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MACRO NEWS

23 / 03 / 17

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EUROZONE CONSUMERS SHRUG OFF INFLATION CONCERNS

Berenberg Macro Flash

Eurozone consumer confidence, March

Actual	-5.0
Previous	-6.2
Consensus	-5.9
Berenberg	-5.9

Mood among Eurozone consumers in March recovers from its February dip. Consumer confidence rose to -5.0 in March, after -6.2 in February and -4.8 in January. Taken the three months together, the average for Q1 2017 advanced to the highest level since Q2 2007. This bodes very well for private consumption in the Eurozone in the first quarter and for 2017 as a whole. After the tailwind from low oil prices had boosted household consumption in most parts of the Eurozone in 2016, we expect household spending to return to a more normal pace of growth this year – we expect 1.4% this year after 1.9% in the previous year. Judging by today's preliminary result for the European Commission's gauge of consumer confidence in March, the risk to our forecast is to the upside. If confidence remains upbeat, private consumption growth may hold up better than we project (see chart). But it is too early to tell.

Higher levels of inflation dampen consumers' real purchasing power. Inflation rose to 2.2% yoy in February, the first time above the ECB's target for the Eurozone of "below, but close to 2%" in more than 4 years. Consumer confidence advanced nonetheless. That points to healthy underlying momentum. In addition, inflation is not here to stay. As the oil price base effect drops out of the yoy growth rates, we expect headline inflation to fall back to around 1.5% at the end of the year. The squeeze by inflation on the purchasing power of the Eurozone consumer, if any, should thereby remain mild for the time being.

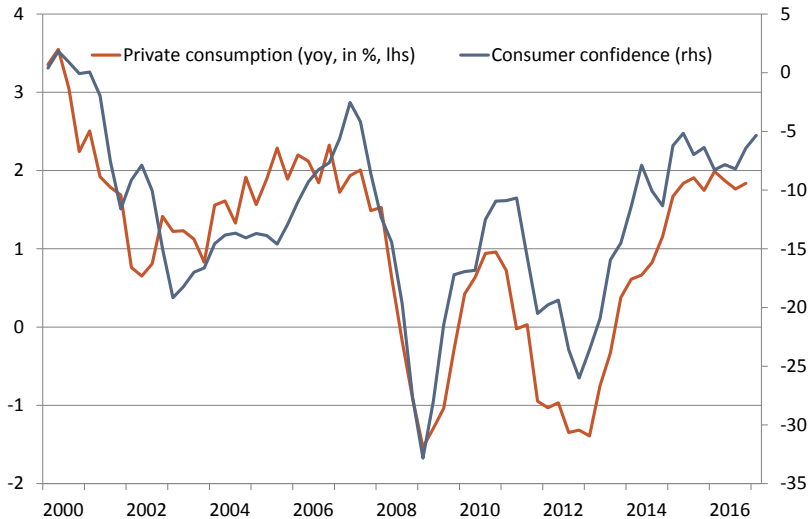
For consumers, the labour market matters more than inflation. Employment gains reduce the risk of job losses, thus making it easier for consumers to take decisions on larger purchases. A gauge for consumer confidence in Germany published by GfK this morning showed that even in inflation-sensitive Germany the recent price increases had no impact on the propensity to buy. Instead, the propensity to buy actually rose despite a small overall dip in German GfK consumer confidence. While this indicates only plans of large purchases, in Germany and in most parts of the Eurozone, consumers seem to have both the means and will to make these purchases (with the exception of Greece and Italy).

All major pillars of demand are contributing to the upswing. Even if consumer confidence were to weaken in the months to come, reflecting the political risks surrounding the French elections that run between April and June, concerns that the main driver of Eurozone growth over the last couple of years may falter are overstated. The mild slowdown in household spending would likely be offset by an expansion in government consumption (reflecting the modest fiscal stimulus, austerity has been over since 2015), rise in investment (both construction and machinery) and a brighter export outlook.



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Chart: Eurozone consumer confidence versus private consumption growth (in %)



Source: European Commission, Eurostat.

	MAR	FEB	JAN	DEC	NOV	OCT	SEP
Consumer confidence	-5.0	-6.2	-4.8	-5.1	-6.2	-8.0	-8.2

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