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EUROZONE CONFIDENCE FALLS, BUT FROM HIGH LEVEL

Berenberg Macro Flash

Economic confidence, August

	Economic sentiment	Business climate	Consumer confidence
Actual:	103.5	0.02	-8.5
Previous:	104.5	0.38	-7.9
Consensus:	104.1	0.36	-8.5
Berenberg:	103.8	0.34	-8.4

Eurozone confidence dropped in August. After the surprisingly resilient July reading which implied a broadly stable growth outlook for the Eurozone, today's results provide more evidence that the Eurozone economy will lose some momentum in the second half of 2016.

The Economic Sentiment Indicator (ESI), a gauge for business and consumer confidence published by the European Commission, decreased in August by 1.0 points to 103.5, from 104.5 in July. This compares to our and consensus expectations of 103.8 and 104.1, respectively.

Economic sentiment declined in 3 out of the 4 largest Eurozone countries. Germany (-1.1) and Italy (-2.1) confirmed earlier surveys (last week's Ifo and yesterday Istat, respectively) pointing to a waning of sentiment. In **Germany**, the decline in confidence came despite a rise by construction confidence close to its all-time high in February 1990. Political uncertainty likely weighed on sentiment in **Italy**, with industry confidence dropping to the lowest level this year, and retail trade negatively affected by unusually wet weather in some parts of the country. **Spain** (-1.5) suffered from much lower confidence in industry and services, and smaller drops in consumer and retail confidence. Political stalemate for more than 8 months in the country is eventually taking its toll. **France** was the only country among the four to hold up, mainly to a further improving confidence among services and retail, confirming the recently stronger reading of the PMI and suggesting a return to growth after stagnation in the second quarter. The **Netherlands** was among the countries hit the most (-3.6). Industry confidence weakened heavily as companies registered much lower production expectations and order books – pointing to concerns that the UK's departure from the EU may especially hit the export heavy Dutch industry. Outside the Eurozone, on a positive note, sentiment in the **UK** rebounded to a level above the Eurozone average, after its sharp drop in July.

Sentiment declined across all business sectors, with the exception of construction. **Industry** companies reported the worst deterioration in the current level of order books since February 2009. Their assessment of production expectations followed in line, but to a lesser extent. Employment plans, on the other hand, were slightly revised upward. **Services** also registered a significant drop, mainly as demand expectations and shrinking employment plans weighed on confidence. **Retail** businesses filed the worst losses reflecting a more pessimistic view on both the present and expected business situation. Selling price expectations, however, increased mildly. **Construction** held steady despite weaker order books, thanks to higher employment expectations. **Consumer** confidence followed businesses and dropped to levels seen in April this year. While consumers showed more optimism regarding the future general economic situation, expectations about higher levels of unemployment raised concerns.



MACRO NEWS

Economic confidence

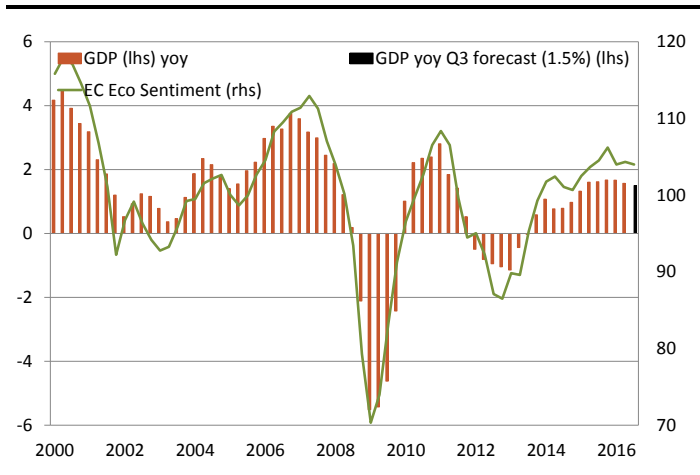
	AUG	JUL	JUN	MAY	APR	MAR
Economic sentiment	103.5	104.5	104.4	104.6	104.0	103.0
Industry	-4.4	-2.6	-2.8	-3.7	-3.6	-4.1
Services	10.0	11.2	10.9	11.3	11.6	9.8
Consumer	-8.5	-7.9	-7.2	-7.0	-9.3	-9.7
Retail	-1.0	1.7	0.8	3.3	1.3	1.8
Construction	-16.1	-16.3	-18.2	-17.7	-19.2	-20.4

We make **two major observations** despite today's fall in confidence:

- 1) The headline ESI and its components remain above their long-term average for 1990-2015. We expect a dent to the Eurozone economy for the rest of the year following the British vote to leave the EU, but we are unlikely to experience a sharp slowdown of activity.
- 2) The sectors reported mixed signals concerning employment and price expectations. While this may be seen as a further deterioration of confidence, this could merely reflect an increased uncertainty about the direction of the economy.

For **Q3**, we look for the Eurozone to expand by a pace of 0.25% qoq. Year-over-year this gives a growth rate of 1.5% which is slightly below the growth for Q1 and Q2 (see chart). In times of political risks looming large, this is not too bad news.

Economic confidence vs. GDP yoy growth



Source: European Commission.



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