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HAPPY NEW YEAR: EUROZONE SENTIMENT SURGES TO POST-CRISIS RECORD - BERENBERG MACRO FLASH

Berenberg Macro Flash

The Eurozone is on course for a solid start into 2017 after a robust finish to 2016. Supported by resilient domestic demand, ongoing gains in employment and an improving export outlook, economic sentiment in the Eurozone surged to its strongest level since March 2011 in December, reaching 107.8 after 106.6 in November. Together with the potential spillover from a strong fiscal boost in the US, this introduces some upside risk to our forecast of 1.5% growth in 2017 after 1.6% last year.

The upswing seems to be gathering momentum almost across the board. Confidence rose in all major sectors covered by the European Commission sentiment survey, with a particular pronounced gain in the manufacturing industry from -1.1 to 0.1. In all sectors ranging from manufacturing to services and from retail trade to construction, sentiment exceeds its long-run average by a significant margin. Consumers also enjoyed the Christmas season, with consumer confidence up to -5.1 in December from -6.2 in the month before, well above the long-term average of -12.7.

Interestingly, the rise in the overall assessment of order books in manufacturing (from -9.0 to -7.6) exceeded the advance in export orders (from -10.5 to -9.5). This suggests that domestic momentum is driving the upswing at least as much as any external stimulus from the fading of the emerging market crisis and the weaker Euro versus the US dollar. As a small fly in the ointment, employment expectations dipped slightly in industry and in services. However, they stayed well above their long-term averages. Together with strong readings for recent employment gains in services, this suggests that Eurozone companies are continuing to hire at a satisfactory pace.

For once, the good news comes mostly from the core. Sentiment rose significantly in Germany (from 108 to 109.6), France (from 103.5 to 105.5) and the Netherlands (from 105.2 to 107.1) while it stagnated in Italy at 104.2 and slipped in Spain (from an exceptionally strong 108.4 to a more normal 106.2).

2017 could be a most interesting year for the Eurozone. Almost all economic indicators point to solid growth ahead. Unfortunately, political risks loom larger than before. If worst came to worst, an election victory of Marine Le Pen in France and a victory by the utterly confused “Five Star” Grillini at hypothetical early elections in Italy could herald the end of the EU and the euro as we know them. The 2016 Brexit and Trump votes have taught us that we need to keep a wary eye on tail risks. As we explained in our [Global outlook 2017: more growth, more risks](#), such tail risks look highly unlikely but may not be fully impossible. Fortunately, the far more likely outcome is that Eurozone policy makers will once again muddle through successfully, that France will elect a pro-reform President who will turn Europe’s biggest growth laggard into a more dynamic economy and that Italy will remain stable and reap some benefits from finally tackling its banking issues. Even Greece could finally return to significant growth. While economic sentiment in Greece at 94.6 in December remains well below the long-term average of 100, it at least has strengthened from 92.4 of November, reaching its least bad level since Varoufakis derailed the incipient Greek recovery in early 2015. Even bad accidents can be overcome over time.

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Eurozone economic sentiment, December

	Economic sentiment	Business climate	Consumer confidence
Actual:	107.8	0.79	-5.1
Previous:	106.6	0.41	-5.1 (flash)
Consensus:	106.8	0.47	-5.1
Berenberg:	106.8	0.47	-5.1

Eurozone economic sentiment, by sector

	DEC	NOV	OCT	SEP	AUG	JUL
Economic sentiment	107.8	106.6	106.4	104.9	103.5	104.5
Industry	0.1	-1.1	-0.6	-1.8	-4.3	-2.6
Services	12.9	12.2	12.1	10.0	9.9	11.2
Consumer	-5.1	-6.2	-8.0	-8.2	-8.5	-7.9
Retail	3.2	1.5	0.4	0.4	-1.1	1.7
Construction	-12.0	-12.8	-14.2	-15.6	-15.8	-16.3

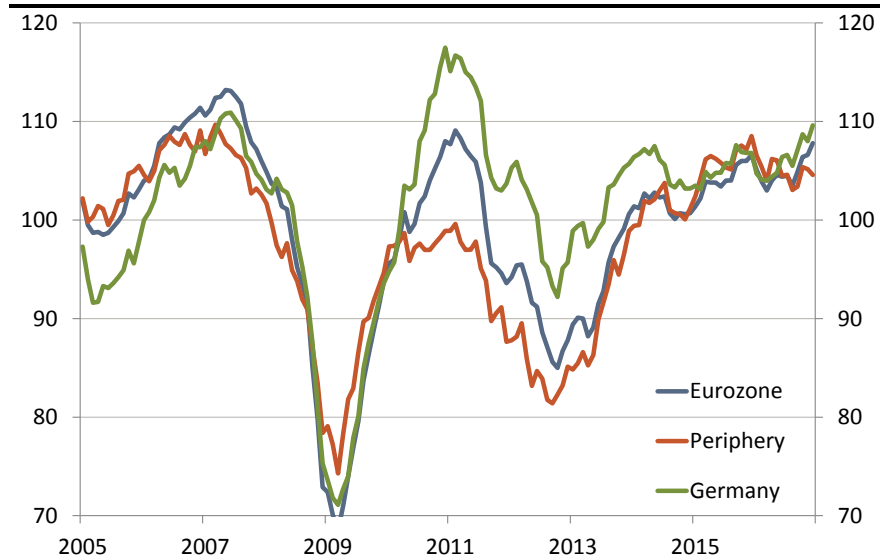
Eurozone economic sentiment, by country

	DEC	NOV	OCT	SEP	AUG	JUL
Germany	109.6	108.0	108.7	107.1	105.5	106.6
France	105.5	103.5	101.7	101.8	101.3	100.1
Italy	104.2	104.2	105.0	103.5	103.1	105.2
Spain	106.2	108.4	107.6	105.0	104.5	106.0



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Chart: Economic sentiment



100= long-term average. Periphery: weighted average for Spain, Portugal, Greece and Cyprus. Source: European Commission

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