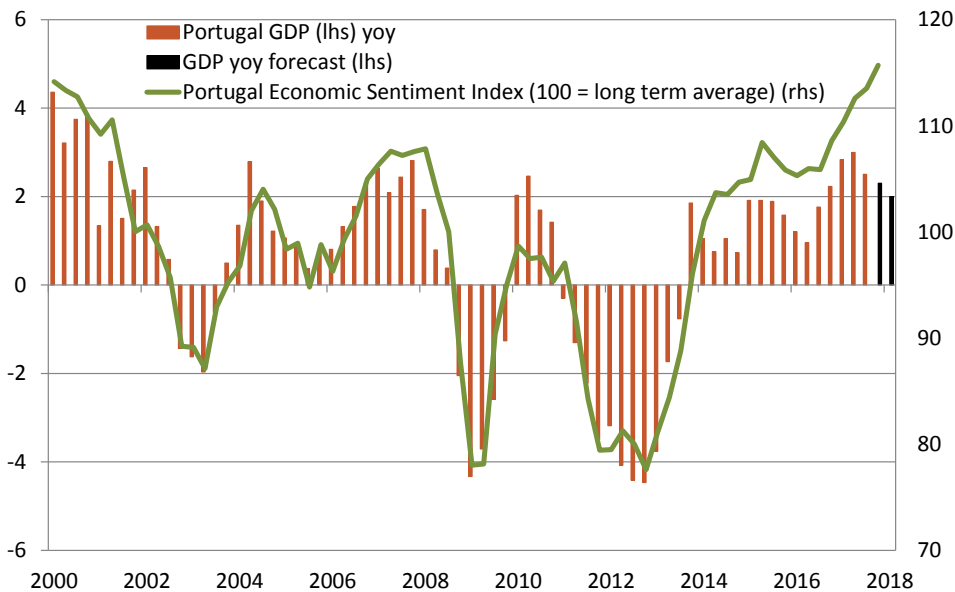


Sources: European Commission, Eurostat. October and November's average economic sentiment index reading is a proxy for 4Q 2017

**Chart: Portugal economic sentiment index (quarterly average) vs. GDP yoy growth (in %)**



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

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