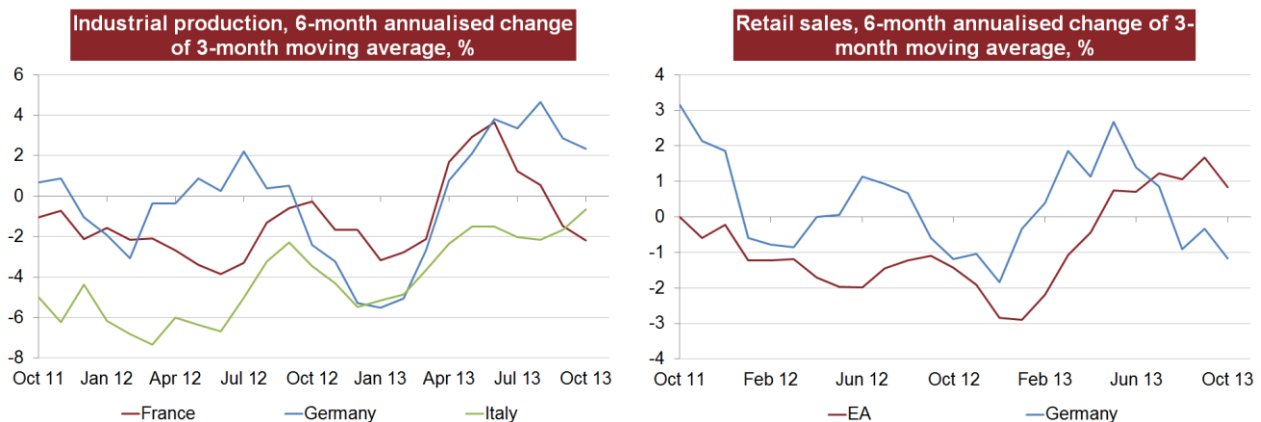


Weak EA start to Q4

- **EA survey data is generally trending upwards – except for France**
- **But ‘hard’ data is at best moving sideways**
- **Q4 euro area growth could be zero – or possibly negative**

In an interview with the *Financial Times* on 11th December, the French Finance Minister Pierre Moscovici declared himself fed up with ‘French bashing’. Similar sentiments could no doubt be expressed by some of M. Moscovici’s colleagues in other countries. But where in some economies – the US, the UK – the recovery is firmly established, this is by no means as clear, either for France or for the EA as a whole. This pessimism needs to be taken with a pinch of salt. Data is not clearly pointing in any direction. But that in itself is a problem, since, at some stage, an incipient recovery should be signalled by most, if not all, data. Moreover, what we are seeing in the EA is that the divergence in the numbers is very much between surveys and ‘hard’ data.

Recent surveys generally show increasing business confidence, whether on a pan-EA level or by country. This is certainly the case with, eg, the European Commission’s economic sentiment index (ESI) and the German Ifo survey. Significantly, however, the French ESI fell in November after rising for six months; and the INSEE French business climate indicator was flat in November, remaining below its long-term average. This pattern is repeated in the various purchasing managers’ indices. So, for example, the EA composite PMI for November weakened for a second month, dragged down mainly by the French PMI falling further below the so-called boom-bust line (the reading of 50, which notionally divides expansion from contraction). The dichotomy between Germany and France is also highlighted by the fact that where German PMIs are developing better than expected, French are doing worse than consensus. But even the German PMIs look more like peaking than like making further upward progress.



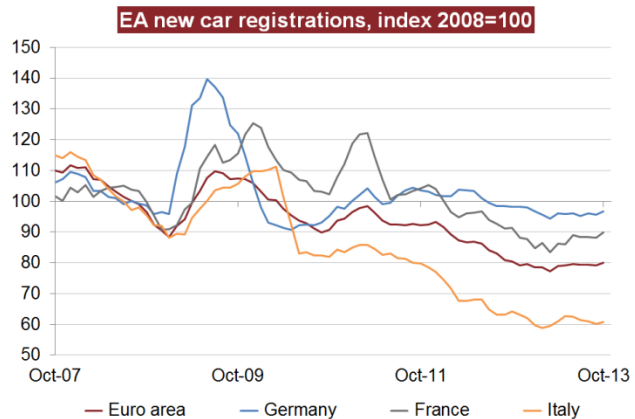
However, we are now beginning to get ‘hard’ (ie, non-survey) data for the fourth quarter. That is generally painting a more pessimistic picture. Both German and French industrial production fell in September and October, giving up gains made over the summer. Italian industrial production is still edging up, but

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remains weaker than in Q1. For the whole EA, industrial production fell by 1.1% in October, a larger fall than expected. Even a positive interpretation of the numbers would say that France and Italy are trending down, while Germany at best is moving sideways. Orders to German manufacturing remain erratic, however, and give little indication of any near-term pick-up in German industrial output. Coincident data, such as retail sales, give a similar impression. EA and German retail sales both fell in September and October. The German retail sales index reaching its lowest point for the year, although this series is volatile and prone to substantial revisions. Nor is foreign trade holding out much hope. True, German exports reached a record-high of €99.1bn in October; but imports rose faster, so that the trade surplus actually narrowed to €16.8bn from €18.7bn in September (itself revised down slightly from €18.9bn). French foreign trade continues to show a deficit, oscillating between €4bn and €6bn on a monthly basis.

It is easy – and tempting – to get carried away by one or even two months' worth of weak data. But, the problem with the EA is that recent numbers fit in with what more leading indicators such as broad money and car sales already have been saying for some time, namely that the EA at best seems to be mired in anaemic growth, at worst may slip back into recession. It now seems very possible that the EA will see no growth at all in Q4 (and just possibly slide back into negative territory).



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