

**HENRY COOK**  
Europe Economist

Economic Research Office

T: +44 (0)20 7577 1591

E: henry.cook@uk.mufg.jp

**MUFG BANK, LTD.**

A member of MUFG, a global financial group

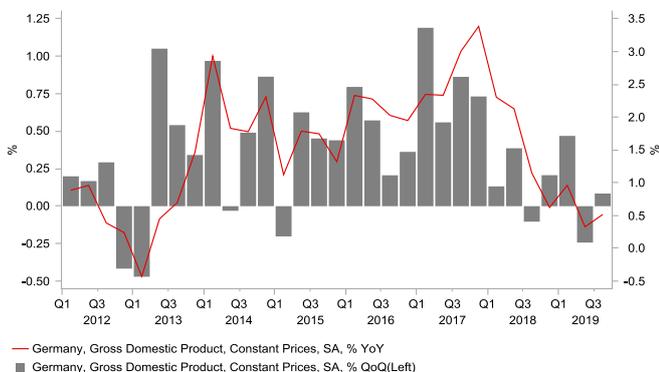
## Surveys to show signs of euro area stabilisation

18 November 2019

### Friday's flash PMIs might be encouraging

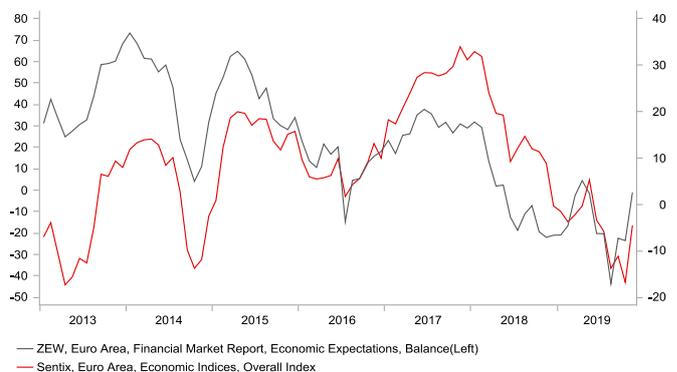
After Germany unexpectedly avoided a technical recession last quarter, attention turns to the flash PMIs to gauge the extent of any stabilisation in Q4. There were hints of improvement in October's release and, after encouraging signs in the Sentix and ZEW surveys, we expect this momentum to continue into this month's numbers. Amid signs of de-escalating trade tensions between the US and China it also seems that the US could postpone the implementation of tariffs on EU cars. On top of this, the risk of 'no deal' Brexit has diminished following the negotiation of a new UK withdrawal agreement. These developments could be reflected with a reasonable jump in the German manufacturing PMI (although it is still likely to remain in contraction territory). This would offer some encouragement as the breakdown of Q3 German GDP is likely to show weak capital investment.

### NO RECESSION IN GERMANY, BUT GROWTH SUBDUED



Source: Statistisches Bundesamt, MUFG Economic Research

### SIGNS OF IMPROVING EURO AREA SENTIMENT



Source: ZEW, Sentix, MUFG Economic Research

In France, the economy has been notably resilient in the face of the German-led manufacturing downturn. We expect French business confidence will remain well above its long-term average in November. In both France and the wider euro area, household spending has continued to contribute positively to economic growth. Overall euro area consumer confidence has been remarkably stable in 2019 at around 0.5 standard deviations above the long-term average. As the pace of labour market improvement starts to slow the index may come under pressure, but there could be a small improvement in November.

This week will also feature Christine Lagarde's second speech as ECB president on Friday. This may be more interesting than her first (which did not touch upon monetary policy at all). The release of the ECB accounts from Draghi's final meeting in October could also be revealing if it contains any hints at division within the Governing Council inherited by the new ECB president.

## KEY RELEASES AND MUFG FORECASTS – WEEK BEGINNING 18 NOVEMBER

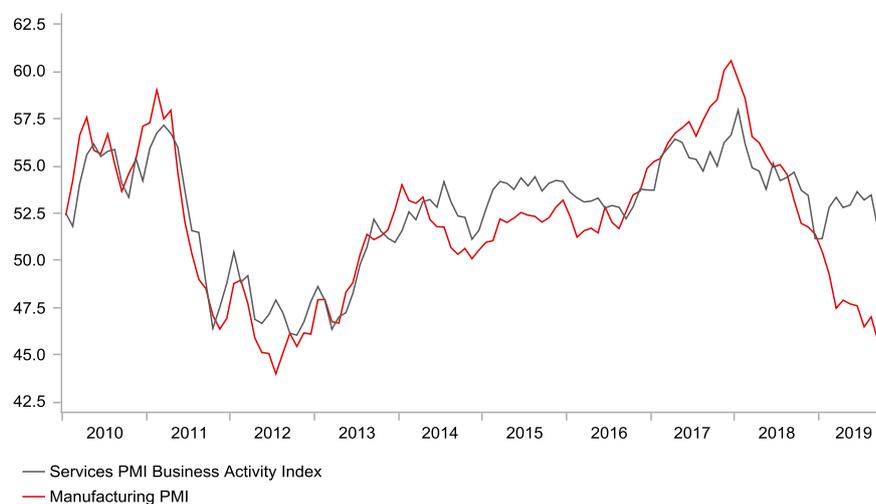
Day	GMT	Region	Indicator/Event	Previous	Cons.	MUFG
Thu 21 Nov	07:45	FR	Business Confidence	105	105	106
Thu 21 Nov	07:45	FR	Manufacturing Confidence	99	101	101
Thu 21 Nov	12:30	EC	ECB Account of October Policy Meeting	-	-	-
Thu 21 Nov	15:00	EC	Consumer Confidence	-7.6	-7.3	-6.9
Fri 22 Nov	07:00	GE	GDP SA QoQ	0.1	0.1	0.1
Fri 22 Nov	08:00	EC	ECB President Lagarde Speaks in Frankfurt	-	-	-
Fri 22 Nov	08:15	FR	Markit France Manufacturing PMI	50.7	50.9	51.2
Fri 22 Nov	08:15	FR	Markit France Services PMI	52.9	53.0	53.2
Fri 22 Nov	08:15	FR	Markit France Composite PMI	52.6	52.6	52.9
Fri 22 Nov	08:30	GE	Markit/BME Germany Manufacturing PMI	42.1	43.0	44.1
Fri 22 Nov	08:30	GE	Markit Germany Services PMI	51.6	51.8	51.9
Fri 22 Nov	08:30	GE	Markit/BME Germany Composite PMI	48.9	49.3	50.0
Fri 22 Nov	09:00	EC	Markit Eurozone Manufacturing PMI	45.9	46.4	47.2
Fri 22 Nov	09:00	EC	Markit Eurozone Services PMI	52.2	52.4	52.4
Fri 22 Nov	09:00	EC	Markit Eurozone Composite PMI	50.6	50.9	51.2

Source: Bloomberg

### Data focus: Euro area PMIs

The story so far in 2019 has been the clear divergence between the manufacturing and services PMIs. The manufacturing gauge slumped to 45.7 in September before recovering slightly in October. By contrast, the services index has remained above the breakeven mark of 50 (52.2 last month).

### STARK DIVERGENCE IN EURO AREA SERVICES AND MANUFACTURING PMIS

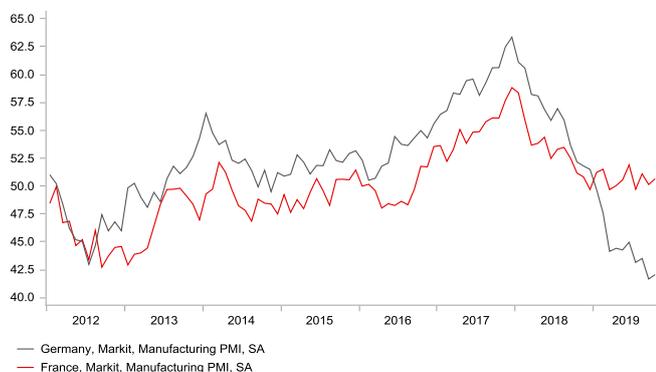


Source: IHS Markit, MUFG Economic Research

A lot of the weakness in euro area manufacturing can be attributed to the threat of US tariffs on EU car imports which has been hanging over German industry in particular. Recent signs of de-escalating trade tensions between the US and China as well as rumours that the US will delay implementing tariffs on EU cars will be some relief to producers. Brexit developments have also been favourable: the UK's renegotiated withdrawal agreement makes 'no deal' less likely. The ECB's implementation of further easing measures in September has probably been another tailwind for investor sentiment.

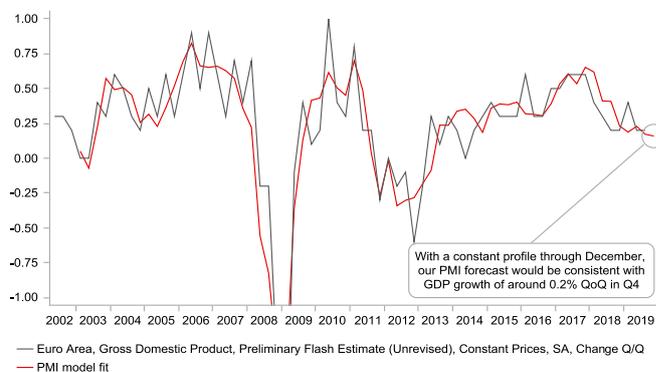
On a national level, we suspect that these developments mean that there is scope for a reasonable bounce in the German manufacturing PMI, which could reach a five-month high. With less room for improvement, the French figures are likely to be more stable. Our overall forecast for the euro area composite PMI is 51.2, up from 50.6 in October.

### FRENCH MANUFACTURING HAS BEEN RESILIENT



Source: IHS Markit, MUFG Economic Research

### EURO AREA GROWTH TO REMAIN STEADY IN Q4?



Source: IHS Markit, MUFG Economic Research

While any improvements in the PMIs would obviously be encouraging, it would remain to be seen whether it signals stabilisation or the start of a rebound. Euro area GDP growth was subdued in Q3 at 0.2% QoQ. Our forecast for euro area composite PMI, with a constant profile through December, would be consistent with similar growth again in Q4 – and an annual rate of just 1.2% YoY in 2019. As we have discussed [before](#), any boost to growth from a manufacturing recovery may not become apparent until H1 2020 at the earliest.

## Disclaimer

This document has been prepared by MUFG Bank, Ltd. (the "Bank") for general distribution. It is only available for distribution under such circumstances as may be permitted by applicable law and is not intended for use by any person in any jurisdiction which restricts the distribution of this document. The Bank and/or any person connected with it may make use of or may act upon the information contained in this document prior to the publication of this document to its customers.

Neither the information nor the opinions expressed in this document constitute or are to be construed as, an offer, solicitation or recommendation to buy, sell or hold deposits, securities, futures, options or any other derivative products or any other financial products. This document has been prepared solely for informational purposes and does not attempt to address the specific needs, financial situation or investment objectives of any specific recipient. This document is based on information from sources deemed to be reliable but is not guaranteed to be accurate and should not be regarded as a substitute for the exercise of the recipient's own judgment. Historical performance does not guarantee future performance. The Bank may have or has had a relationship with or may provide or has provided financial services to any company mentioned in this document. Our group affiliates, from time to time, may have interests and/or underwriting commitments in the relevant securities mentioned in this document or related instruments and/or may have positions or holdings in such securities or related instruments.

All views in this document (including any statements and forecasts) are subject to change without notice and none of the Bank, its head office, branches, subsidiaries and affiliates is under any obligation to update this document.

The information contained in this document has been obtained from sources the Bank believed to be reliable but the Bank does not make any representation or warranty nor accepts any responsibility or liability as to its accuracy, timeliness, suitability, completeness or correctness. The Bank, its head office, branches, subsidiaries and affiliates and the information providers accept no liability whatsoever for any loss or damage of any kind arising out of the use of or reliance upon all or any part of this document.

The Bank retains copyright to this document and no part of this document may be reproduced or re-distributed without the written permission of the Bank. The Bank expressly prohibits the distribution or re-distribution of this document to private or retail clients, via the Internet or otherwise, and the Bank, its head office, branches, subsidiaries and affiliates accept no liability whatsoever to any third parties resulting from such distribution or re-distribution.

MUFG Bank, Ltd. ("MUFG Bank") is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). MUFG Bank's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. MUFG Bank's London branch is registered as a UK establishment in the UK register of companies (registered no. BR002013). MUFG Bank is authorised and regulated by the Japanese Financial Services Agency. MUFG Bank's London branch is authorised by the Prudential Regulation Authority (FCA/PRA no. 139189) and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MUFG Bank London branch's regulation by the Prudential Regulation Authority are available from us on request.