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Berenberg Macro Flash

Euro area economic confidence weakened slightly in June in anticipation of a UK referendum that unexpectedly saw Britons choosing to leave the European Union. The broad-based economic sentiment somewhat confirms the risks the narrower PMIs signalled already last week. With the British citizens voting for the UK to leave the EU, the risk has materialised (or is very likely to materialize once the political confusion in the UK somewhat has dissolved). As political uncertainty looms large and, thereby, economic prospects are less promising for the rest of the year, business and consumer confidence is likely to be seriously affected in the months to come.

After two consecutive months of improved figures the economic sentiment index published by the European Commission including both business and consumer sentiment fell to 104.4 (-0.2), from a revised 104.6 in May (before 104.7). The leading economic indicator for the Euro area, thereby, fell short of expectations that the confidence level would remain unchanged. The poll was conducted before the British vote on June 23.

The indices for the separate countries reflect as usual the heterogeneity within the euro area. Germany continued to make ground (+1.6) up to the level last seen in December before the market turmoil early this year), thereby confirming the latest upbeat message of the Ifo and German manufacturing PMI. The Netherlands and Belgium also strengthened. Italy, on the other hand, suffered from a larger drop (-3.6), with the service and retail sector weakening and also consumers less confident. France saw sentiment softening (-1.7), with both business and consumers sub-indices registering drops (except construction). Sentiment in Greece stood firm, after the recent 7.5 bn Euro tranche transfer by the EU, while still at a very low level of 89.7 (with 100 signalling a neutral confidence level). In Portugal, business and consumer are more confident, and back to the levels end of last year before the market turmoil at the start of this year.

Sentiment in services, retail and construction weakened in June, with consumers also turning more negative. Confidence improved in manufacturing, especially due to the prospects of more production in the near term. Despite the recent overall deterioration, all sectors remain above their long-term average. In line with confidence of each sector, employment plans were revised upwards in the industry, and softer for services and construction. Selling price expectations also weakened and remained broadly unchanged in most sectors, except industry where prices firmed. Consumers expect prices to increase significantly, amounting to levels last seen at the beginning of 2015.

Economic confidence

	JUN	MAY	APR	MAR	FEB	JAN
Economic sentiment	104.4	104.6	104.0	103.0	104.0	105.0
Industry	-2.8	-3.7	-3.6	-4.1	-4.1	-3.1
Consumer	-7.3	-7.0	-9.3	-9.7	-8.8	-6.3
Services	10.8	11.3	11.7	9.6	10.9	11.6
Retail	0.8	3.3	1.3	1.8	1.3	2.7
Construction	-18.2	-17.7	-19.2	-20.4	-17.5	-18.9



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Chart 1: Economic confidence (Industry vs. services vs. consumer)



Source: European Commission

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