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Florian Hense, Economist | florian.hense@berenberg.com | +44 20 3207 7859

EUROPEAN CONFIDENCE: ALSO STILL UP

Berenberg Macro Flash

Going well so far, but ...: Our big economic call for Europe at the start of the year was that with trade wars and Brexit risks partly contained major parts of the continent would see economic fortunes improve after stagnation in H2 2019. Much of the data since the start of the year chimes with this call. In line with other European survey data, the European Commission's economic sentiment index in February for the Eurozone showed the biggest monthly increase since 2017 (from 102.6 in January to 103.5 in February). The headline index has increased for three consecutive months. While sentiment in Italy stagnated, the German, French and Spanish subindices all ticked up. UK confidence jumped. Here comes the but: the rising risk of a potential significant disruption from coronavirus suggests that things could – temporarily – go south again in the coming months before rebounding again thereafter.

... the impact of coronavirus may show up more in March: As with the February PMI data, rising stocks in finished products among manufacturers could be partly responsible for the rise in the manufacturing subindex and the headline index. Reacting to coronavirus-related supply chain disruptions firms are likely to try to raise stocks and inventories where possible. Markit pointed out longer delivery times pushing up the PMI indices in February for the wrong reasons. The surge of infections outside China, with the outbreak in Northern Italy in particular, poses the [biggest challenge for the outlook of the European economy](#) over the short-term. Against the upside surprise in February – when sentiment rose even among Italian manufacturers – the risks to the outlook for March are tilted firmly to the downside. Some forward-looking metrics among manufacturers and service providers in February signal caution is more than warranted.

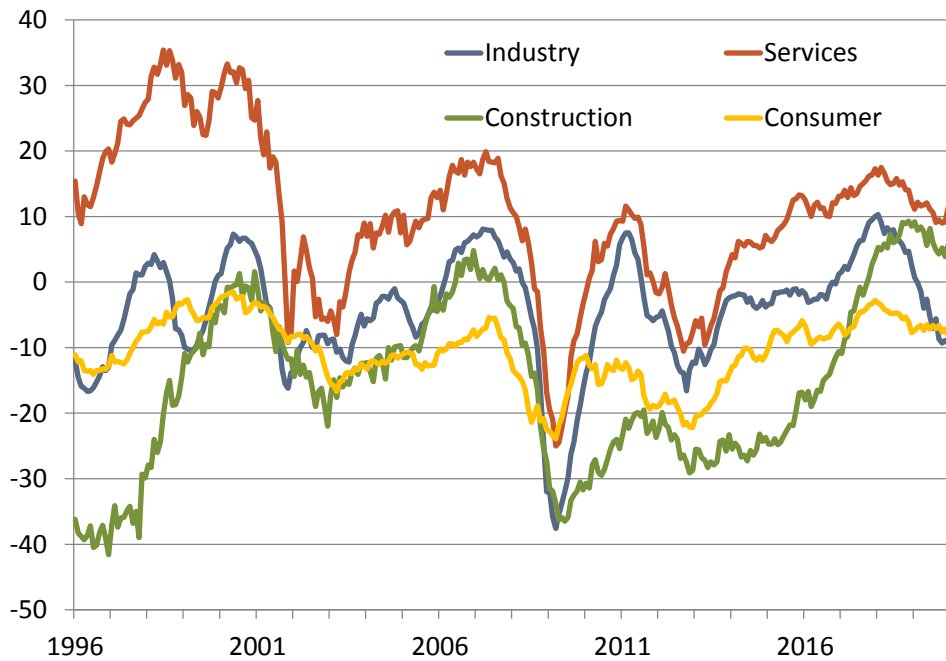
Broad-based gains: Still, we take comfort from the resilience in the soft data in February. Adding to the gains in manufacturing, services firms and consumers both grew more confident in February. Service providers reported rising activity, demand and employment over the past three months. Interestingly, the biggest increase in the consumer subindex since 2015 was driven by broad-based gains in backward- and forward-looking indicators. Households reported improvements in their own – past and future – financial situation, their plans to make major purchases over the next 12 months and their take of the general economy.

Medium-term outlook: We maintain our view that, after a difficult few months ahead during which the coronavirus disruptions may hurt confidence and activity, the European economy is still likely to turn up gradually towards its trend pace of growth by H2 2020.



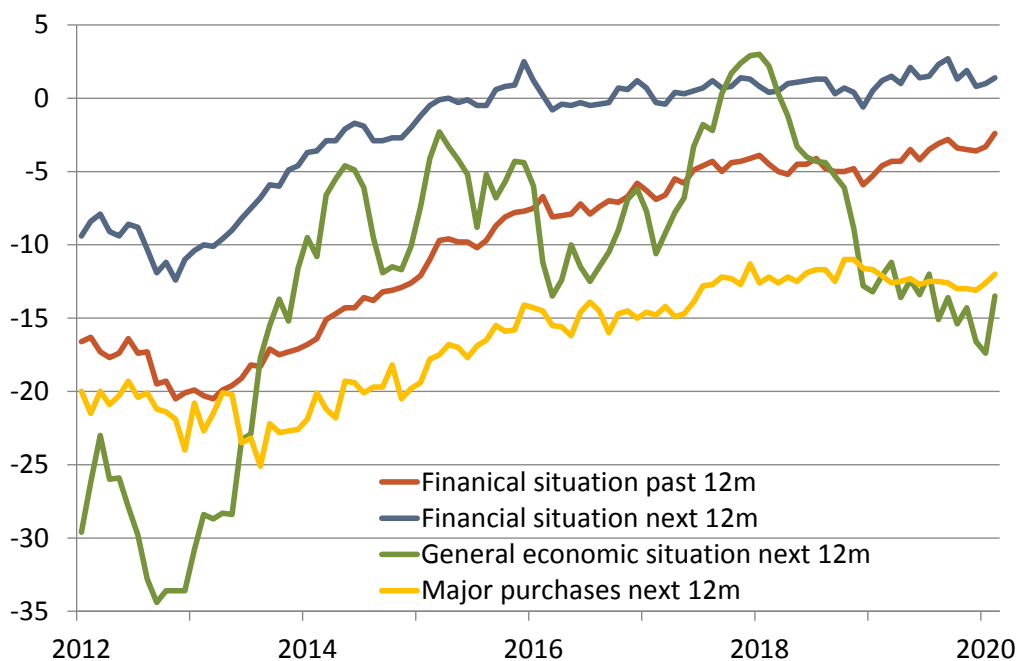
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Chart 1: Eurozone economic sentiment by sector



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

Chart 2: Consumer confidence by components



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



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Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com