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EUROZONE SENTIMENT: STELLAR END TO 2017 PUTS 2018 ON A STRONG FOOTING

Berenberg Macro Flash

Eurozone economic sentiment index (ESI), November

Economic sentiment

Actual:	116.0
Previous:	114.6
Consensus:	114.8
Berenberg:	114.9

Eurozone economic momentum rises to the highest since 2000: Confirming other strong recent surveys (PMI, IFO), the Eurozone economic sentiment index surged to 116.0 in December, the highest level in 17 years, after 114.6 in November. This indicates some upside risk to our call that Eurozone GDP growth will remain stable at its Q3 rate of 0.6% qoq in Q4. The economy is firing on all cylinders. Confidence levels surged in all surveyed sectors and industrial confidence reached the highest level since start of the series in 1985. On a country basis, France (+2.3 points), Germany (+1.6) and the Netherlands (+0.7) were the main drivers, while economic sentiment in the Southern European countries stabilised at a historically high level. The U.K. (+3.6 points) achieved the largest plus among the major European economies.

It does not look as if political uncertainty in some European countries (Italy, Spain, Germany, U.K.) or the rise in the euro exchange rate and energy prices are having any significant negative impact on confidence. The outlook for 2018 remains bright amid the improving global backdrop. The sub-index for export orders in manufacturing climbed 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 10 years in the construction and industry sectors.

Are there any signs of inflation pressures? Labour shortages in the industrial sector climbed in Q4 to the highest level since 1985, indicating that wage growth could accelerate over the medium-term. Furthermore, selling price expectations in the industrial sector rose sharply and were at a 6-year high in December. However, other sectors showed less price pressures. Selling price expectations in the retail trade sector declined while remaining stable in the services sector.

Record after record in France thanks to Macron: Since he won the presidential election in May 2017, economic confidence improved decisively and France has narrowed the ESI gap with Germany from 4.8 points in April to only 1.8 points in December. This is further evidence that France could overtake Germany's GDP growth at some point in the not so distant future. Macron's labour market reforms and the strong demand environment support our view that France is heading for a golden decade. **Germany's** ESI increased to 116.0, only 3 points away from the all-time high reached in September 1990. Despite long delays in building a new coalition, economic sentiment has climbed higher. The upswing is broad based, all sectors improved in December, led by the services and retail trade sectors which profit from rising consumer confidence amid record high employment figures.

Mixed results from Southern Europe: On a positive note, the ESI in **Greece** increased to a 3-year high in December. The economic outlook is slowly improving as Greece implemented most of the structural reforms demanded by the official lenders over the last years. Greece made progress in the latest bailout review and it is likely that Greece can avoid a fourth bailout after the third bailout ends in August 2018. This should help to attract more foreign investments. Greek 10-year government bond yields fell last week to the lowest level in 12 years, reflecting increased investors confidence. On a negative note, the **Portuguese** and **Spanish** ESI declined slightly in December. Nevertheless, the Spanish ESI Q4 average of

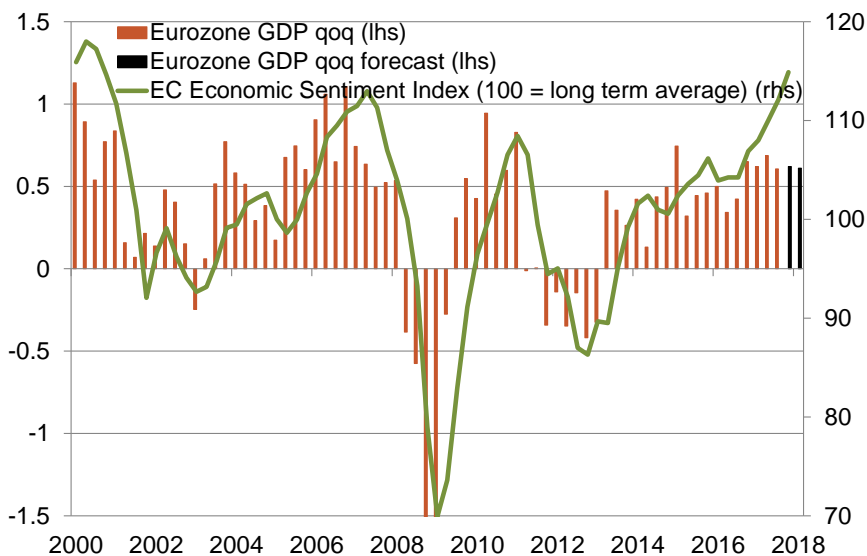


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110.3 is the highest since Q1 2001, indicating that the Catalan political turmoil has had no significant negative impact on the economy. The Italian ESI remained stable at a very strong level of 112.1. The Q4 average of 112 is the highest in 17 years, despite an uncertain outcome in the March parliamentary election.

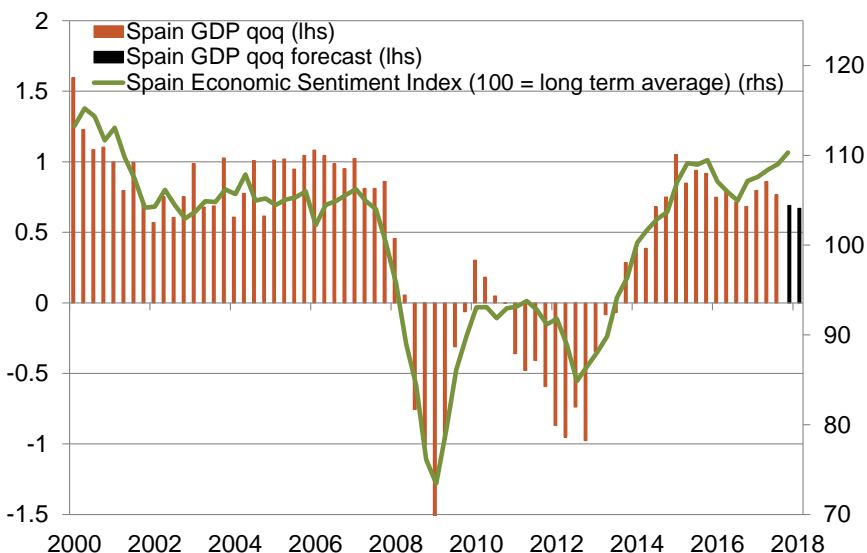
Eurozone industrial confidence index at all-time high: The industrial confidence indicator rose to the highest level ever recorded (+1.0 to 9.1) amid higher production expectations and an increase in new orders. Furthermore, the retail trade sector confidence index jumped to 6.2 in December vs. 4.3 in November and very close to its all-time high reached in October 2015 of 6.5. Services, consumer and construction sector confidence all reached at least a 10-year high in December.

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



Sources: European Commission, Eurostat.

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

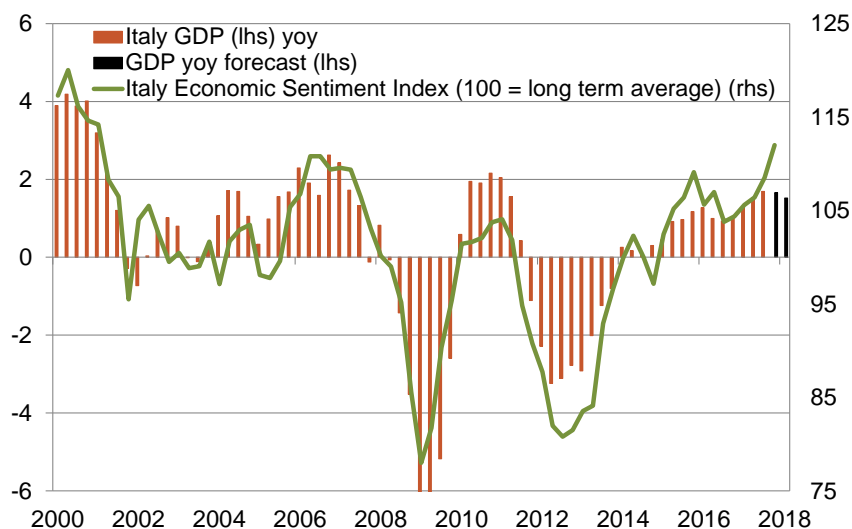




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Sources: European Commission, Eurostat.

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



Sources: European Commission, Eurostat.

Eurozone economic sentiment, by sector

	DEC	NOV	OCT	SEP	AUG	JUL
Economic sentiment	116.0	114.6	114.1	113.1	111.9	111.3
Industry	9.1	8.1	8.0	6.7	5.0	4.5
Services	18.4	16.4	16.2	15.4	15.1	14.2
Consumer	0.5	0.0	-1.1	-1.2	-1.5	-1.7
Retail	6.2	4.3	5.5	3.0	1.6	3.9
Construction	2.7	1.5	0.4	-1.7	-3.3	-1.8

Eurozone economic sentiment, by country

	DEC	NOV	OCT	SEP	AUG	JUL
Germany	116.0	114.4	114.5	112.4	111.9	112.5
France	114.4	111.9	110.1	111.6	110.8	108.9
Italy	112.1	112.1	111.9	110.9	109.1	105.5
Spain	110.0	110.8	110.2	109.9	109.3	107.9



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