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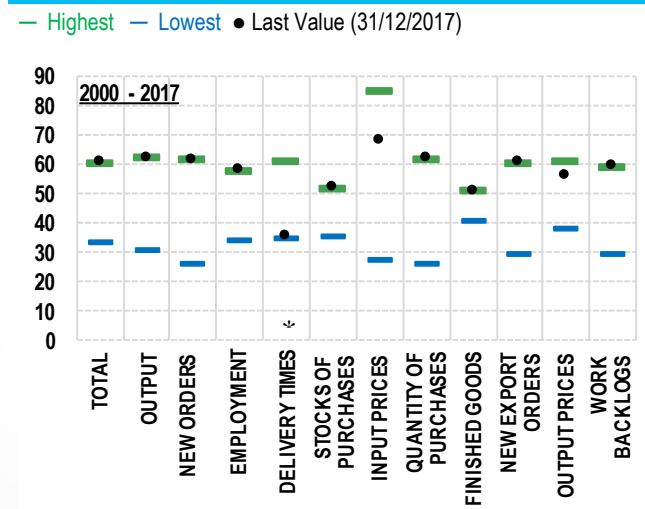
Eurozone growth: flat out

■ The Markit PMI for the manufacturing sector as well as the composite indicator saw another increase in December, with the former reaching a record high ■ Most of the sub-series are at or near historical highs and reflect the breadth of the recovery ■ This and the expected evolution of the drivers of final demand point to ongoing robust growth

The eurozone economy continues to power ahead. The Markit PMI for the manufacturing sector released at the start of the week showed the index for December reaching the highest level on record (the survey began in mid-1997). The Services Business Activity index also registered an increase and the Composite Output index, at 58.1, reached the highest level since February 2011. To illustrate the breadth of the movement in the manufacturing sector, the chart shows for 11 sub-series, as well as for the total, the highest and lowest reading since 2000 plus the most recent observation. Virtually all components are at or very close to their historical highs. For delivery times the number is low and this reflects long delivery times, another manifestation of strength. The reading for input prices is relatively speaking on the low side. Output prices on the other hand are close to the historical high which together with lengthening delivery times and work backlogs would point towards a pick-up in eurozone inflation.

The PMI numbers warrant confidence for the growth outlook in 2018. Using the historical relationship between the composite PMI and quarterly real GDP growth, one obtains a 'nowcast' for real GDP growth in the final quarter of last year of 0.8%, which is an acceleration from an already strong performance of 0.6% in the third quarter. Admittedly the statistical relationship is not perfect (regression R^2 of 0.70) but the coefficient is highly significant and recent forecast errors have been small. Moreover, the PMI series display a high level of inertia: a high level in a given month tends to be followed by a high level in the following months, which supports the expectation of ongoing strong GDP growth. This purely statistical approach can be complemented by looking at the drivers of final demand. Consumer spending should be supported by job creation, a pick-up in wage growth, low interest rates, easy access to credit. To some degree, the wealth effect can also play a role. Corporate investments should continue to grow at a healthy pace on the back of profits growth, rising capacity utilisation and attractive financing conditions. The European Commission expects fiscal policy to be broadly neutral. Exports should benefit from the broad-based upswing in the world economy. To conclude, the eurozone economy has ended the year 2017 on a particularly strong footing. Different indicators warrant confidence for the next several months. However, this is likely to intensify the debate on the appropriateness of the current monetary stance of the ECB, in particular if core inflation would move in the direction shown today by supply side bottleneck indicators.

EUROZONE MANUFACTURING PURCHASING MANAGERS INDEX



* inverted scale

Sources: Markit, BNP Paribas

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Economic scenario

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