

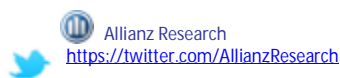
The NewsLine

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MACROECONOMICS FINANCIAL MARKETS ECONOMIC POLICY SECTORS

Katharina Utermöhl
Phone +49.69.24431-3790
katharina.uterhoehl@allianz.com

Allianz SE
<https://www.allianz.com/economic-research/en>



EMU

Moderate start to H2 2018

Today's sentiment indicators for the eurozone economy point to a moderate start to the second half of 2018. Despite a further decline in the eurozone composite PMI the indicator remains at a level consistent with robust economic momentum. However an acceleration in growth dynamics is unlikely to be in the cards: Although domestic demand remains strong, the outlook for EMU exports is subdued and could deteriorate further in view of growing concerns about an escalation of the trade dispute with the US. Despite the ongoing deceleration in eurozone economic momentum, the ECB is unlikely to send out any new signals on Thursday.

The composite purchasing managers' index for industry and services in the eurozone fell to a 2-month low in July. Despite the set-back, however, the sentiment indicator remains at a high level of 54.3 points still consistent with robust economic growth. An acceleration in economic momentum does not seem to be in cards in the coming months, in view of slowing growth in total orders - especially in the export sector - and job creation. Meanwhile the ongoing decline in business prospects for the next 12 months suggests that this downward trend will continue in the second half of the year.

In Germany, the composite index recovered by 0.4 points and reached a 3-month high of 55.2 points. The timid recovery was mainly driven by the manufacturing sector: The respective sub-index rose by 1.4 points to its highest level since February. Job creation meanwhile continued at an above-average pace.

The French purchasing managers' index for industry and services fell from 55.0 to 54.5 points in July. The decline in services was somewhat greater than in

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industry. For the first time in almost two years, French exports of goods recorded a decline.

We expect eurozone sentiment indicators to slightly deteriorate further in the coming months. While domestic demand will continue to receive support from the favorable labor market development, already weakened export dynamics are likely to continue their gradual slowdown. All in all, after a GDP increase of 2.6% last year, we expect EMU economic growth of just over 2% in 2018 - above the potential rate for the fourth year in a row since 2015.

In view of the fact that most eurozone economic indicators are currently declining, but remain at a comfortable level while price pressures continue to be high despite a recent easing, no significant change in communication is to be expected at the ECB press conference on Thursday. Meanwhile we expect the ECB to stress its confidence in eurozone growth prospects.

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