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EUROZONE

Shift in growth drivers

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On the heels of the recent GDP figures, the purchasing managers' indices (PMIs) published today also point to a shift in the growth drivers in the eurozone. Overall, the eurozone economy is being driven by a favorable backdrop of monetary policy, exchange rate and oil price and, thanks to the close economic ties, the upward trend in individual member states is providing mutual support.

The composite PMI for industry and services in the eurozone slipped slightly in May to 53.4 points, but this still leaves it marginally above the average first quarter level. The weaker performance was primarily due to Germany, whereas the French PMIs edged up modestly. The results for the other countries covered by the survey remained near their recent highs. For the second quarter we expect to see GDP momentum in the eurozone at least on a par with the first quarter. Our forecast for 2015 remains unchanged at 1.5%.

The German composite index fell sharply in May to 52.8 points. With the deterioration stemming in part from the services sector, a negative impact from the railroad strike cannot be ruled out. On the industrial front, the readings on export growth are particularly noteworthy, pointing to disruptions in the global economy that are weighing on German export prospects. All told, the first quarter showed that high PMI readings are not fully in line with GDP performance. Conversely, the weaker PMIs now do not necessarily point to a slowdown in growth in the second quarter.

In France the combined PMI for industry and services rose slightly on April. At 51 points, it is now back at the first quarter level. Encouragingly, the improvement came largely from the industrial sector, however at 49.3 points the corresponding PMI is still at an unsatisfactory level, although this is the highest it's been for a year. In our view, the overall slight improvement in the

PMI is a further indication that the French economy is moving in the right direction but is not really taking off. For the second quarter, we expect the GDP sequential rate to halve to 0.3% from 0.6% in the first quarter (which does not signify a qualitative deterioration as the positive boost of 0.4 percentage points from inventories is unlikely to be repeated). On average in 2015 France will probably notch up growth of 1.2%, narrowing but not eliminating the gap to the eurozone average.

All told, as with the recent GDP figures, we can see an altered geometry in the eurozone: On the one side, the collective term “crisis or problem countries” is now obsolete, with Ireland and Spain in particular now engines of growth. On the other side, the “growth island” Germany is showing signs of fatigue. Overall, the eurozone economy is being buoyed by a favorable backdrop of monetary policy, exchange rate and oil price and, thanks to the close economic ties, the upward trend in individual member states is likely providing mutual support.

These assessments are, as always, subject to the disclaimer provided below.

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