

The NewsLine

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EMU

Longer soft-patch?

The purchasing managers' indices published today fuel doubts about a significant economic acceleration in the second quarter. The sum of risk factors is increasing: the uncertainty caused by the trade disputes is compounded by the rise in oil prices and the formation of the Italian government.

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In May, the combined PMI for industry and services in the euro area continued its downward trend and now stands at 54.1 points. In contrast to significantly weaker survey results in Germany and France, the PMIs for the remaining countries covered by the survey increased.

In Germany, the composite index fell for the fourth consecutive month to 53.1 points. It is of concern that both the industrial and services sector contributed to this decline - although the index level for industry is still comfortable at 56.8 points. In our opinion, these survey results reflect increased uncertainty, particularly with regard to protectionism.

In our view, the sharp fall of the French purchasing managers' index to 54.5 points in May should not be overrated. The deterioration was solely due to the services sector, while the PMI for the industrial sector clearly improved. However, the picture is not clear in other areas either: the labor market data published today by the French statistical institute INSEE show a slight increase in the unemployment rate in the first quarter of 2018. This is not the same as the unemployment rates published by Eurostat for France, which showed a slightly downward trend up to and including March. Overall, however, it becomes clear that the economic recovery in France remains fragile.

Compared to purely economic risks, we currently regard the political risks within Europe and even more so at the global level as serious. In view of increasing uncertainties, it seems questionable whether EMU economic growth can pick up again in the second quarter after 0.4% (q/q) in the first quarter of

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this year. Thus, there are downside risks to our annual forecast for 2018 of 2.3% GDP growth - but a two before the decimal point remains probable.

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