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PARTNERSHIP SINCE 1590

## MACRO NEWS

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### EUROZONE SENTIMENT: WEAK START INTO Q4

#### Berenberg Macro Flash

Eurozone economic sentiment index (ESI), October

#### Economic sentiment

<b>Actual:</b>	<b>109.8</b>
Previous:	110.9
Consensus:	110.0
Berenberg:	109.5

**More bad news:** An unusual strong [cocktail of risks](#) continues to weigh on the Eurozone economy. The ESI's October drop to 109.8 from 110.9 in September confirms the negative trend already indicated by the weak Eurozone [PMI](#), German IfO and [ZEW](#) reading over the last two weeks. Despite a significant reduction in economic confidence since the beginning of the year (the ESI eased already for 10 consecutive months), sentiment data continues to weaken as the headwinds from trade skirmishes, Italian budget trouble and high energy prices continue to blow strongly. It also supports our view that Eurozone GDP in Q4 will not improve much from a [weak Q3](#).

**Broad-based losses:** The losses in sentiment stretch across countries (except for 3 Eurozone countries) and sectors. We see more signs, that the dark clouds which reached the export-driven industrial sector first in February this year are also causing hiccups in parts of the domestic economy – Chart 1. The retail sector took the biggest hit in October, falling by 3.2 points as managers downgraded their views on the present and expected business situation. Confidence among service providers held up well so far in 2018, but it took a small hit in October as the index eased by 1.1 points due to a deterioration in all components. The capacity utilisation ratio in the services sector fell from 90.6% in Q3 to 90.1% in Q4 and by 0.3ppt to 83.9% in the manufacturing sector. The confidence in the industrial sector fell again in October to 3.0 from 4.7 in September, the largest month on month drop since March as managers' assessment of the current level of overall order books declined sharply. Worryingly, domestic orders fell even faster than export orders. The quarterly survey of the manufacturing sector confirmed the weakness in new orders, reporting the sharpest qoq decline in 7 years.

**Consumer and construction sentiment firm:** Construction confidence continues to be in great shape and remained very close to its all-time high reached last month. Meanwhile, consumer confidence remained virtually unchanged in October, in fact improved a little from -2.9 to -2.7.

**More losers than winners:** Of the larger Eurozone countries only **Spain** (+1.9 points) recorded significant gains. Sentiment contracted by the most in **Germany** (-1.3), **Netherlands** (-1.3), **France**

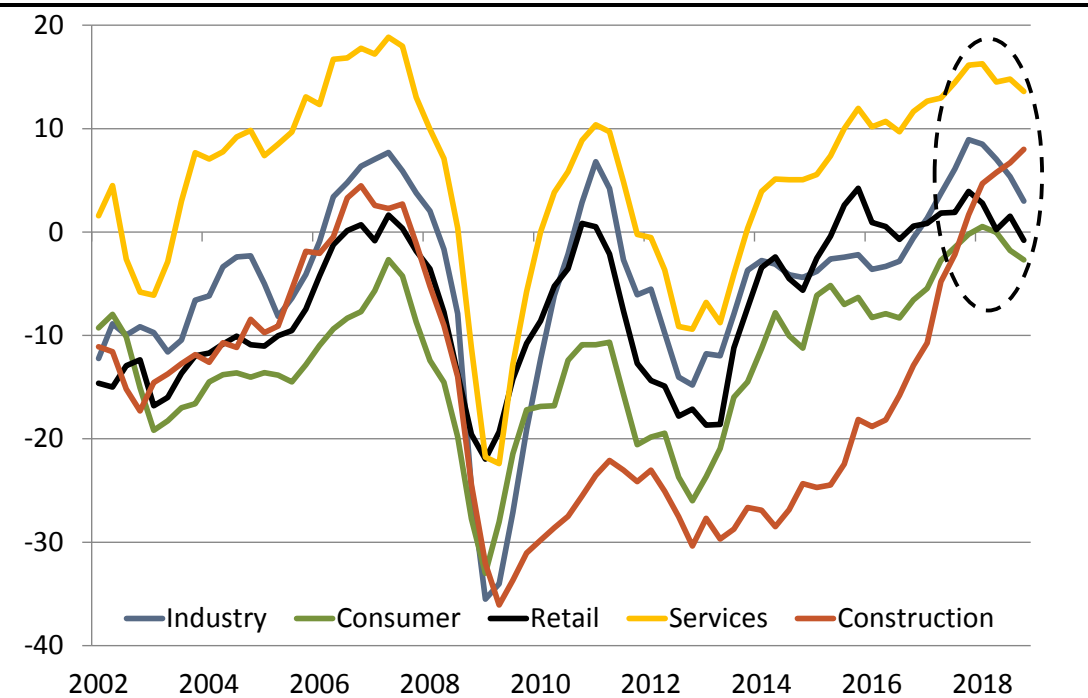


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(-1.2) and **Italy** (-0.9) – Chart 2. The **UK's** ESI managed to escape the downward trend and increased slightly by 0.2 points, potentially due to better than expected wage growth (+3.1% yoy in August), supporting consumer sentiment and retail spending.

**Inflation outlook on the up, employment plans mixed:** The ECB should not be too concerned about the current low level of core inflation (0.9% yoy in September), as selling price expectations among consumers climbed in October for the fifth consecutive month and to the highest level since the beginning of 2013. Selling price expectations also firmed in the retail trade, construction and services sector while they slipped in industry. Employment plans deteriorated in industry and retail trade but improved in construction and services.

Chart 1: Eurozone economic sentiment across sectors

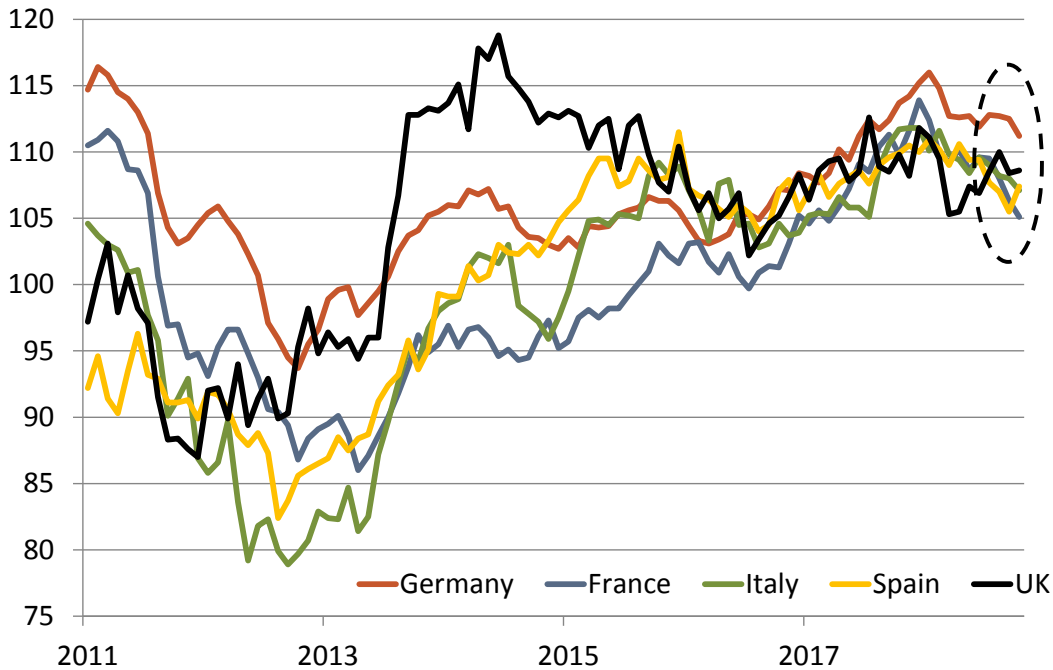


Quarterly data. October's economic sentiment index reading is a proxy for Q4 2018. Sources: European Commission, Eurostat



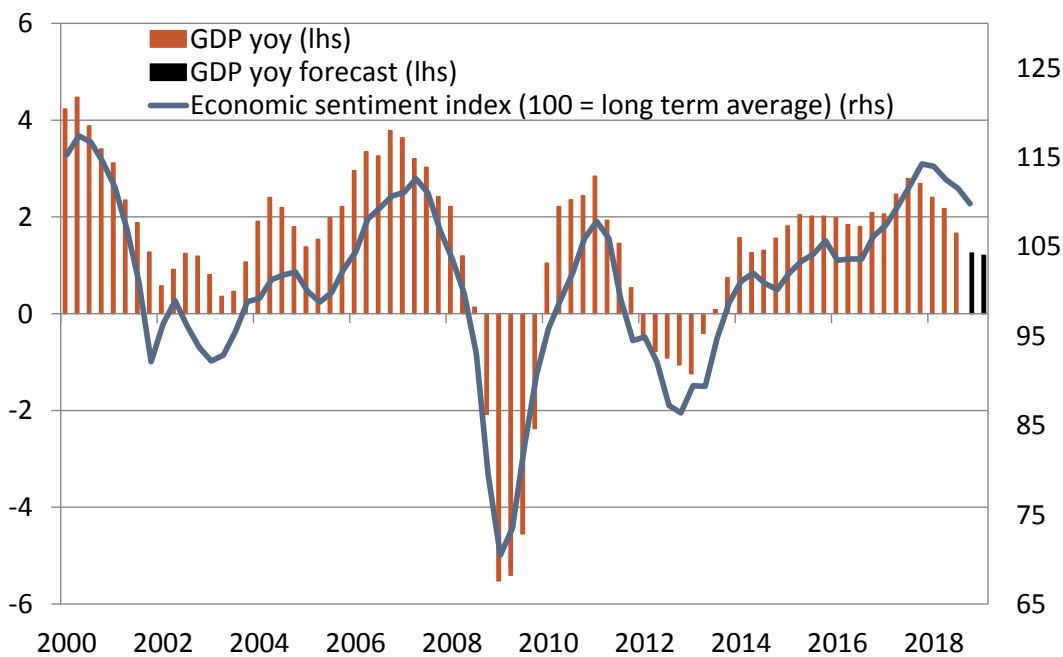
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Chart 2: Economic sentiment across major European countries



Monthly data. Sources: European Commission, Eurostat.

Chart 3: Eurozone ESI (quarterly average) vs. GDP yoy growth (in %)



October's economic sentiment index reading is a proxy for Q4 2018. Sources: European Commission, Eurostat, Berenberg projections

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### Eurozone economic sentiment, by sector

	OCT	SEP	AUG	JUL	JUN	MAY
Economic sentiment	109.8	110.9	111.6	112.1	112.3	112.5
Industry	3.0	4.7	5.6	5.8	6.9	6.9
Services	13.6	14.7	14.4	15.3	14.4	14.4
Consumer	-2.7	-2.9	-1.9	-0.5	-0.6	0.2
Retail	-0.8	2.7	1.9	0.3	0.7	0.7
Construction	8.0	8.3	6.4	5.4	5.6	7.1

### Economic sentiment, by country

	OCT	SEP	AUG	JUL	JUN	MAY
Germany	111.2	112.5	112.7	112.8	111.9	112.7
France	105.1	106.3	108.2	109.5	109.6	108.6
Italy	107.1	108.0	108.2	109.0	109.6	108.4
Spain	107.4	105.5	107.0	107.7	109.4	109.4
UK	108.6	108.4	110.0	108.5	106.9	107.4

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