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ECONOMIC SENTIMENT: ANOTHER SMALL SETBACK

Berenberg Macro Flash

Eurozone economic sentiment index (ESI), September

	Economic sentiment
Actual:	110.9
Previous:	111.6
Consensus:	111.2
Berenberg:	111.2

Not out of the woods yet: Trade war tensions are still weighing on production expectations of manufacturers. But not all sectors are suffering. The retail trade and service sector confidence demonstrated more optimism (in-line with the latest PMI Services reading), supporting our view that the domestic economy is holding up well (see [Eurozone 2018: stable at home, big hit from abroad](#)). In the construction sector, confidence even climbed to an all time high (since 1990). Consumer sentiment showed slightly more - but still low - concerns about becoming unemployed and not being able to save more. However, consumer confidence level remains close to post-Lehman highs (see Chart 1) amid continued job gains and rising wages. All in all, the ESI fell from 110.9 in September vs. 111.6 in August

Eurozone GDP outlook: In combination with other recent survey data (see [German Ifo: holding up](#)) and the fact that manufacturing order expectations rose again in September suggest that sentiment is likely bottoming out and could start to recover in the months ahead. We expect GDP growth to remain around trend growth in Q3 at 0.4% qoq, like in Q1 and Q2, but to accelerate to 0.5% qoq in Q4 under the assumption that the uncertainty from trade wars fades and that the EU and UK can find a compromise over the coming months to prevent a hard Brexit in late March 2019. That the Emerging Market crisis in some vulnerable countries such as Turkey deescalated somewhat over the last weeks increases the chances that GDP growth should rebound later this year. Meanwhile, the Italian 2019 budget saga will hopefully come to a sensible closing this week (despite some increase in last minute tensions ahead of a crucial cabinet meeting on the budget later today). Eurozone bank loan growth to non financial corporations (+4.2% yoy) and households (+3.2% yoy) increased in August to the fastest level since early 2009.

Export outlook improves, inflation outlook remains muted among businesses: Export order books of Eurozone manufacturing companies improved in September for the first time since April. The limited contagion of the Turkish crisis and the calming Juncker-Trump meeting (25 July) likely improved confidence. Export orders increased by 0.4 points in September after hitting a one year low in August, due to significant improvements in Italy (+3.8) and Spain (+2.1). Selling price expectations declined month-on-month in the services, retail trade and construction sector while increasing slightly in the industrial sector. However, consumer price expectations for the next 12 months increased to the highest level since early 2013.

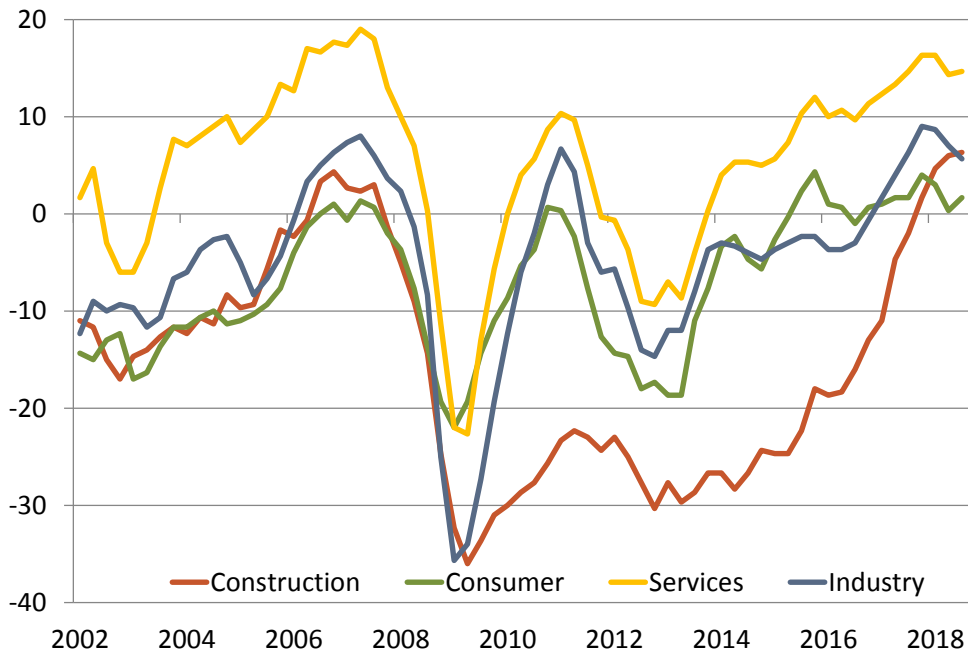
More losers than winners: Of the larger Eurozone countries only **Belgium** (+1.2 points) and **Austria** (+0.5) recorded significant gains. Sentiment fell by the most in **Greece** (-3.9), **France** (-1.7) and **Spain** (-1.5). **Germany's** ESI remained broadly stable compared to the previous month, increasing the gap to **France** and



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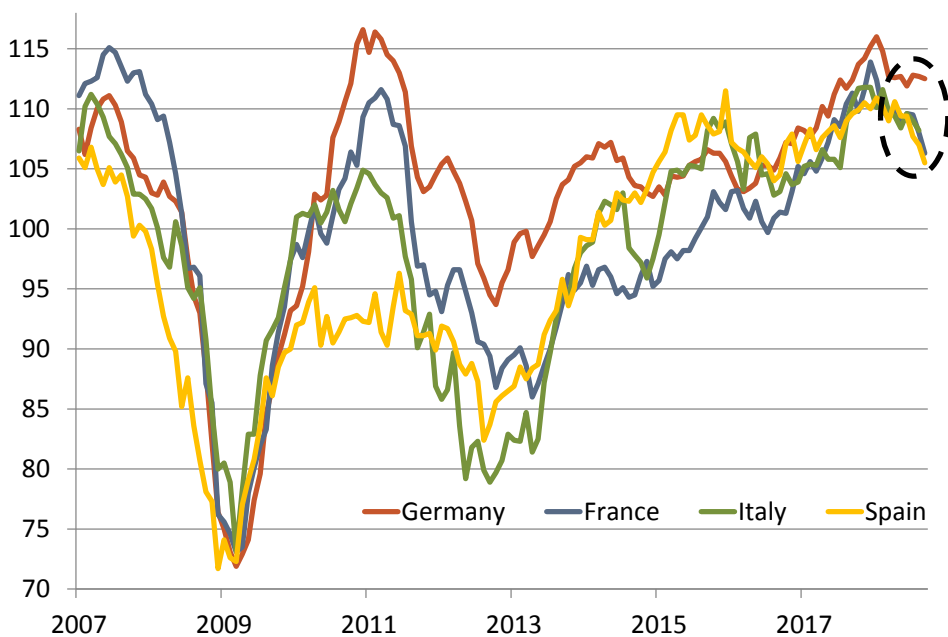
Spain (see Chart 2). UK's ESI declined by 1.6 points likely due to rising worries about a no-deal hard Brexit following the rejection of PM Theresa May's Chequers plan at the EU summit in Salzburg.

Chart 1: Eurozone economic sentiment across sectors



Quarterly data. Sources: European Commission, Eurostat

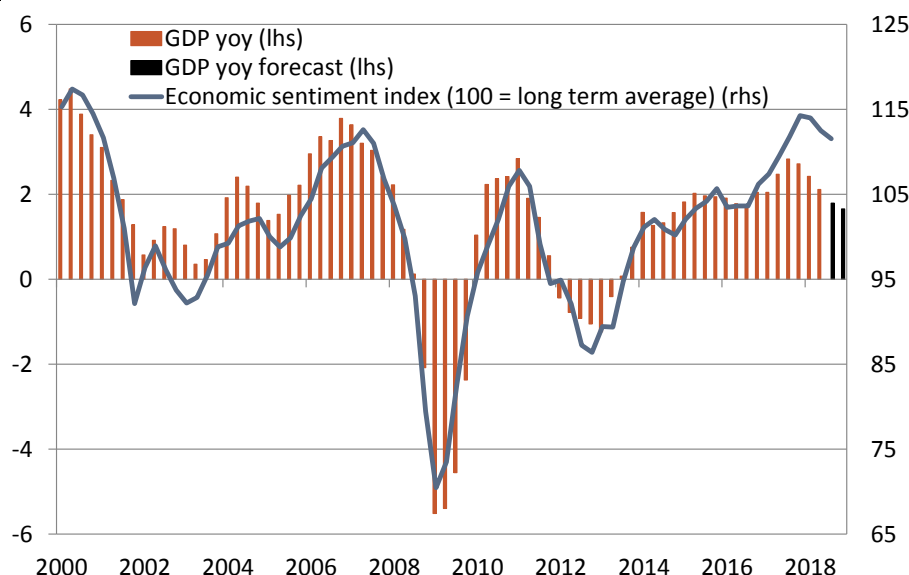
Chart 2: Economic sentiment across major Eurozone countries



Monthly data. Sources: European Commission, Eurostat.



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Chart 3: Eurozone economic sentiment index (quarterly average) vs. GDP yoy growth (in %)

Sources: European Commission, Eurostat, Berenberg projections

Eurozone economic sentiment, by sector

	SEP	AUG	JUL	JUN	MAY	APR
Economic sentiment	110.9	111.6	112.1	112.3	112.5	112.7
Industry	4.7	5.6	5.8	6.9	6.9	7.3
Services	14.6	14.4	15.3	14.4	14.4	14.7
Consumer	-2.9	-1.9	-0.5	-0.6	0.2	0.3
Retail	2.7	1.9	0.3	0.7	0.7	-0.7
Construction	8.3	6.4	5.4	5.6	7.1	4.6

Economic sentiment, by country

	SEP	AUG	JUL	JUN	MAY	APR
Germany	112.5	112.7	112.8	111.9	112.7	112.6
France	106.3	108.2	109.5	109.6	108.6	110.2
Italy	108.0	108.2	109.0	109.6	108.4	109.4
Spain	105.5	107.0	107.7	109.4	109.4	110.6
UK	108.4	110.0	108.5	106.9	107.4	105.5

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