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EUROZONE CONFIDENCE UPTICK BODES WELL FOR 2020 REBOUND

Berenberg Macro Flash

Feeling better: After the Eurozone PMIs and the German Ifo disappointed a little in January, the biggest increase of the European Commission's economic sentiment index since 2016 (from 101.3 in December to 102.8 in January) is reassuring. The headline index has increased for three consecutive months. It suits our call that the Eurozone downturn is bottoming out ahead of a recovery in Spring.

Manufacturing rebounding: In line with Eurozone PMIs and German Ifo, the gain in the headline index was largely driven by manufacturing (from -9.3 to -7.3 – the highest since August 2019) and Germany (from 99.8 to 101.8), while sentiment among the more domestically-oriented sectors (services, retail and consumer) was largely flat. Data for the two big peripheral Eurozone economies (Italy and Spain) remained soft, too. French confidence rebounded from 102.6 to 104.1, the highest since May 2019, driven by strong gains in manufacturing. Greece surprised a little on the downside and slid (numbers?) – with all but the manufacturing sector down – after of course strong gains in December and – against the Eurozone trend – during H2 2019 more generally.

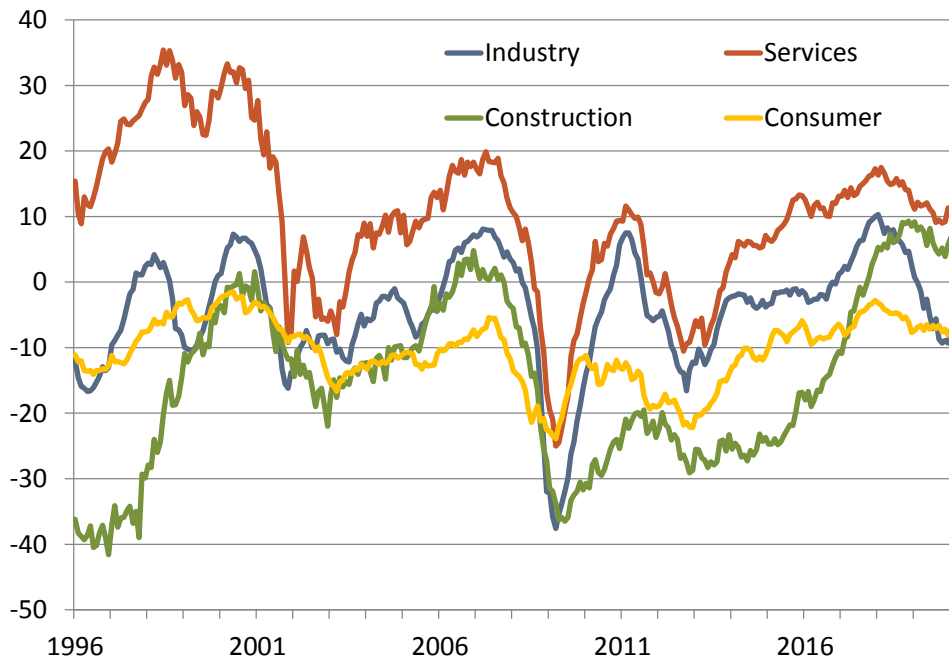
Improving expectations: The forward looking components drove the uptick in the manufacturing sector. Both total and export order books were up. As the order-inventory ratio is recovering, manufacturers also raised their production and employment expectations. The index for the latter rose by the most since 2017. Meanwhile, employment expectations among service providers – albeit having softened significantly since the end of 2018 – remain elevated and fairly stable. Going forward, this should boost labour demand among Eurozone manufacturers. In a separate release, Eurostat reported that in December the Eurozone unemployment rate fell to its lowest since March 2008 (7.4%, down from 7.5%). Amid a robust labour market, consumers remain confident about their own financial situation (past and future) and – after a slide in Q4 2019 – seem likely to make more major purchases throughout 2020, details for the European Commission's subindex for consumer confidence also showed.

Modest rebound throughout 2020: The uptick in confidence bodes well for the Eurozone's growth prospects in 2020. Consumption-led domestic demand should hold up, the inventory correction should soon be over and international trade will likely improve. Political shocks such as trade disputes and Brexit uncertainties will retard global economic growth by less in 2020 than in 2019. As Germany recovers gradually and France resolves its strike disruptions, we also look for the rest of the Eurozone to return to a healthier pace of growth. After 0.1% qoq in Q4 2019 (published tomorrow), Eurozone GDP growth should improve over the course of 2020 to 0.2% in Q1, 0.3% in Q2 and 0.4% from Q3 onwards.



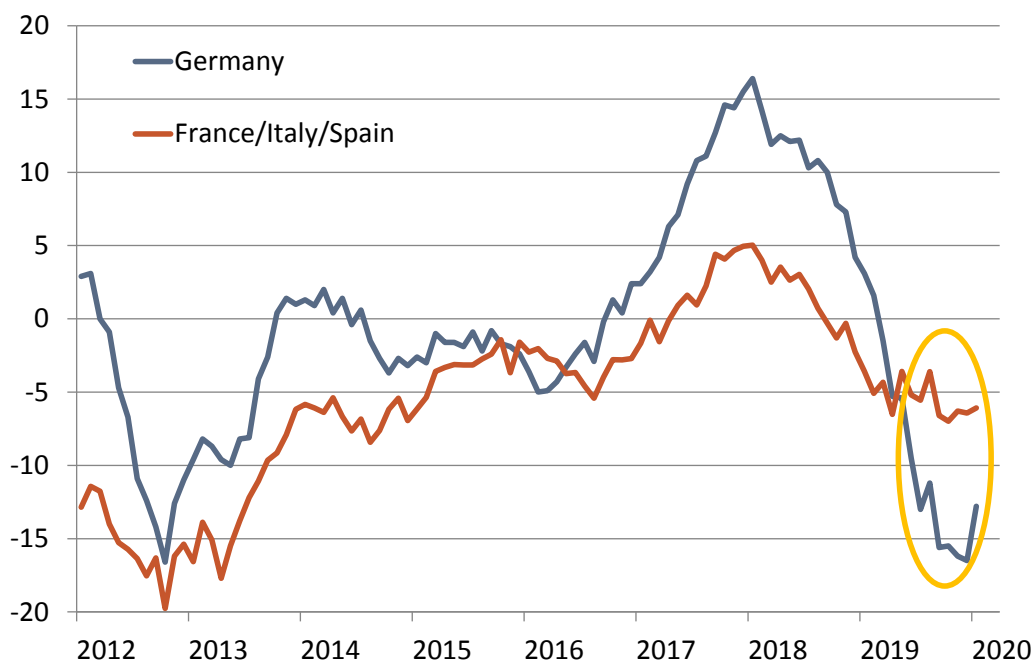
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Chart 1: Eurozone economic sentiment by sector



In %. The percent balance equals percent of respondents reporting an increase minus the percent of respondents reporting a decrease. Source: European Commission

Chart 2: Sentiment in manufacturing – Germany vs. other major Eurozone economies



Average of France, Italy and Spain is GDP-weighted. Source: European Commission, Berenberg



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