



Carsten Hesse, Economist | carsten.hesse@berenberg.com | +44 20 3753 3001

EUROZONE SENTIMENT: STRONG SERVICES LIMIT TRADE DAMAGE

Berenberg Macro Flash

Eurozone economic sentiment index (ESI), July

	Economic sentiment
Actual:	112.1
Previous:	112.3
Consensus:	112.1
Berenberg:	112.0

More signs that the Eurozone economy can withstand trade tensions with only limited damage: The ESI declined slightly from 112.3 in June to 112.1 in July, which was in line with our expectations. Confidence fell in the industrial and retail trade sector, but increased in the services sector while consumer confidence and the construction sector remained more or less unchanged. Industrial sentiment suffered due to weaker production expectations and export orders likely caused by the trade tensions. In combination with other recent survey data (Eurozone PMI services and German Ifo expectations) and [last week's Juncker-Trump meeting](#) reducing the risk of a trade war, the broadly stable ESI provides more evidence that sentiment is bottoming out and could start to recover in the months ahead. It also fits in with our call that GDP growth will remain stable in Q2 and Q3 at 0.4% qoq like in Q1, but will accelerate to 0.5% qoq in Q4 unless Trump were to escalate trade tensions again.

On a country basis, **Greece** (2.8) and **Germany** (+0.9) recorded significant gains in July while sentiment fell the most in **Spain** (-0.9) and **Italy** (-0.6). **France's** and **Netherland's** ESI remained broadly stable.

Football World Cup impact on consumer confidence: The 2018 World Cup in Russia arguably had a small impact on consumer confidence in certain countries. The better than expected performance of the French (+1.2), Croatian (+2.0), Belgian (+1.8) and English/UK (+4.1) teams probably had a positive impact on consumer confidence, as confidence levels rose in all the four countries month on month. On the other hand, consumer sentiment fell month on month in the countries where the national football teams disappointed, such as Germany (-0.1), Spain (-1.2) and Portugal (-2.6).

Trade tension impact: The export order books of EU manufacturing companies seem to have suffered from the trade tensions with the US which only improved after the Juncker-Trump meeting. This was likely too late to have a positive impact on the July sentiment readings. Export orders fell by 1.4 points to an eleven months low in the Eurozone, due to sharp drops in Austria (-8.1), Italy (-4.5) and to a lesser extent in Germany (-1.4).

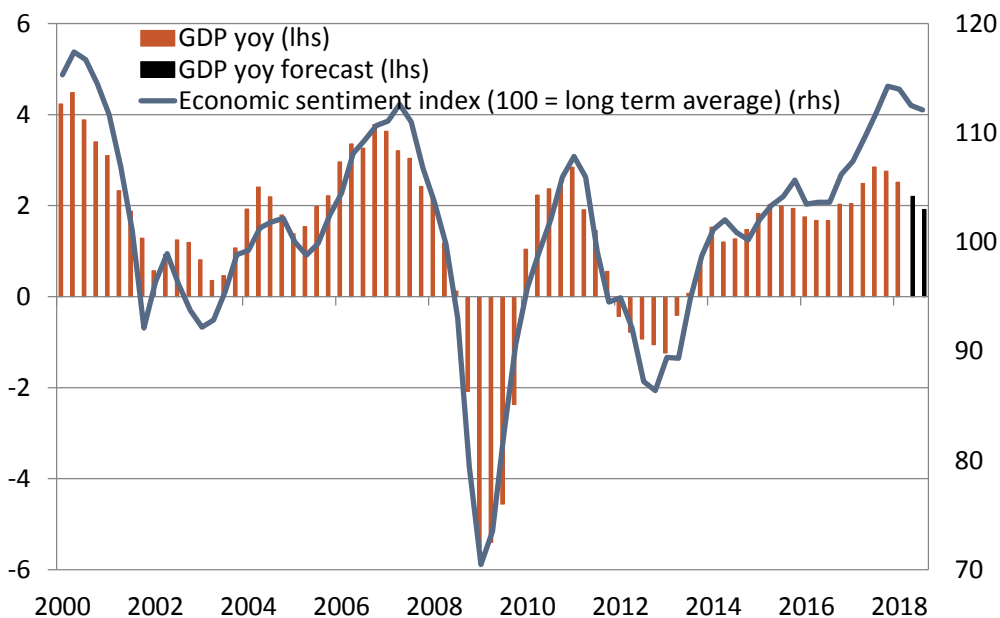
Inflation outlook is muted: Selling price expectations remained stable in services, construction and retail trade sector, while they fell slightly in the industrial sector. In combination with lower capacity utilisation in the manufacturing industry in Q2 vs. Q1 (84.1% vs. 84.3%) and higher commodity prices, this could mean some margin pressure for the sector. Consumer price increased slightly in July.



MACRO NEWS

Further highlights: First, **Germany's services confidence** jumped to a 7-year high in July. Second, the capacity utilisation in the Eurozone service sector improved in Q2 to 90.6% vs. 90.2% in Q1, the highest level since data is available (2011). Third, the intention to carry out home improvements in the EU jumped in Q2 to the highest level since 1990. Fourth, the export dependent **Hungarian ESI** rose again to the highest level on record.

Chart 1: Eurozone economic sentiment index (quarterly average) vs. GDP yoy growth (in %)

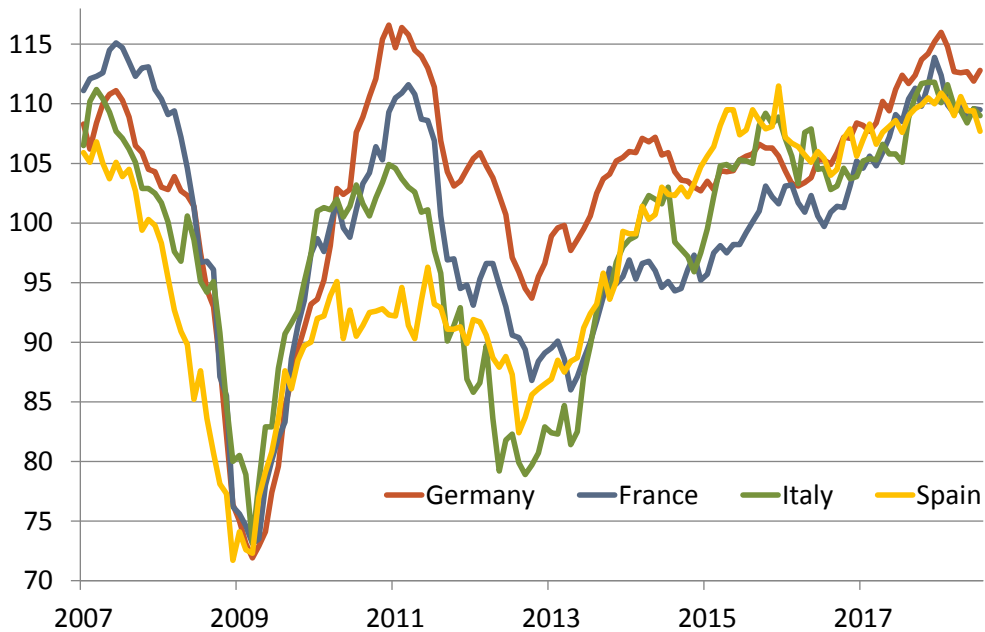


Sources: European Commission, Eurostat.

Chart 2: Economic sentiment across major Eurozone countries



MACRO NEWS



Monthly data. Sources: European Commission, Eurostat.

Eurozone economic sentiment, by sector

	JUL	JUN	MAY	APR	MAR	FEB
Economic sentiment	112.1	112.3	112.5	112.7	112.8	114.3
Industry	5.8	6.9	6.9	7.3	7.0	8.8
Services	15.3	14.4	14.4	14.7	16.0	16.9
Consumer	-0.6	-0.6	0.2	0.3	0.1	0.1
Retail	-0.1	0.7	0.7	-0.7	0.8	3.5
Construction	5.4	5.6	7.1	4.6	5.2	4.2

Eurozone economic sentiment, by country

	JUL	JUN	MAY	APR	MAR	FEB
Germany	112.8	111.9	112.7	112.6	112.7	114.8
France	109.5	109.6	108.6	110.2	109.2	109.9
Italy	109.0	109.6	108.4	109.4	109.8	111.6
Spain	107.7	109.4	109.4	110.6	109.0	110.2



BERENBERG

PARTNERSHIP SINCE 1590

MACRO NEWS

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact capitalmarkets@berenberg.de.

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3753 3001
www.berenberg.com
carsten.hesse@berenberg.com