

Flash note
07/08/2023

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Europe - Brief summary about the state of the nation

ECB

- ECB Chief Economist Lane is confident that inflation in the 20-nation euro zone will retreat markedly in the coming months, adding to evidence that interest rates are close to their peak.
- However, he said that the exact level of underlying inflation remains difficult to determine.

Macro - Eurozone

- ECB rate hikes **could trim 4% from GDP**, research shows: A recent study from Bloomberg (study) suggests that growth may take a 4% hit in GDP as the ECB and the European governments are facing a dilemma as they try to combat inflation. Governments are under pressure to reduce their debt levels, which means they will have less money to spend on stimulating the economy.
- Euro zone **Factory July activity fell at fastest pace** since onset of COVID. Manufacturing PMI reading posted a 38-month low with production volumes, employment and purchasing activity declining at faster rates. Excluding the pandemic-related lockdowns, this was the weakest level of output since the GFC.
- Euro zone **Composite July PMI** contracting with the reading at an eight-month low. The primary driver for the loss of momentum is due to ongoing weakness in manufacturing, but services sector activity also slowed. Eurozone retail trade unexpectedly declined in June, coming in (0.3%) m/m.
- **EU companies cut jobs** as economy sputters: Decades-high inflation and the impact of war in Ukraine have forced companies across Europe into lay-offs or hiring freezes. All said, the Eurozone June unemployment posted a record low of 6.4%, stable compared with May. Strong labour markets have been an important driver of economic resilience over last few years and continues to be top of mind for ECB policymakers.
- **European companies suffer €100B hit from Russia operations**: FT reported that a survey of 600 European groups' annual reports shows that 176 companies have recorded asset impairments, foreign exchange-related charges and other one-off expenses as a result of the sale or closure of Russian businesses.

Germany (Mixed figures)

- Germany's industrial production declined more strongly than forecasts in June, led by automotive and construction sectors, suggesting weak demand and increasing chances of an economic slowdown.
- Germany factory orders for June unexpectedly rose 7% m/m, beating expectations, but was due mainly to major orders in the aerospace industry. Without these major orders, the figure had been -2.6%. German factories are reportedly suffering from poor demand from China, worker shortages, tighter monetary policy and the lingering fallout from last year's energy crisis.
- German retail sales fell more than expected in June in first monthly decline since March.
- Germany's economic malaise evokes "sick man of Europe" era: "Germany's economy is struggling to grow, and the weakness is set to persist". The IMF forecasts that Germany will be the only G7 country to contract this year. The government is trying to boost growth by offering subsidies to companies willing to open factories.
- Germany faces 5 tough years, economy minister warns. (Politico)

European banks

- European banks beat profit estimates for the second quarter, with surprisingly robust loan portfolios providing a major boost to their earnings. Provisions were far below estimates, also boosting results.
- Regulation: Bundesbank's deputy governor Buch, a candidate to become the Eurozone's next chief banking supervisor, called for a more "critical mindset" in overseeing the sector. She warned that "the sector still faced significant risks stemming from major macroeconomic upheaval, such as rising interest rates and the decline of energy-intensive industries". Buch also played down the importance of creating a common deposit insurance scheme, a long-standing priority for the ECB.

Geopolitics

- EU-China: Trade commissioner Dombrovskis to push China on barriers to exports. He wants to rebalance the China-EU trade relationship. Dombrovskis said "China is running a huge trade surplus and the level of openness from the Chinese side is not the same as the level of openness from the EU side".
- Italy-China: Italy minister said that "joining China's Belt and Road was atrocious decision". Italy joined China's Belt and Road Initiative (BRI) in 2017, but the deal has not boosted Italian exports to China. The Italian government is considering now how to break free of the BRI agreement.
- EU-Turkey: The EU and Turkey are discussing an update to their customs union, which would include Turkish agricultural goods and services. The talks are part of Turkey's process of re-engagement with the EU.