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MACRO NEWS

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EUROZONE SENTIMENT IN Q1 HITS SIX YEAR HIGH

Berenberg Macro Flash

Eurozone economic sentiment, March

	Economic sentiment	Consumer confidence
Actual:	107.9	5.0
Previous:	108.0	-5.0 (flash)
Consensus:	108.3	-5.0
Berenberg:	108.4	-5.0

Momentum is on the rise. Despite marginal slippage in March, economic sentiment in the Eurozone remains well above its long-term average. Whatever the Brexit negotiations throw up, they start against a backdrop of a Eurozone recovery that is firming and broadening. Incoming data for Q1 suggest that growth has kicked into a higher gear at the start of 2017. The labour market improves, the ECB stays put and austerity is over in most parts of the Eurozone. With the global economy enjoying an upswing and the euro being competitively valued, also the environment for Eurozone exporters has brightened. Plus, political risks, despite being serious, seem unlikely to spoil the party for now. We see upside potential for activity in Q1 2017, but remain on the side of caution for our GDP call (0.44% after 0.41% in Q4 2016) as we are yet to see the hard data confirming the soft data – see chart.

Economic sentiment remains close to the highest level since 2011. The European Commission's indicator unexpectedly fell by one notch to 107.9 in March, from 108.0 in the previous month and Bloomberg consensus of 108.3. Other gauges of confidence reached multi-year highs like the German Ifo earlier this week or the Eurozone PMIs last week. A calendar effect may have contributed to the small slippage as very late Easter pushes Easter travel season into April. The quarterly average of the first three months in 2017 is 107.9, which is just below the 6-year record of 2011 Q1 of 108.4. Sentiment rose significantly in Germany (from 108.3 to 109.2), slipped slightly in Italy (from 105.6 to 105.5), while fell in France (from 105.9 to 104.9) and Spain (from 108.7 to 106.9).

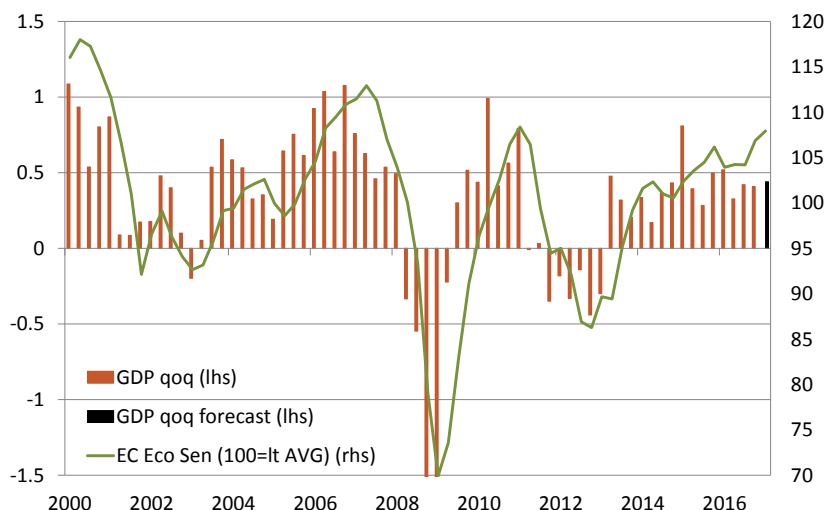
Sectors reported mixed signals. Sentiment in industry remained virtually unchanged from the previous month (-0.1). While order books were unchanged at the previous month's upbeat level (-4.5 versus long-term average of -16.9), export orders gained further, from -7.2 to -6.9 (long-term average at -18.7), signalling more impulses to come from abroad. The global upswing seems to more than offset the recently stronger euro (1.6% since end of February versus the US dollar). Confidence among service providers (-1.2) suffered from weaker assessments of both past and future demand, but this follows from an exceptional month in February. The solid domestic environment should support further gains among services. Consumers were upbeat (+1.2) on the back of improving labour prospects and a stronger economic situation in general, defying concerns that higher inflation weighs on household consumption. This suits our view that for consumers the labour market matters more than inflation. After inflation spiked in February to 2.0%, we expect it to fall as the effect of higher energy prices and food prices fades.

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Economic sentiment (quarterly average) vs. GDP qoq growth (in %)



Sources: European Commission, Eurostat.

Eurozone economic sentiment, by sector

	MAR	FEB	JAN	DEC	NOV	OCT	SEP
Economic sentiment	107.9	108.0	107.9	107.8	106.5	106.3	104.8
Industry	1.2	1.3	0.8	0.0	-1.1	-0.7	-1.8
Services	12.7	13.9	12.8	12.9	12.2	12.1	9.9
Consumer	-5.0	-6.2	-4.8	-5.1	-6.2	-8.0	-8.2
Retail	1.8	1.8	2.3	3.5	1.5	0.4	0.5
Construction	-9.9	-10.1	-12.9	-12.1	-12.9	-14.4	-15.7

Eurozone economic sentiment, by country

	MAR	FEB	JAN	DEC	NOV	OCT	SEP
Germany	109.2	108.3	109.1	109.4	107.8	108.5	106.9
France	104.9	105.9	105.0	105.5	103.4	101.6	101.8
Italy	105.5	105.6	105.4	104.1	104.0	104.9	103.3
Spain	106.9	108.7	107.4	106.0	108.2	107.4	104.8

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