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## ECONOMIC SENTIMENT: UK UP, EUROZONE SLIGHTLY DOWN, GERMANY STABLE

### Berenberg Macro Flash

Eurozone economic sentiment index (ESI), August

	Economic sentiment
Actual:	111.6
Previous:	112.1
Consensus:	111.9
Berenberg:	111.8

**Slight decline mainly due to lower consumer confidence:** The ESI fell slightly from 112.1 points in July to 111.6 in August, roughly in line with our expectations and above the last 3-year average of 108.5. Confidence fell in the consumer and services components, but increased for construction and retail trade, while industrial confidence remained stable. Consumer sentiment dropped on the back of rise in fear of future unemployment, especially in France, Spain and Italy. Other components of consumer confidence remained stable and close to post-Lehman highs. Continued job gains should lead to an improvement in labour market expectations over time. While the ESI slightly declined in August, it is still at a very high level. In combination with other recent survey data (Eurozone PMI services and German Ifo expectations), the high level of the 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 Q3 at 0.4% qoq like in Q2, but will accelerate to 0.5% qoq in Q4 as the uncertainty from trade wars fades. The [Turkish crisis](#) escalating into a broader Emerging Market crisis (rather unlikely) or [Italy ignoring](#) the Maastricht budget criteria could delay the rebound.

**UK shoots ahead of France and Italy:** On a country basis, only **Belgium** (+3.7 points) and the **UK** (+1.5) recorded significant gains in August. Sentiment fell by the most in **France** (-1.3) **Italy** (-0.8) and **Spain** (-0.7). **Germany's** ESI remained broadly stable compared to the previous month. UK's ESI of 110.0 is now ahead of France and Italy (both at 108.2) for the first time since the beginning of the year (see chart 2), indicating that the UK sentiment is relatively robust despite the Brexit threat. Supported by lower inflation and rising real wages, [UK retail trade sentiment](#) jumped by 10.5 points to the highest level since November 2016.

**No lasting impact of football World Cup on consumer confidence:** While the World Cup had a small positive impact on consumer confidence in July in the countries that performed better than expected, the same can not be said anymore in August. Consumer sentiment declined in August vs. July in France (-2.6), Belgium (-0.8), England/UK (-0.7) and Croatia (-0.5).

**Turkey risk hits exporters:** The export order books of Eurozone manufacturing companies continued to decline in August. It seems like the negative impact of the Turkish crisis on Eurozone exporters more than offset the positive impact of the successful Juncker-Trump meeting. Export orders fell by 0.7 points to a one year low in the Eurozone, due to sharp drops in Spain (-4.5) and France (-4.2), while export expectations rose in Germany (0.4).

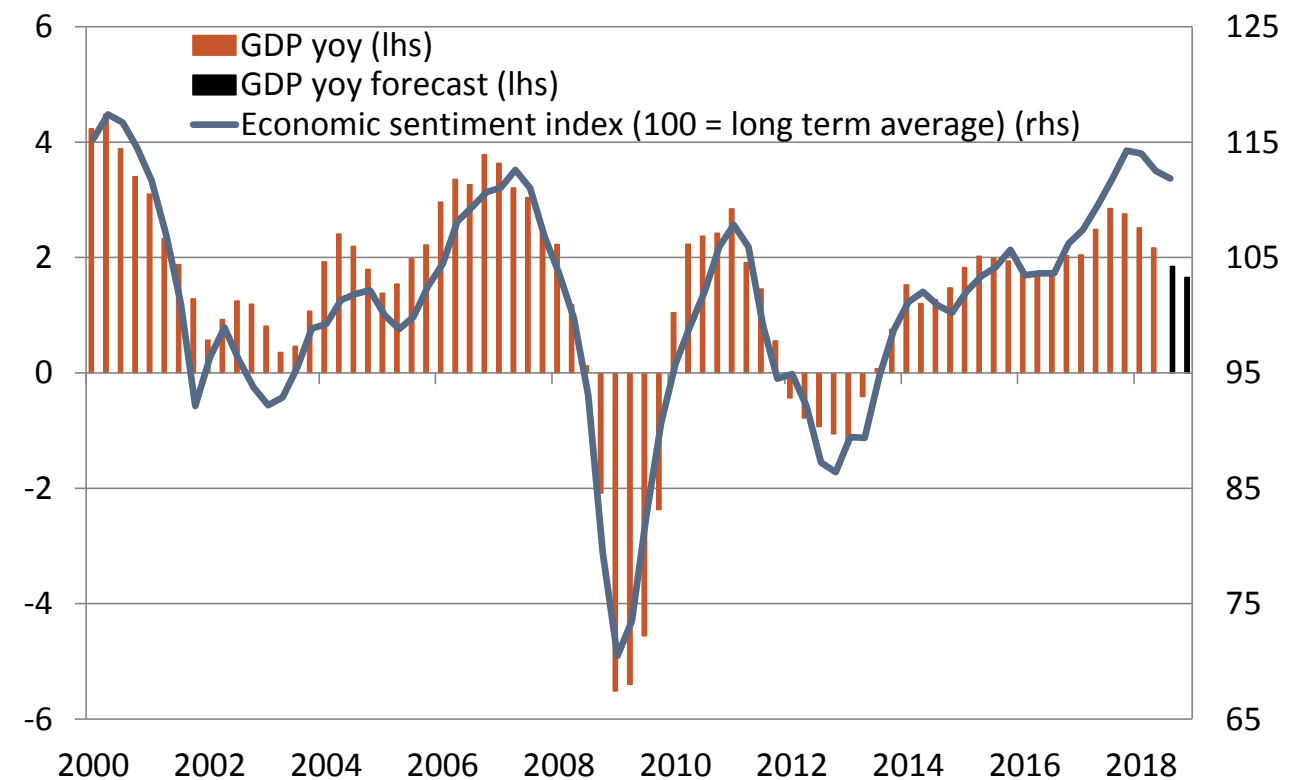


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**Inflation outlook remains muted:** Selling price expectations increased slightly in the industrial, retail trade and construction sectors, while they remained stable in services and among consumers.

**Further highlights:** First, **Eurozone** construction confidence rose in August to the second highest level on record (since 1985). Second, confidence in the **Italian** construction sector jumped to the highest level since 2004 after the tragic bridge collapse in Genoa increased the Italian government's focus to raise infrastructure investments. Third, **Greece's** industrial and retail trade confidence rose to a decade high after the country exited its [last bailout programme in August](#).

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

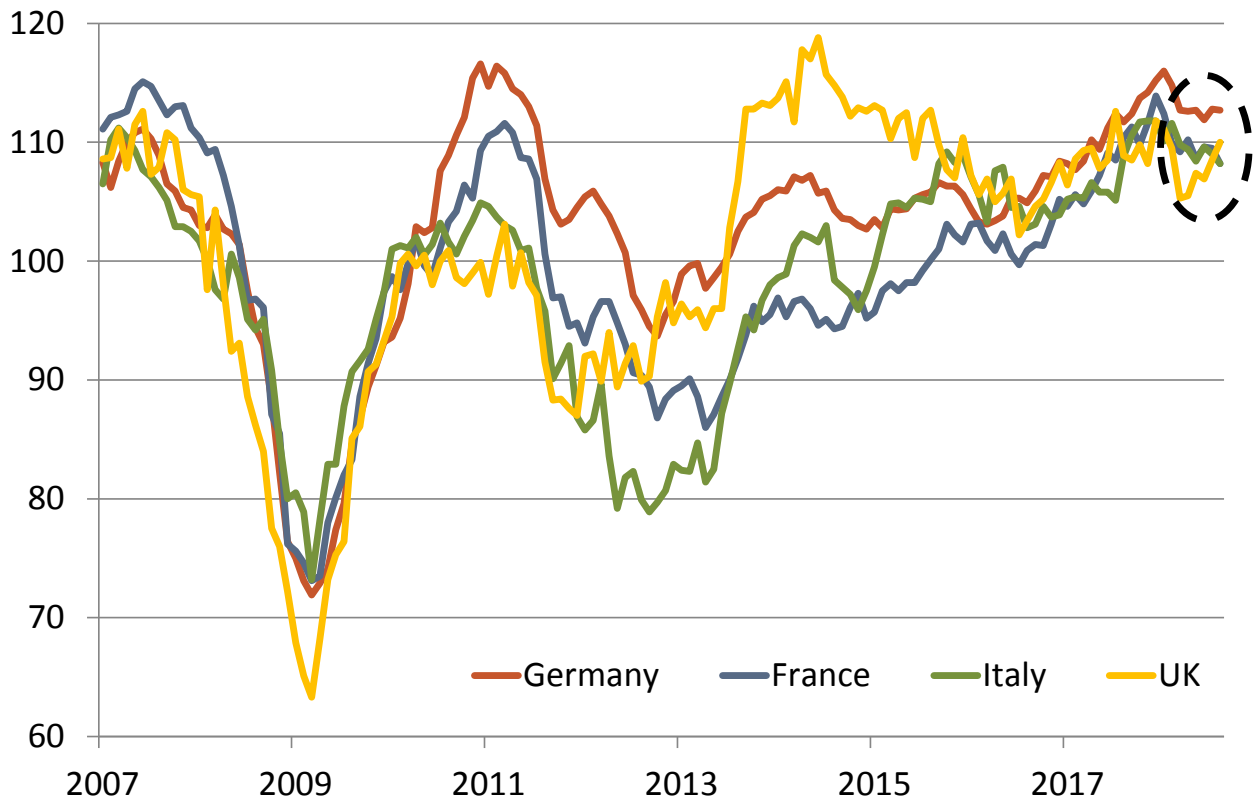


July and August's economic sentiment index reading is a proxy for 3Q 2018. Sources: European Commission, Eurostat, Berenberg projections



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Chart 2: Economic sentiment across major EU countries



Monthly data. Sources: European Commission, Eurostat.

### Eurozone economic sentiment, by sector

	AUG	JUL	JUN	MAY	APR	MAR
Economic sentiment	111.6	112.1	112.3	112.5	112.7	112.8
Industry	5.5	5.8	6.9	6.9	7.3	7.0
Services	14.7	15.3	14.4	14.4	14.7	16.0
Consumer	-1.9	-0.5	-0.6	0.2	0.3	0.1
Retail	1.7	0.3	0.7	0.7	-0.7	0.8
Construction	6.4	5.4	5.6	7.1	4.6	5.2

### Economic sentiment, by country

	AUG	JUL	JUN	MAY	APR	MAR
Germany	112.7	112.8	111.9	112.7	112.6	112.7
France	108.2	109.5	109.6	108.6	110.2	109.2
Italy	108.2	109.0	109.6	108.4	109.4	109.8
Spain	107.0	107.7	109.4	109.4	110.6	109.0
UK	110.0	108.5	106.9	107.4	105.5	105.3



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