

CYCLICAL OUTLOOK DOMINATED BY A SHOCK TO EXPECTATIONS

The latest cyclical surveys show the impact of the war in Ukraine. Confidence of households and companies has dropped, although, concerning the latter, significant differences exist between countries and sectors. In Germany, the ifo business climate has plummeted whereas in France, the decline is more limited. Services tend to be doing better than manufacturing. Importantly, employment expectations of companies remain at an elevated level. It is a key factor to monitor in view of what it signals about companies' confidence in the medium-term outlook as well as for its influence on households' sentiment about their future personal situation. This last point is particularly important given the plunge in household confidence, which is largely related to concern about the general economic outlook. Undoubtedly, the jump in energy prices and rising inflation plays an important role in this respect.

Until very recently, the economic consequences of the invasion of Ukraine had been assessed largely using anecdotal evidence, model-based simulations or, concerning the commodity price shock, comparison with previous price jumps.

For this reason, the cyclical surveys covering the month of March had been eagerly awaited because they allow for a more comprehensive analysis. As expected, business surveys were down but significant differences exist between countries, sectors and, for a given country, between the respective surveys. It illustrates the complexity of gauging the cyclical momentum when key variables – commodity prices, geopolitical uncertainty, etc. – have changed fundamentally.

The flash purchasing managers' indices (PMI) (*table 1*) for manufacturing saw a small decline for the Eurozone. The deterioration was more outspoken in exports and employment whereas input prices and output prices recorded a big increase in reaction to the jump in commodity prices. After declining in recent months, delivery times again lengthened significantly in the Eurozone and Germany, reflecting the supply disruption caused by the conflict. New restrictions following the wave of infections in China also play a role. In France there was only a limited lengthening of delivery times. The flash PMI for services edged lower for the Eurozone but improved in France. Within services, employment actually improved in the Eurozone and Germany and even more so in France. Input prices jumped and prices charged in services recorded a sizeable increase.

Compared with the PMI data, national business surveys paint a bleaker picture. In Germany, according to the Ifo Institute, "*sentiment in the German economy has collapsed*" on the back of expectations plummeting in manufacturing, services, trade and the construction sector.¹ Moreover, export expectations also recorded a steep decline. In France, the decline of the business climate in March resulted "*mainly from the decline in the forward-looking balances of opinion*

in manufacturing and the deterioration of the climate in wholesale trade".² However, at 107, it is still well above its long-term average of 100. In services, there was a moderate decline. As mentioned before, the flash PMI recorded an improvement. The difference between the two surveys could be related to a difference in sample size, which is significantly larger for the INSEE survey, and the timing of the surveys.³

S&P GLOBAL PMI						
	Eurozone		Germany		France	
	Feb. 22	March 22	Feb. 22	March 22	Feb. 22	March 22
Manufacturing						
PMI	58.2	57.0	58.4	57.6	57.2	54.8
Export orders	55.0	49.5	56.4	49.3	52.4	44.5
Employment	57.1	54.5	58.0	54.6	55.8	52.7
Input prices	82.1	86.5	83.9	86.2	80.6	84.0
Output prices	71.8	74.3	74.3	76.0	68.0	71.0
Services						
PMI	55.5	54.8	55.8	55.0	55.5	57.4
Employment	53.6	54.8	54.3	54.8	53.7	55.7
Input prices	72.7	79.8	73.7	78.4	67.9	78.6
Prices charged	58.8	62.6	61.7	68.5	57.9	59.8

TABLE 1

SOURCE: IHS MARKIT, BNP PARIBAS

1. There was only a moderate worsening of the assessment of the current situation. Source: *War in Ukraine Causes Ifo Business Climate Index to Plummet*, Ifo Institute, Munich, 25 March 2022.

2. Source: INSEE, Informations Rapides, 24 March 2022, nr 79.

3. Data for the INSEE survey were collected from 25 February until 21 March and for the flash PMI from 11 until 22 March.

The surveys released thus far for the month of March show a distinct worsening of sentiment, driven by a drop in expectations of both households and companies. Against this background, it is comforting to see that employment expectations of companies remain at an elevated level.



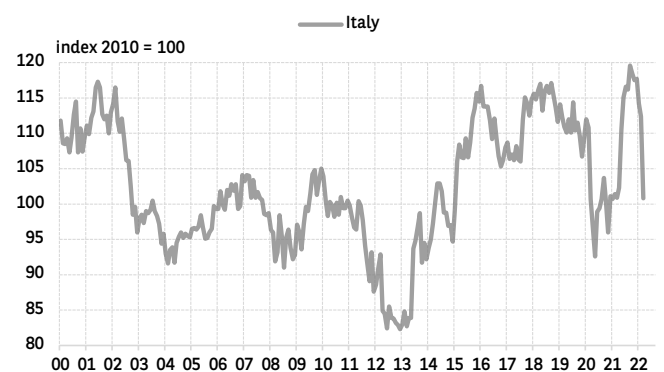
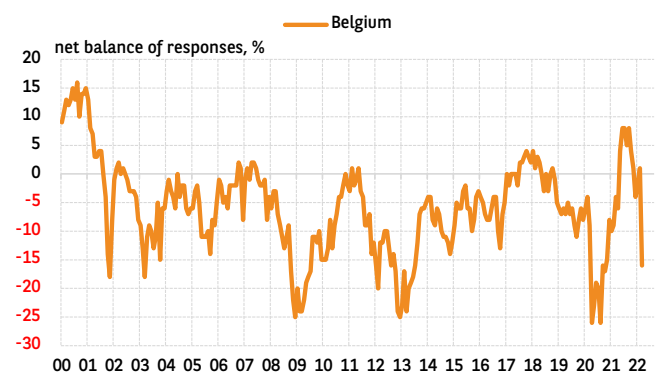
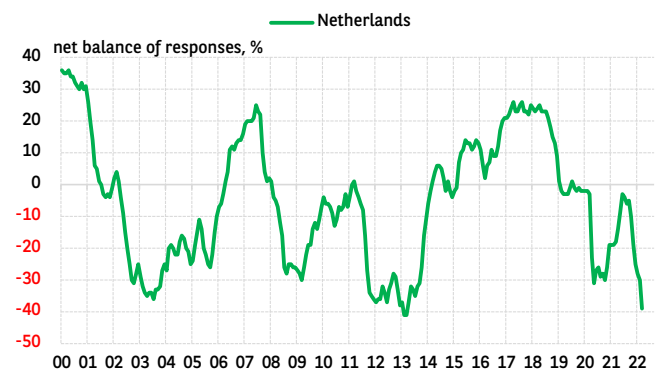
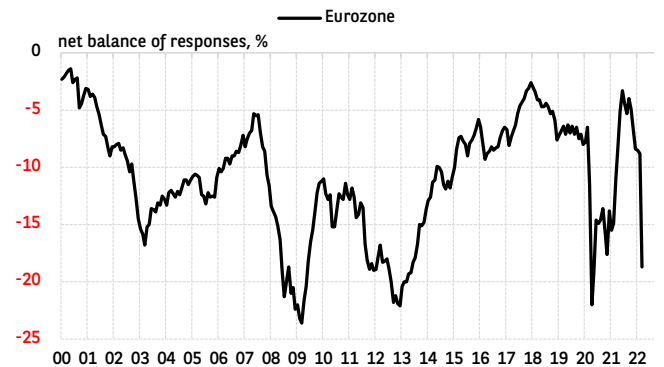
Importantly, the employment climate in the INSEE survey was stable in March at an elevated level, well above the long-term average (113 versus 100).

Turning to households, the European Commission’s flash consumer confidence indicator for the EU and the euro area plummeted in March, with the index ending well below its long-term average. Mounting uncertainty, rising energy prices and an increase in inflation in general are weighing on sentiment. Countries that have already published their national data – Italy, the Netherlands, Belgium – have also recorded important declines (chart 1-4). In Italy, this reflects the huge drop in the assessment of the current and future climate, considering that the decrease in the personal situation was more limited. In the Netherlands, households feel a lot more gloomy about the general economic outlook and, to a lesser extent, about the outlook for their personal financial situation. In Belgium, the biggest deterioration concerned the expectations about the general economic situation for the next 12 months.

In summary, the surveys released thus far for the month of March show a distinct worsening of sentiment, driven by a drop in expectations of both households and companies. The jump in commodity prices, the geopolitical crisis and the uncertainty about how these factors will evolve are, as could be expected, clearly weighing on confidence. Against this background, it is comforting to see that employment expectations of companies remain at an elevated level. It is a key factor to monitor in view of what it signals about companies’ confidence in the medium outlook as well as all for its influence on households’ sentiment about their future personal situation.

William De Vijlder

HOUSEHOLD CONFIDENCE



CHARTS 1-4

SOURCE: EUROPEAN COMMISSION, NATIONAL SOURCES, BNP PARIBAS

