

The NewsLine

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EUROZONE

No damper on sentiment

Claudia Broyer
Phone +49.69.24431-3667
claudia.broyer@allianz.com
Allianz SE
<https://www.allianz.com/economic-research/en>

 Allianz Research
<https://twitter.com/AllianzResearch>

The robust PMIs suggest that economic momentum in the eurozone remains solid. We do not see any need for the ECB to loosen the monetary reins any further. We believe that continued labor market improvement is crucial, both to support the economic upswing and reduce social tensions.

The composite purchasing managers' index (PMI) for the eurozone's manufacturing and service sector rose slightly in a month-on-month comparison to 53.3 points in August. The German results of the survey were below the July level, while the results for France revealed an improvement (see below). In the other EMU countries covered by the survey, the sentiment indices remain in expansive territory, albeit at a lower level. All in all, we are sticking to our forecast of eurozone GDP growth of 1.5% this year.

In Germany, the composite index slipped back to the June level of 54.4 points after a marked increase in July – largely due to the service sector. The current reading continues, however, to point towards sustained growth momentum, with individual indicators such as incoming orders (including those from abroad) and new hires still looking very healthy. Based on today's survey results, it appears quite possible that the growth slowdown – triggered by the uncertainty surrounding the implications of the Brexit vote, in particular – in the third quarter will be less pronounced than previously expected. Thanks, not least, to the solid economic performance in the first six months of the year, German GDP growth of 2% or higher is back within reach for 2016.

The French purchasing managers' index for the manufacturing and service sector made substantial gains in August, climbing to 51.6 points, the highest level seen since October 2015. The improvement is, however, attributable solely to the service sector, while the PMI for the manufacturing sector remains stuck at the same low level (48.5 points). Following very erratic quarterly GDP growth rates in the first half of the year (Q1: 0.7%; Q2: 0.0%), we expect the average

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pace of growth to remain unchanged at between 0.3% and 0.4% in the second half. This leaves our 2016 French GDP growth forecast unchanged at 1.4%.

All in all, the new PMIs appear to confirm that EMU sentiment following the Brexit-vote remains relatively resilient for now. As things stand at the moment, we do not see any need for the ECB to take action at the next monetary policy meeting in September. Further labor market improvements are particularly important in terms of the eurozone's overall sentiment, the political climate and the economic trend. Although we do not expect unemployment to decline rapidly, we predict on average a continued positive trend for the eurozone.

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