

The NewsLine

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EUROZONE

Eurozone sentiment barometer positive despite Brexit-vote

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Today's purchasing managers' indices (PMIs) for the eurozone confirm both our picture of an ongoing upward trend in the economy as well as the wait-and-see stance of the ECB. By contrast, the PMI for the UK is now signaling an economic downturn.

The July composite purchasing managers' index for manufacturing and services in the eurozone slipped marginally on June to 52.9 points. Whereas the survey results in Germany and France improved on the previous month (see below), there were declines in the other eurozone countries covered by the survey. Various factors are likely to be at play here: In the Netherlands the Brexit-vote is likely to have had a greater influence than in other eurozone countries due to the close export ties. In Italy the woes of the banks are probably weighing on business sentiment. In Spain's case, the difficulties in forming a government in the wake of fresh elections and government deficit problems (business tax increases on the table) are probably casting a pall.

In Germany the PMI for manufacturing was down on June but the drop was significantly lower than the sharp rise seen in the previous month. The services PMI improved and the composite index climbed to 55.3 points in July, its highest level since December last year. Among the survey results, the performance of new orders from abroad was encouraging. This is in line with our theory that concerns about the Brexit decision are currently being more than offset by signs of a pickup in the global economy. Our forecast for German economic growth this year stands at 1.8%.

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The French purchasing managers' index edged up to 50 points following last month's drop. It has now been hovering around this threshold since the beginning of the year. Today's survey results show that French entrepreneurs are unfazed by the Brexit vote. The terror attack in Nice will probably not feed into the survey until next month. We still see France on a measured growth path, with GDP likely to expand by 1.4% this year.

Overall, we expect to see an increase of 1.5% in eurozone gross domestic product this year. The latest PMIs confirm our view that the eurozone economy remains on an upward path despite the Brexit decision. For the development of both sentiment and growth, it should be borne in mind that the UK's EU membership will probably not end before 2019. The survey results published today also provide ex-post confirmation of the ECB's wait-and-see stance yesterday. We think it will continue to stand pat as long as there is no serious financial market turmoil.

As expected, the purchasing managers' index for the UK fell sharply from 52.4 to 47.7 points, signaling an economic downturn. This is in line with the widespread assessment that the Brexit-vote will cause major problems for the British economy. We are penciling in growth of 1% in 2016 and hence a contraction in the second half of the year.

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