

# ECOWEEK

No. 18-16, 20 April 2018

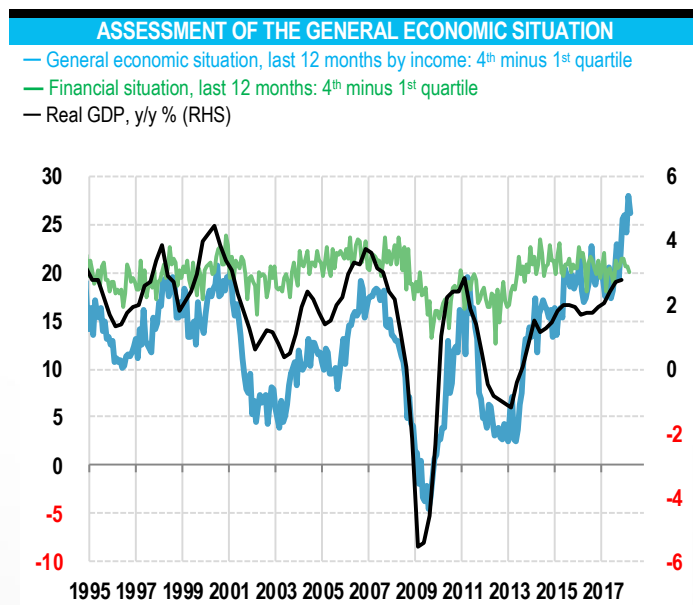
## Eurozone: pockets of animal spirits?

- The assessment of the general economic situation by the highest income quartile is more cyclically sensitive than the one by the lowest income quartile
- The former has become particularly positive since early 2017 although the relative assessment of the financial situation has not improved
- Possibly, 4<sup>th</sup> quartile income households feel, relatively speaking, less uncertain about the future.

Last week's editorial provided possible explanations why intended major purchases by upper income quartile households reacted more to changes in the business cycle than expenditures by lower income quartile households. As a consequence, the difference between the two was highly procyclical. A similar observation can be made based on the difference in the assessment of the general economic situation. The highest income quartile reacts more to changes in general economic conditions than the lowest. The chart shows that this difference tracks real GDP growth very well although since the start of 2017 a gap has appeared: the relative improvement in the assessment by upper quartile households has not been translated in a corresponding acceleration of GDP growth. However, it should be emphasised that the observed growth pickup was already quite sizeable. Alternatively, one could argue that, given the observed growth acceleration, upper quartile households have actually become too optimistic.

Why have wealthier households become much more optimistic about the global environment? It can hardly be explained by a more positive assessment of their financial situation. Based on the chart, this has evolved in a similar way for the 1<sup>st</sup> and 4<sup>th</sup> income quartile households. Wealth effects might play a role with upper income quartile households being more exposed to real estate and equities (both have seen significant increases in this cycle). This may not show up in the assessment of the personal financial situation, as respondents probably concentrate on their regular income, rather than their wealth.

What's puzzling as well is that the abnormally big divergence between the assessments is only a very recent phenomenon, starting early 2017. Perhaps uncertainty plays a role: although the assessment of their financial situation has evolved in line with bottom quartile households, the top quartile might simply feel more confident and less uncertain which might translate in an abnormally strong positive assessment of the overall economic conditions. It remains to be seen whether growth will slow when their relative assessment moves back in line with the historical range.



Source: European Commission, Eurostat, BNP Paribas

William De Vijlder and Raymond van der Putten

p. 2

Markets Overview

p. 3

Pulse & calendar

p. 4

Economic scenario

**Eco**  
**WEEK**

ECONOMIC RESEARCH DEPARTMENT



**BNP PARIBAS**

The bank  
for a changing  
world