

WEEK AHEAD | SENTIMENT, EUROZONE | US ECONOMY

When will sentiment turn in the Eurozone?

Analysts:

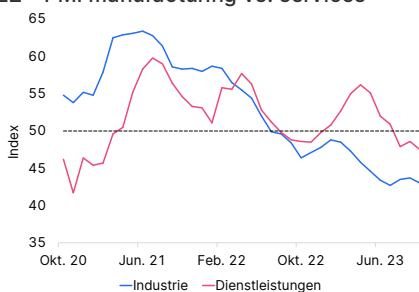
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EZ – PMI manufacturing vs. services



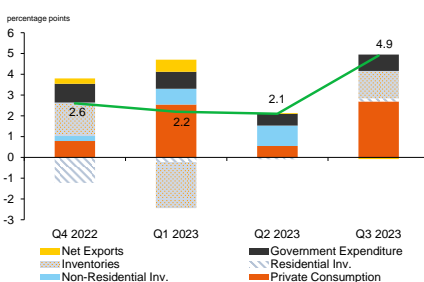
Source: Market data provider, Erste Group Research

EZ - continued subdued sentiment expected for November

Next week (November 23), a flash estimate of PMI data in the Eurozone will be published. In October, sentiment among service providers fell back to the level of August, indicating stagnation at a low level. The sentiment of manufacturing managers also fell slightly compared to the previous month, and here, too, there is evidence of stagnation at a low level.

We do not expect any immediate improvement in sentiment in November, as European industry in particular is suffering massively from a decline in production. According to the survey, new orders as well as outstanding orders have been declining for months. It remains to be seen whether the surveys at the country level will at least show changes in expectations for business development, as Germany announced a major relief package for its beleaguered industry last week. No improvement is expected for service providers, either. Here, too, the volume of new orders is declining and, according to the survey, demand is now also falling noticeably among customers abroad. As a result, only existing orders are being consistently processed. We do not expect to see a slight increase in growth momentum in the Eurozone until the first half of 2024 and therefore a slight improvement in sentiment among companies in the Eurozone.

US GDP annualized growth and contributions



Source: Bureau of Economic Analysis, Erste Group Research

US economy benefits from high government spending

The first estimate for GDP growth in the US in the third quarter surprised even the already high expectations. A q/q growth rate of 1.2% was reported, more than double that of the previous quarter. This growth rate would be high by itself, but what is surprising is that the massive rise in interest rates since 2022 still had no overall effect. The US economy is very likely to grow even faster in 2023 than in 2022.

The structure of GDP in the third quarter shows that the change in inventories, which is a volatile variable and hardly an indication of the strength of demand, made a significant contribution. However, the key drivers of growth were private consumption and government spending. The question now is where the strength of these components comes from and therefore how long it will continue. Higher public spending is relatively easy to explain, as it is based on corresponding political decisions and thus the willingness to allow the public budget deficit to swell massively compared to the previous year.

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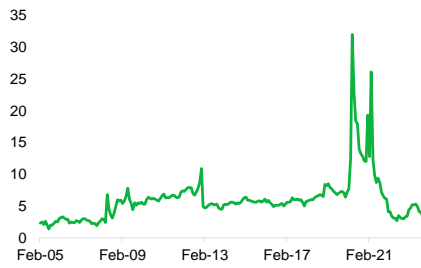
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Note: Information on past performance is not a reliable indicator of future performance.

It is more difficult to pinpoint the causes of the persistently high level of private consumer spending. Until recently, private households had suffered a significant loss of purchasing power in real terms, due to the sharp rise in inflation. Added to this was the rise in interest rates on loans. On the other hand, the labor market remained robust, even though a slowdown has been evident for several months. All in all, these factors make it difficult to explain

Savings rate, % of disposable income



Source: : Bureau of Economic Analysis, Erste Group Research

the strong growth in consumer spending that has continued throughout the year. It is therefore likely that savings accumulated during the pandemic, which were due not least to generous payments from the public sector, are supporting private consumption.

We continue to expect the US economy to weaken in the future, as the aforementioned supportive factors should fade. At present, it does not look as if the public budget deficit will increase next year and therefore no further support for the economy is to be expected from this side. The current support for private consumption through the consumption of savings, as indicated by a very low savings rate, should also be exhausted. Current savings have been below trend for several quarters, indicating consumption of savings accumulated during the Covid pandemic. We estimate that these will be exhausted early next year, which should also slow the momentum of private consumer spending.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	23-Nov	10:00	PMI Index	Nov P		43.1 Index
DE	23-Nov	9:30	PMI Index	Nov P		40.8 Index
DE	24-Nov	8:00	GDP y/y	3Q F		-0.3%
DE	24-Nov	10:00	Ifo Index	Nov		86.9 Index
FR	23-Nov	9:15	PMI Index	Nov P		42.8 Index

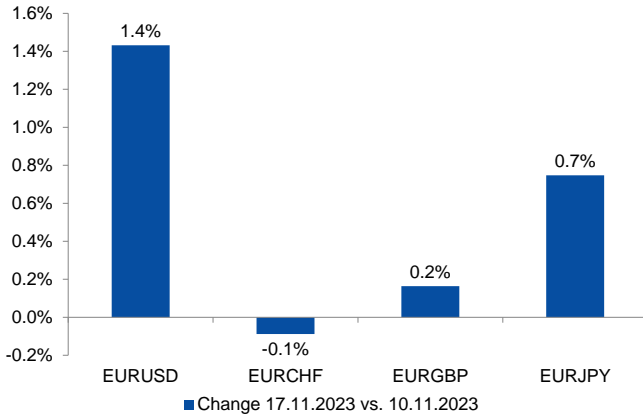
Central bank events

	Date	Time	Representative	Forum	Location
ECB	20-Nov	06:00	Philip Lane	Panel discussion	CEBRA
	21-Nov	17:00	Christine Lagarde	Speech	German Ministry of Finance
	21-Nov	18:15	Isabel Schnabel	Lecture	University Würzburg
	23-Nov	13:30	ECB Council	Accounts	ECB
	23-Nov	20:30	Isabel Schnabel	Speech	Porto Business School
	24-Nov	14:30	Luis de Guindos	Discussion	Fundacio Internacional Olof Palme
Fed	21-Nov	20:00	FOMC	Minutes	US Fed

Source: Market data provider, ECB, US Fed, Erste Group Research

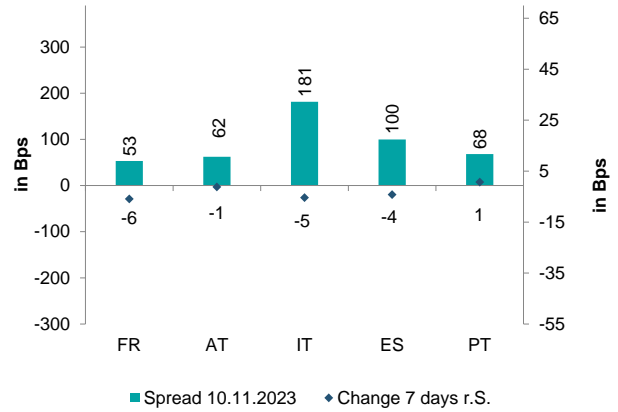
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY Changes compared to last week



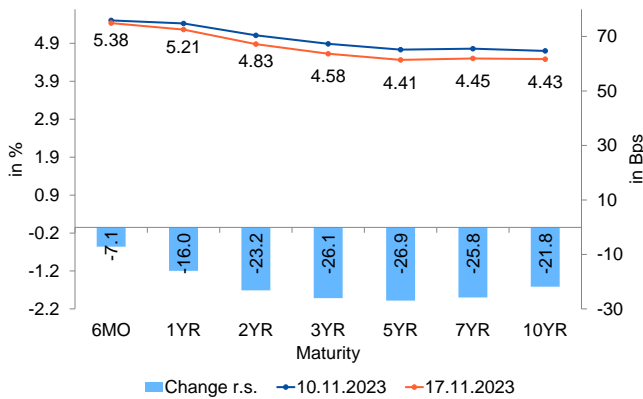
Source: Market data provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



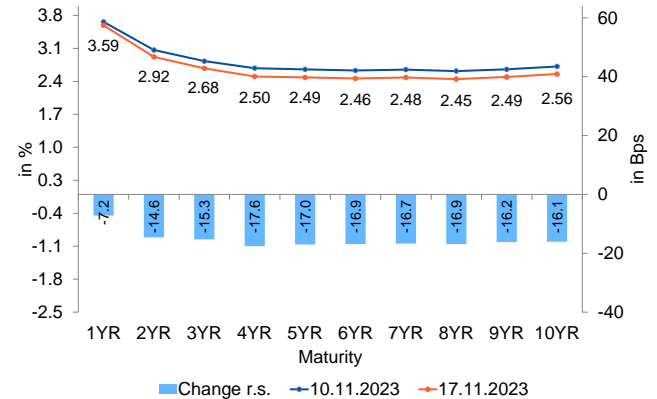
Source: Market data provider, Erste Group Research

US Treasuries yield curve Changes compared to last week



Source: Market data provider, Erste Group Research

DE Bund yield curve Changes compared to last week



Source: Market data provider, Erste Group Research

Forecasts¹

GDP	2022	2023	2024	2025
Eurozone	3.5	0.5	0.9	1.3
US	2.1	2.3 ↑	1.2 ↑	1.8

Inflation	2022	2023	2024	2025
Eurozone	8.4	5.7	3.0	2.1
US	8.0	4.1	2.5	2.0

Interest rates	current	Dec.23	Mar.24	Jun.24	Sep.24
ECB MRR	4.50	4.50	4.50	4.25	4.00
ECB Deposit Rate	4.00	4.00	4.00	3.75	3.50
3M Euribor	4.00	3.99	4.02	3.79	3.57
Germany Govt. 10Y	2.56	2.60	2.40	2.40	2.40
Swap 10Y	3.05	3.10	2.90	2.90	2.90

Interest rates	current	Dec.23	Mar.24	Jun.24	Sep.24
Fed Funds Target Rate*	5.33	5.38	5.38	5.13	4.63
3M Libor	5.63	5.63	5.63	5.21	4.71
US Govt. 10Y	4.43	4.50	4.10	3.80	3.70
EURUSD	1.08	1.08	1.12	1.15	1.16

*Mid of target range

Note: If the forecasts have been changed from the previous week, the arrows indicate the direction.

Source: Market data provider, Erste Group Research

¹ By regulations we are obliged to issue the following statement: Forecasts are no reliable indicator of future performance.

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