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Insights \ Europe: Creeping improvement

Chart Of The Week

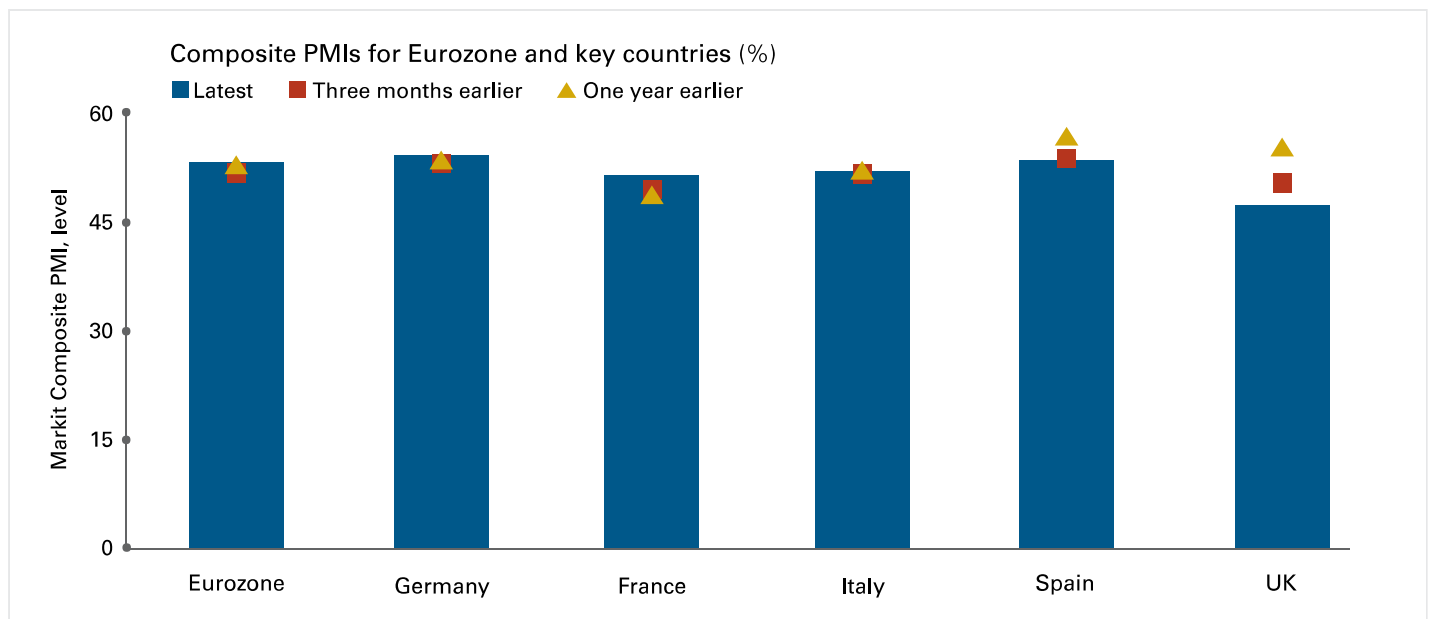


August 26, 2016



EUROPE: CREEPING IMPROVEMENT

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Source: Bloomberg, as of 8/23/16. **Past performance is no guarantee of future results.** An investor cannot invest directly in an index. Unmanaged index returns do not reflect any fees, expenses or sales charges. This information is provided for illustrative purposes only and does not reflect the performance of an actual investment.

THE CHART

The chart shows the latest Composite PMI level available (blue column) and the PMI levels from 3 months earlier

THE BOTTOM LINE

- Uncertainty about Brexit's impact may have rippled through financial markets, but so far the biggest economies in continental Europe seem to have taken it in stride.

(red square) and 12 months earlier (green triangle) for the Eurozone, Germany, France, Italy, Spain and the United Kingdom.

- The latest PMI data—reflecting purchasing managers’ answers to a range of questions about business conditions—suggests growth could continue expanding at a slow but steady pace.
- Coming in at 53.3, the Eurozone Flash Composite PMI for August, was better than expected—and the highest in seven months.¹
- In Germany, the August PMI data for the Continent’s strongest economy slipped slightly from 54.5 in July to 54.4, but that remains the best showing in the region.
- Meanwhile, France jumped from 50.1 in July to 51.6 in August; a significant lift and France’s best level since last October.
- The latest data from Italy and Spain (from July) also suggest continued expansion, but at a slower pace than three months ago.²
- Across the Channel, however, the data is less encouraging. The July Composite PMI for the UK was 47.5, dramatically lower than the 52.5 figure for June, and suggests contraction.
- But that said, other data does not signal an imminent recession for the UK.
- To wit: UK retail sales were surprisingly strong in July, UK export orders for August were the highest in two years, tourist spending has surged on the weaker UK pound and UK small-cap stocks—often viewed as a proxy for the domestic economy—hit a new record high last week.³
- Nevertheless, growth in the Eurozone and UK is not expected to quicken anytime soon—and fallout from Brexit could still arise in the months ahead.
- While the August Flash Composite PMI for the Eurozone showed stronger new orders in the service sector, it also showed manufacturing orders slowing at the lowest rate in 18 months, and business expectations for the services sector slipping to the lowest level since December 2014.
- Absent a significant pickup in inflation, it seems likely that the positive but slow pace of growth will demand continued policy accommodation across the region.

¹ Source for all data is Bloomberg.

² The August PMIs for both countries will be reported on September 1st.]

³ Source: Bloomberg. The FTSE Small Capitalization Index made a new record high of 4906.52 on 8/22/16.

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Investments in small-cap and mid-cap companies involve a higher degree of risk and volatility than investments in larger, more established companies.

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