

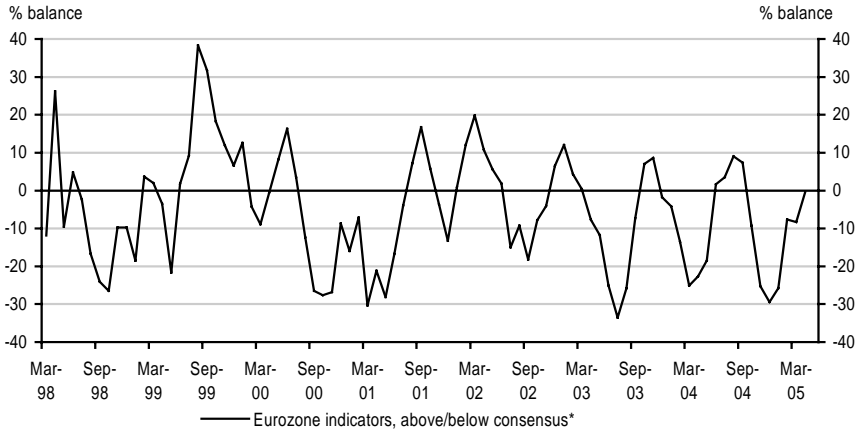
# Eurozone Chart Book

## It's not all bad

- ▶ The past month has seen another set of unambiguously poor industrial indicators suggesting that the eurozone is teetering on the brink of another industrial recession.
- ▶ In particular, the April manufacturing PMI fell below the 50 boom/bust line for the first time since August 2003 (chart 6), while the European Commission business confidence measure softened further (chart 5) and the OECD lead indicator took another leg down (chart 7).
- ▶ Nevertheless, it would be wrong to suggest that it is all doom and gloom at present. Employment growth is now running close to 1% (chart 13) and vacancies are also growing again (chart 16). Moreover, this looks to be feeding through into retail sales growth (chart 10) which rose 0.6% quarter-on-quarter in Q1 – the strongest rise since Q3 2002.
- ▶ We suspect that this will be reflected in a decent rise in first quarter consumer spending. The big question, however, is can the consumption recovery be maintained in the face of an export/industrial slowdown?
- ▶ History would suggest that this is very unlikely and it is noticeable that manufacturing and service sector job expectations have flattened out over recent months (charts 14 & 15).
- ▶ We suspect that first quarter GDP and consumer spending growth will be as good as it gets for the eurozone this year.

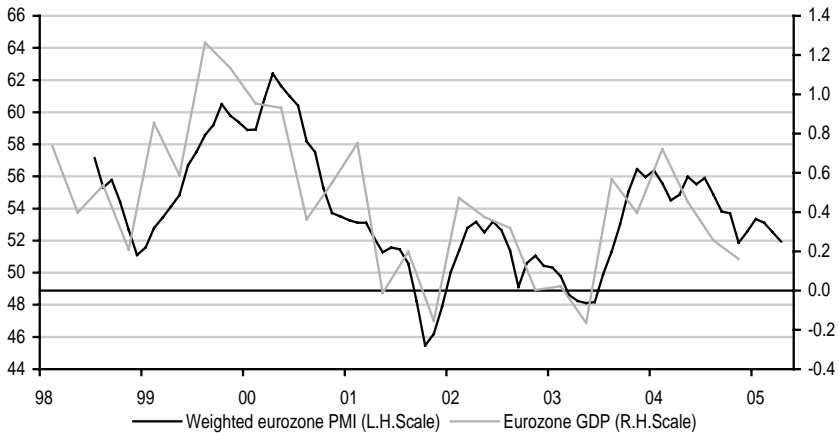
# 1. Summary

## 1. Balance of activity indicators broadly in line with expectations



Note: \* = 3mma using Standard & Poors market medians  
 Latest data point: April  
 Source: Thomson Financial Datastream, S&P, HSBC

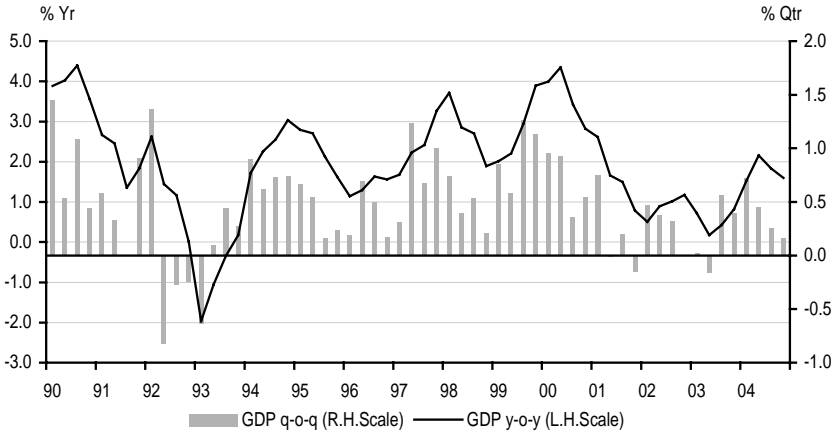
## 2. Weighted PMI consistent with just 0.2-0.3% q-o-q GDP growth



Note: Latest data point: Apr/04Q4  
 Source: HSBC, Reuters, Thomson Financial Datastream. To get the index number we have weighted up the service sector PMI and the output component of the manufacturing PMI. The respective weights are 0.67 and 0.33.

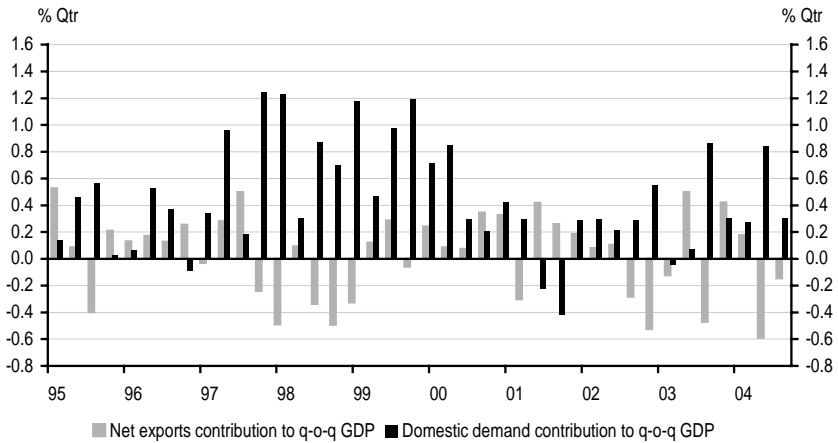
# 2. GDP

## 3. GDP growth past its peak



Note: Latest data point: 04Q4  
 Source: HSBC, Thomson Financial Datastream

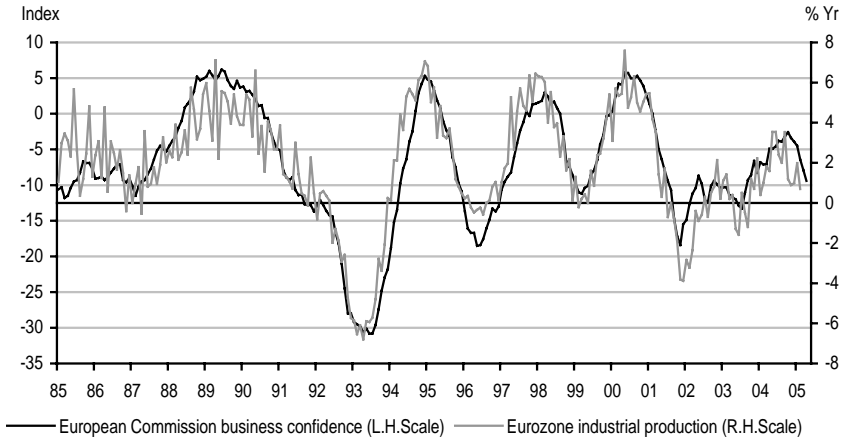
## 4. Net exports made another negative contribution to growth in Q4



Note: Latest data: 04Q4  
 Source: Thomson Financial Datastream, HSBC

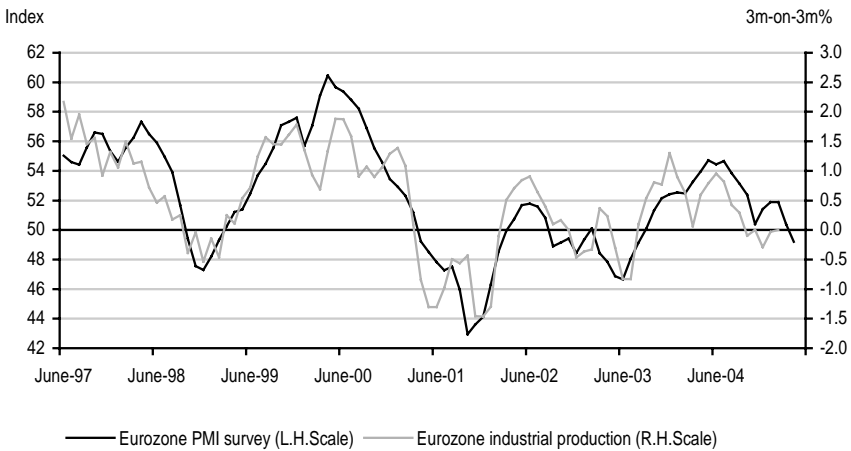
# 3. Industry

## 5. Commission's business confidence measure falling back



Note: Latest data: Apr/Feb  
 Source: Thomson Financial Datastream, HSBC

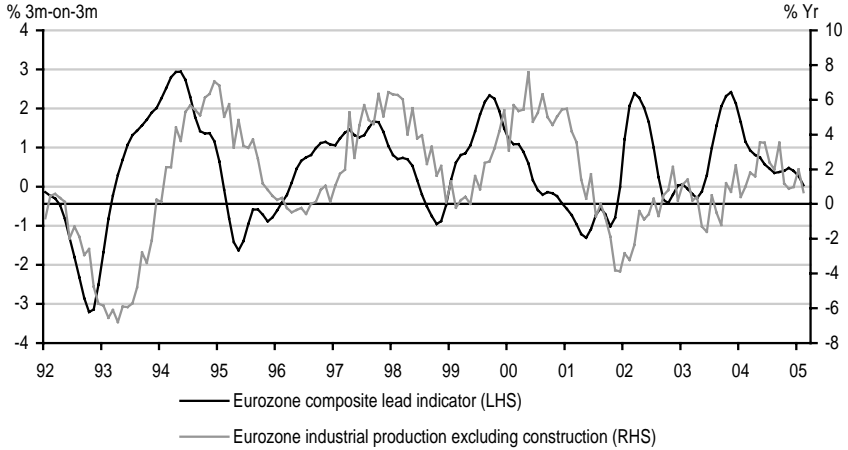
## 6. Manufacturing PMI back below 50 boom/bust line



Note: Latest data point: Apr/Feb  
 Source: Reuters, Thomson Financial Datastream, HSBC

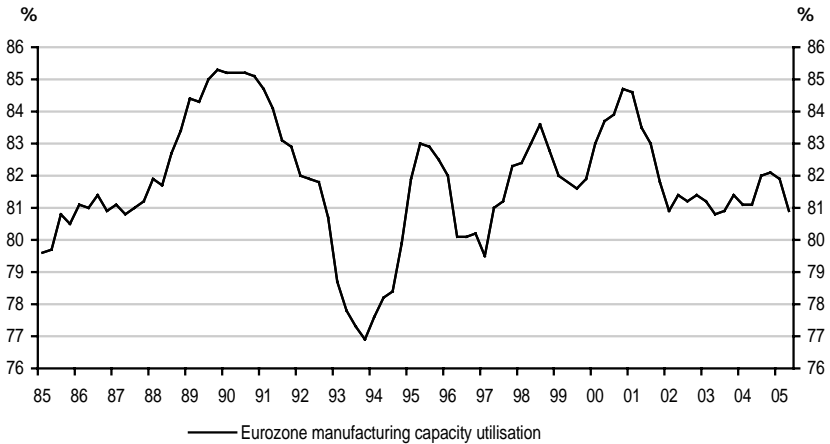
### 3. Industry

#### 7. OECD lead indicator softening again



Note: Latest data point: February  
Source: HSBC, Thomson Financial Datastream

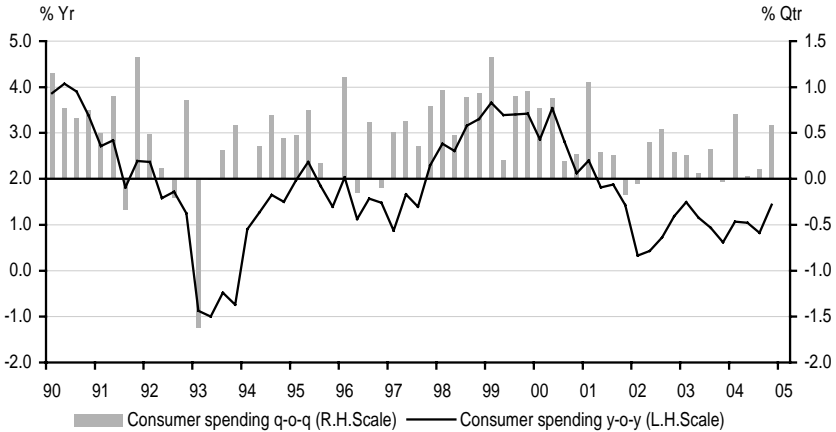
#### 8. Capacity utilisation in industry falling



Note: Latest data point: 05Q2  
Source: Thomson Financial Datastream

# 4. Consumer indicators

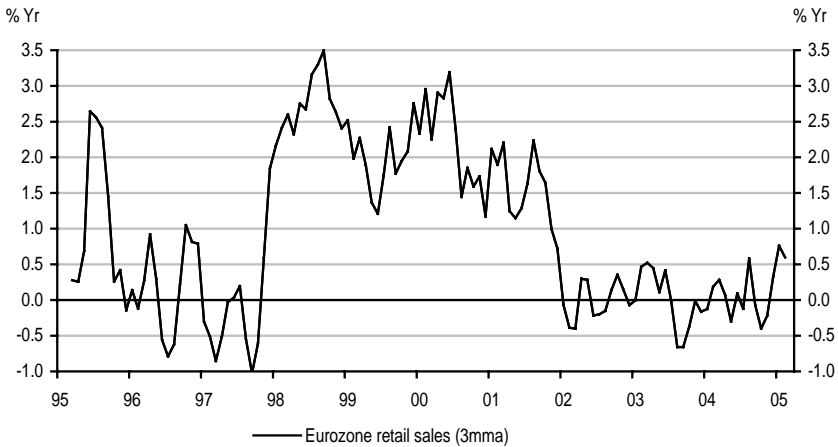
## 9. Consumer spending up little more than 1% year-on-year in 2004Q4...



Latest data point: 04Q4

Source: Thomson Financial Datastream, HSBC

## 10. ...although retail sales growth strongest since 2001

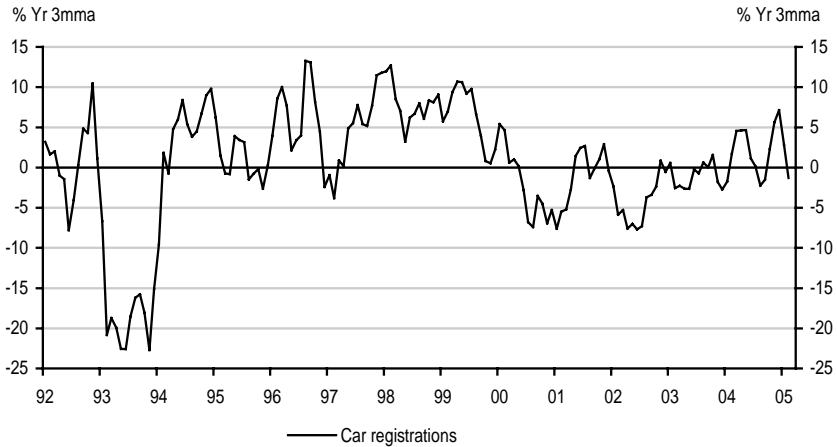


Latest data point: February

Source: Thomson Financial Datastream, HSBC

## 4. Consumer indicators

### 11. Car registrations down year-on-year in April



Note: Latest data point: March  
 Source: Thomson Financial Datastream, HSBC

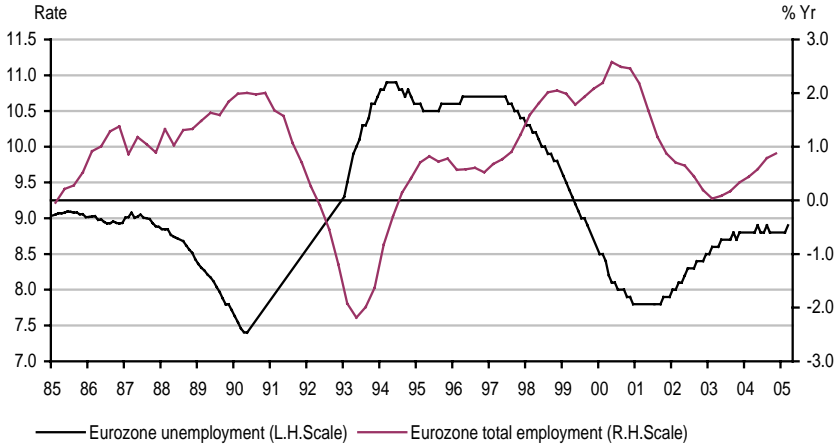
### 12. Consumer confidence edging higher, but a lagging indicator?



Note: Latest data point: Apr/04Q4  
 Source: Thomson Financial Datastream, HSBC

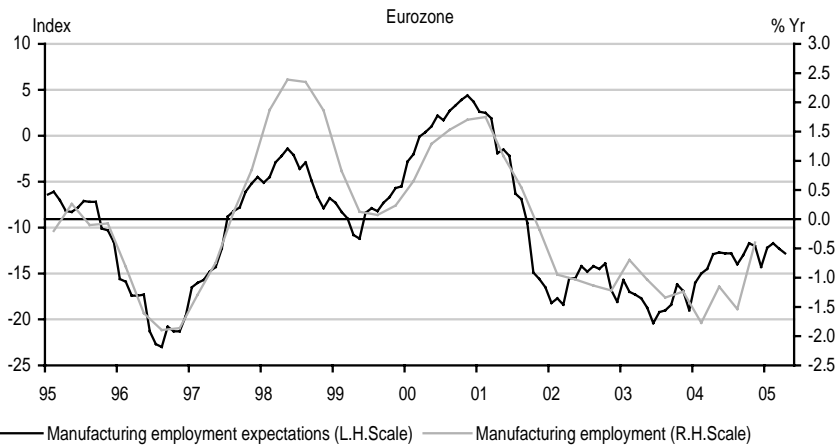
# 5. Labour market

## 13. Employment growth gradually strengthening...



Note: Latest data point: Mar/Q4  
 Source: Thomson Financial Datastream, HSBC

## 14. ...although manufacturing job expectations have flattened...



Note: Latest data point: Apr/04Q4  
 Source: Thomson Financial Datastream, HSBC



## 5. Labour market

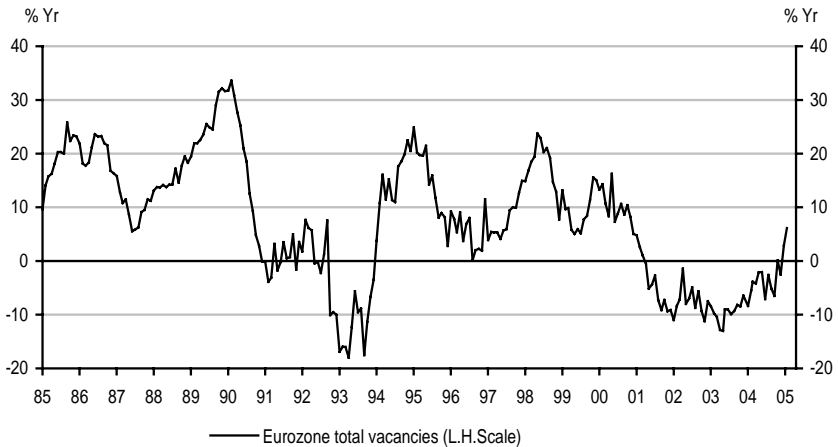
### 15. ...while the same is also true of services



Note: Latest data point: Apr/04Q4

Source: Thomson Financial Datastream, HSBC

### 16. Vacancies are growing again, however

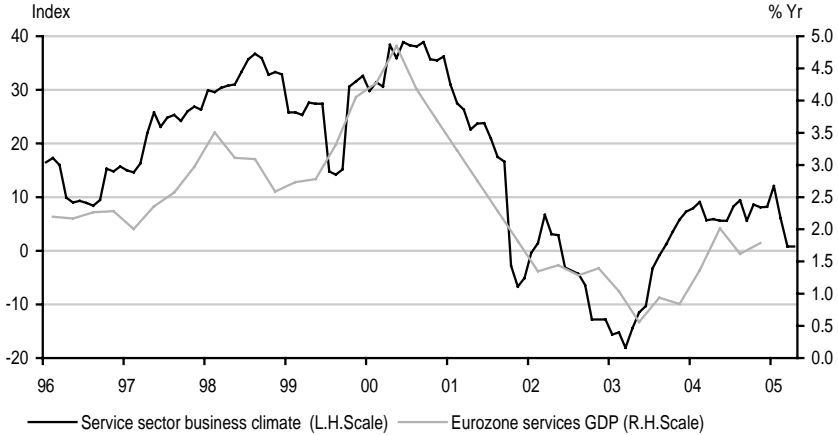


Note: Latest data point: March

Source: Thomson Financial Datastream, HSBC

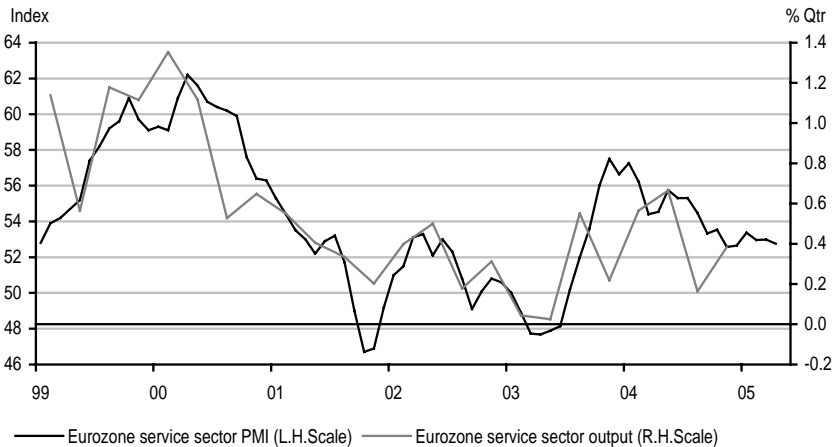
# 6. Service sector

## 17. Worrying fall in service sector business confidence



Note: Latest data point: Apr/04Q4  
 Source: Reuters, Thomson Financial Datastream, HSBC

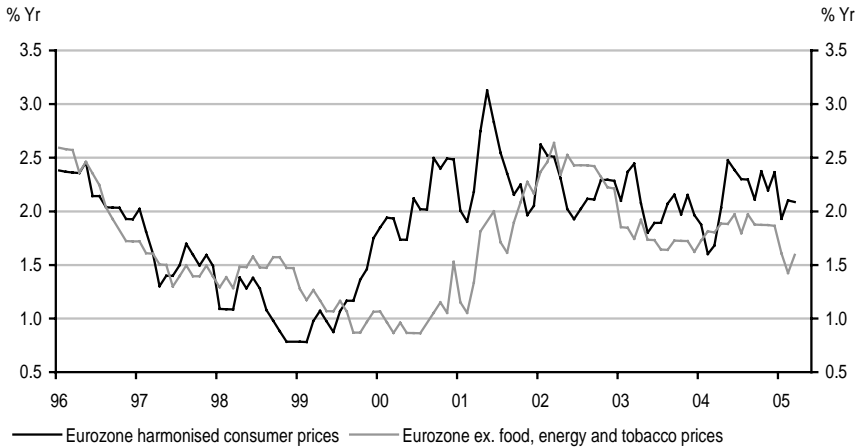
## 18. Services PMI consistent with 0.4% q-o-q growth in the sector



Note: Latest data point: Apr/04Q4  
 Source: Thomson Financial Datastream, HSBC

# 7. Prices & Wages

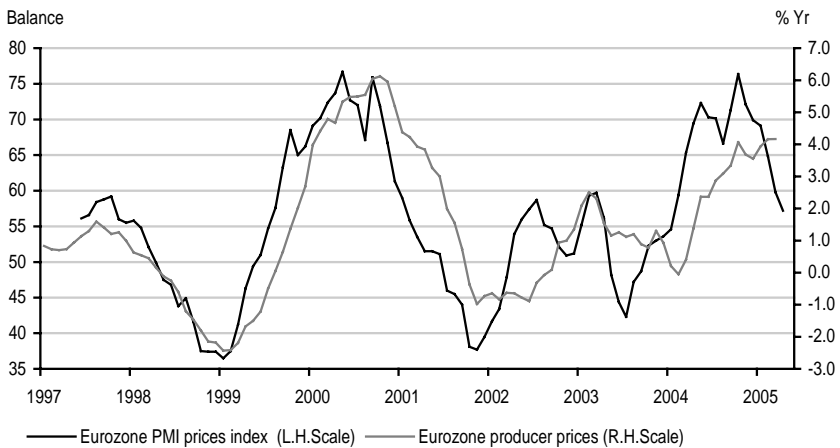
## 19. Headline inflation will converge towards core rate over coming months



Note: Latest data point: Apr/mar

Source: Reuters, Thomson Financial Datastream, HSBC

## 20. Manufacturing price expectations falling back sharply



Note: Latest data point: Apr/Mar

Source: Thomson Financial Datastream, HSBC

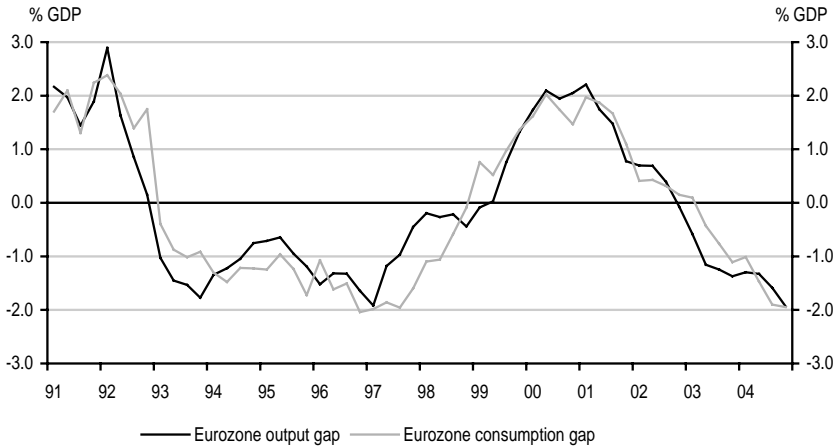
## 7. Prices & Wages

### 21. Wage growth fairly stable around 2%



Note: Latest data point: 05Q1. Real wages deflated by headline CPI inflation  
 Source: Reuters, Thomson Financial Datastream, HSBC

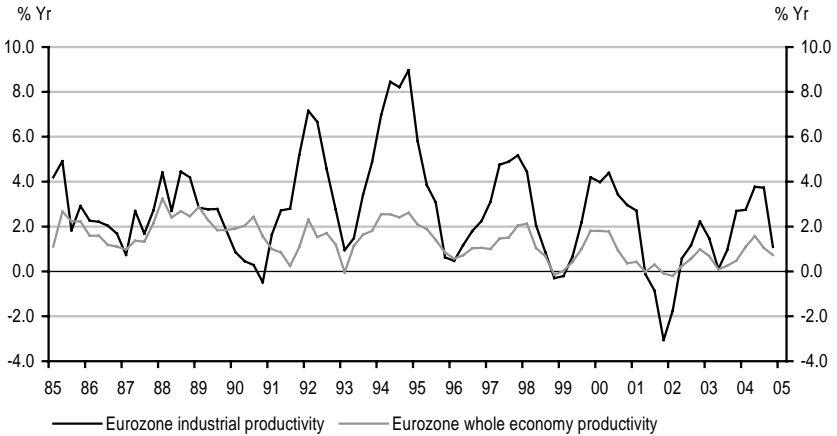
### 22. Plenty of spare capacity in the economy



Note: Latest data point: 04Q4  
 Source: Thomson Financial Datastream, HSBC

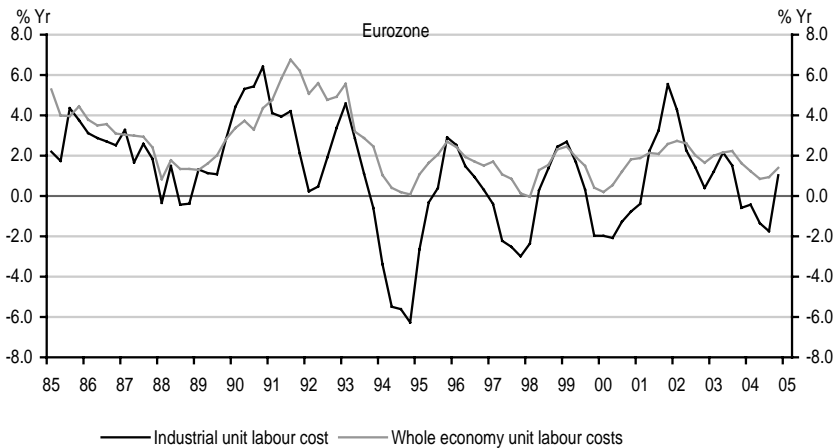
## 7. Prices & Wages

### 23. Productivity growth slowed sharply in Q4...



Note: Latest data point: 04Q4  
 Source: Thomson Financial Datastream, HSBC

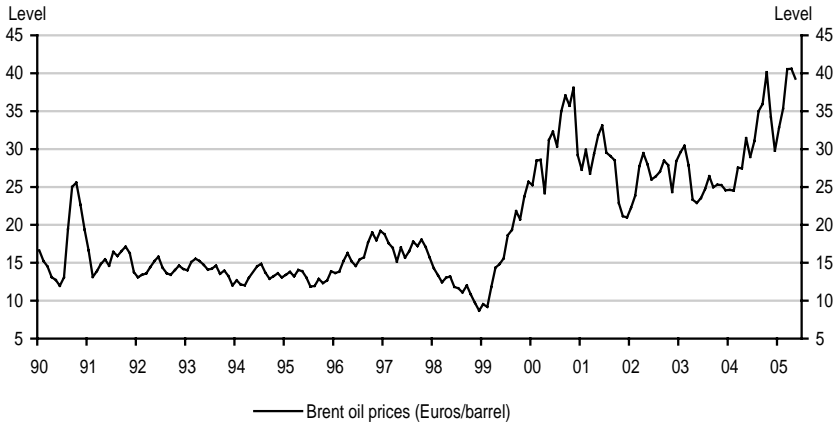
### 24. ...pushing unit labour costs higher



Note: Latest data point: 04Q4  
 Source: Thomson Financial Datastream, HSBC

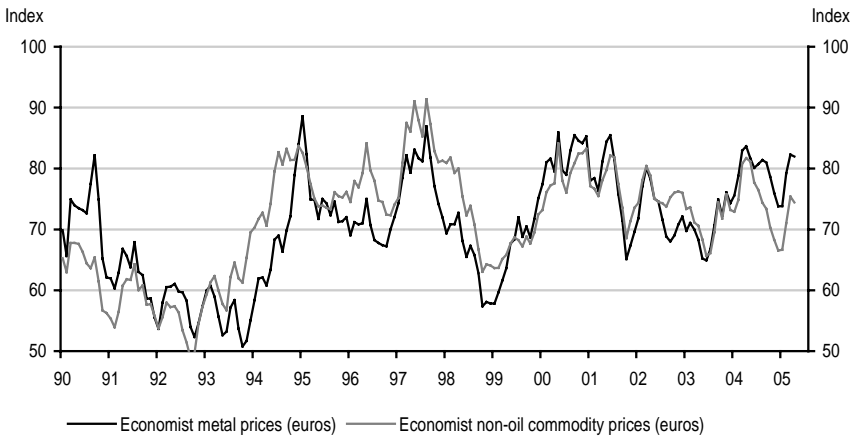
## 7. Prices & Wages

### 25. Oil price still very high in euro terms...



Note: Latest data point: May

### 26. ...as are non-oil commodity prices

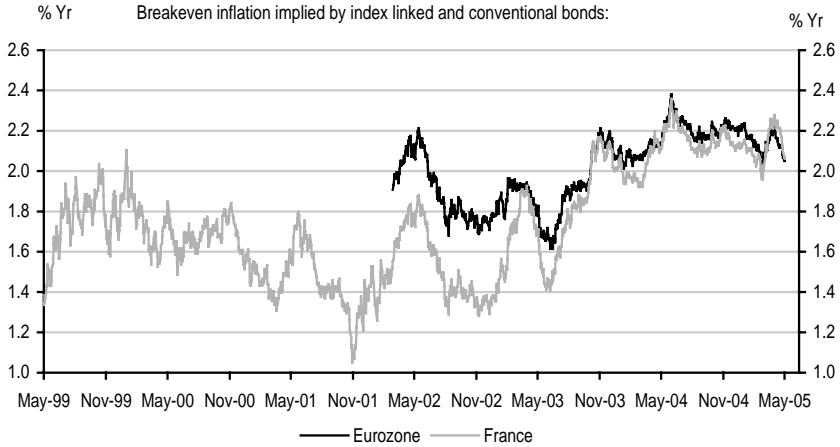


Note: Latest data point: April

Source: Thomson Financial Datastream, HSBC

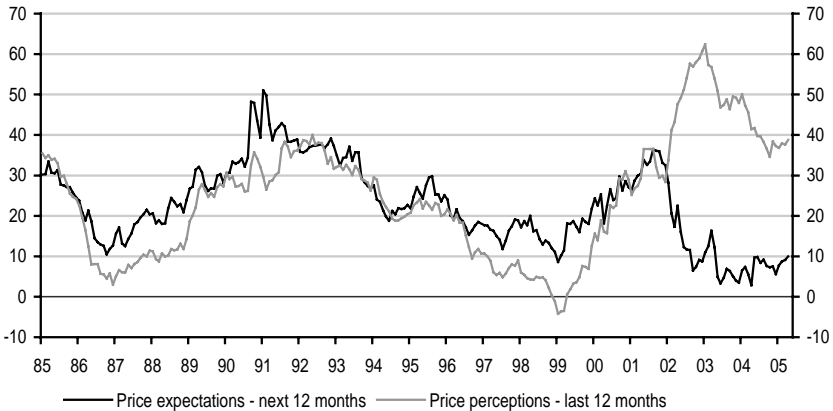
## 7. Prices & Wages

### 27. Bond market inflation expectations just over 2%



Note: Latest data point: May  
Source: Bloomberg

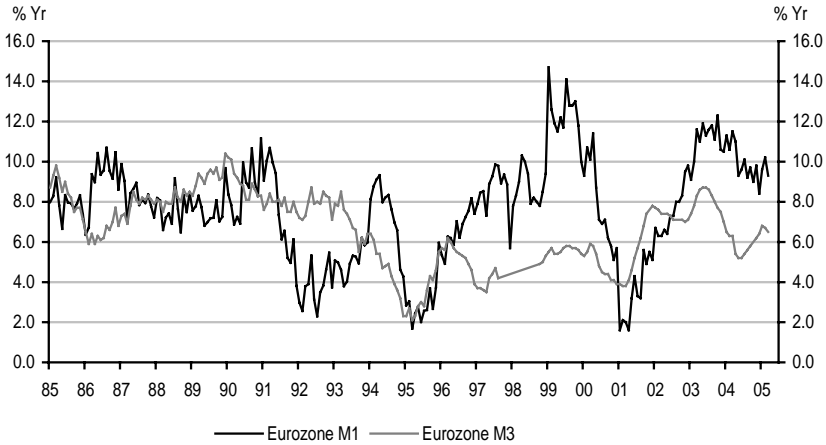
### 28. Household price expectations still very subdued



Note: Latest data point: April  
Source: Thomson Financial Datastream, HSBC

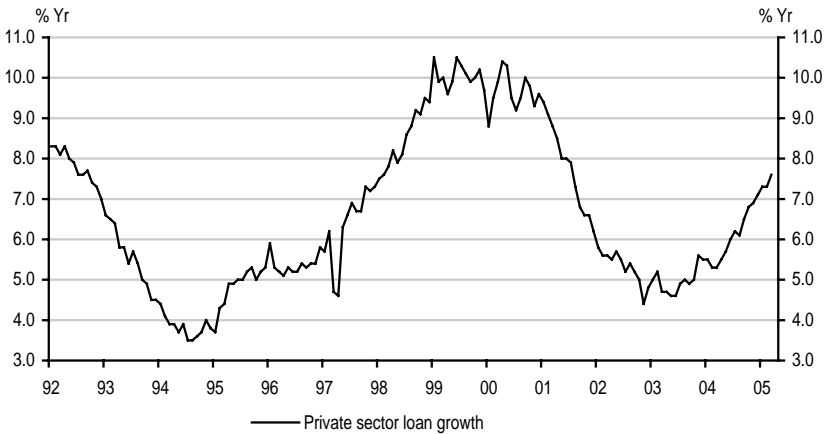
# 8. Monetary indicators

## 29. M3 growth could be peaking out...



Note: Latest data point : March  
Source: Thomson Financial Datastream, HSBC

## 30. ...although the same does not look to be true of loan growth

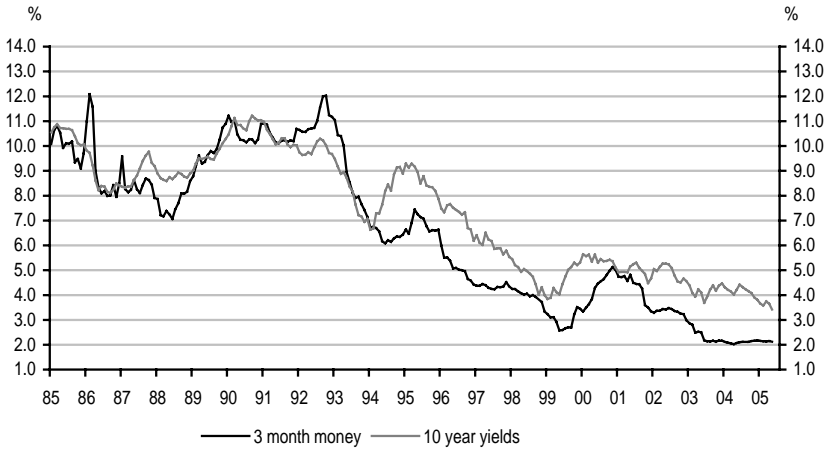


Note: Latest data point: March  
Source: Thomson Financial Datastream, HSBC



## 8. Monetary indicators

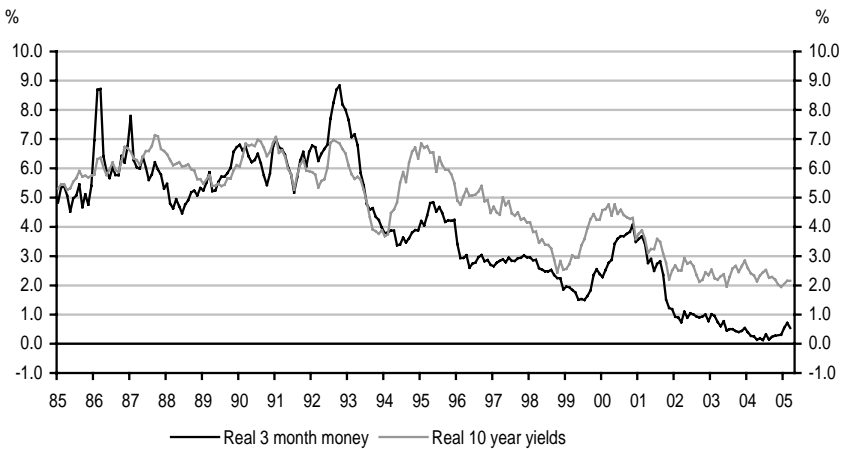
### 31. 10 year bond yield at all-time low



Latest data point: May

Source: Thomson Financial Datastream, HSBC

### 32. But lower core inflation has pushed real short rates higher

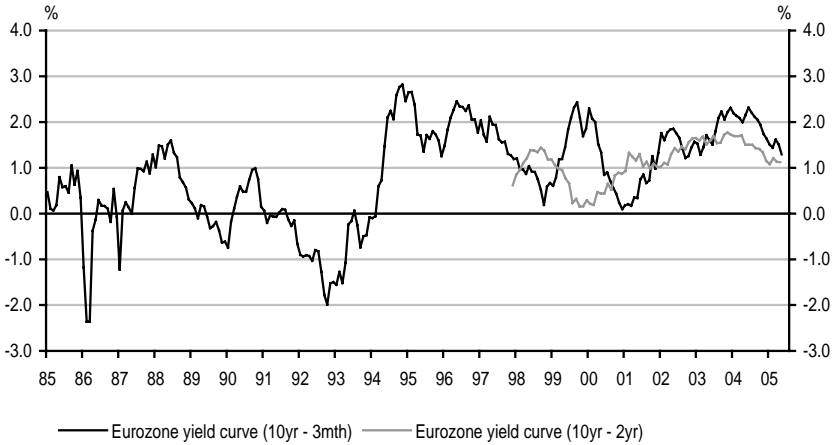


Note: Latest data point: March. Deflated by core CPI inflation

Source: Thomson Financial Datastream, HSBC

## 8. Monetary indicators

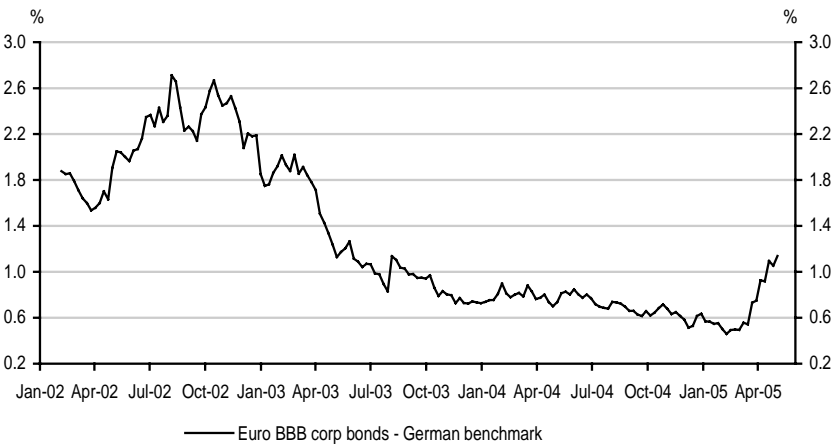
### 33. Yield curves continuing to flatten



Latest data point: May

Source: Thomson Financial Datastream, HSBC

### 34. Corporate bond spreads have widened by around 70bp

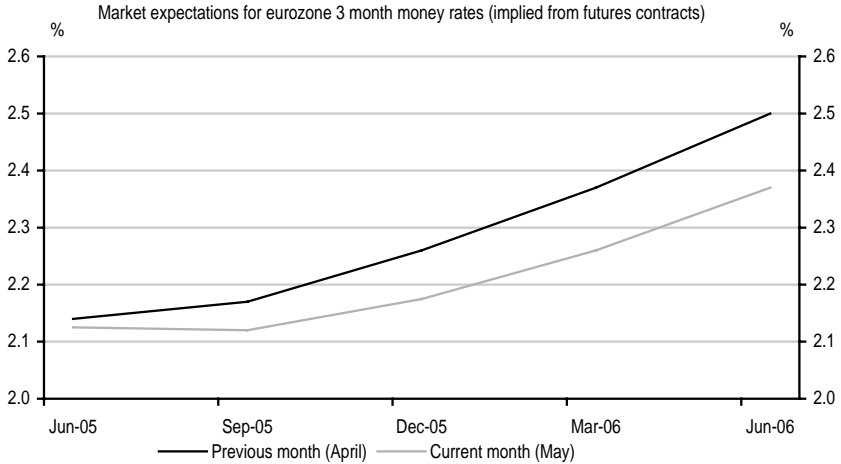


Latest data point: May

Source: Thomson Financial Datastream, HSBC

## 8. Monetary indicators

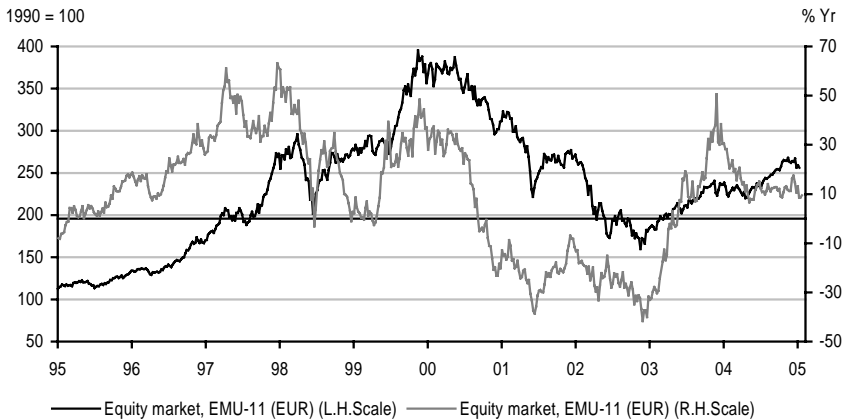
### 35. Futures market rate expectations down once again over the last month



Latest data point: May

Source: HSBC, Thomson Financial Datastream

### 36. Eurozone equities still up roughly 10% year-on-year

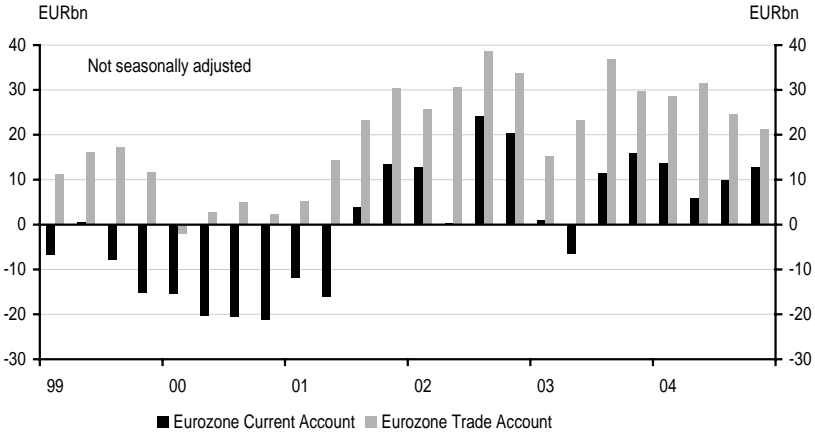


Latest data point: May

Source: HSBC, Thomson Financial Datastream

# 9. Trade & Exchange rates

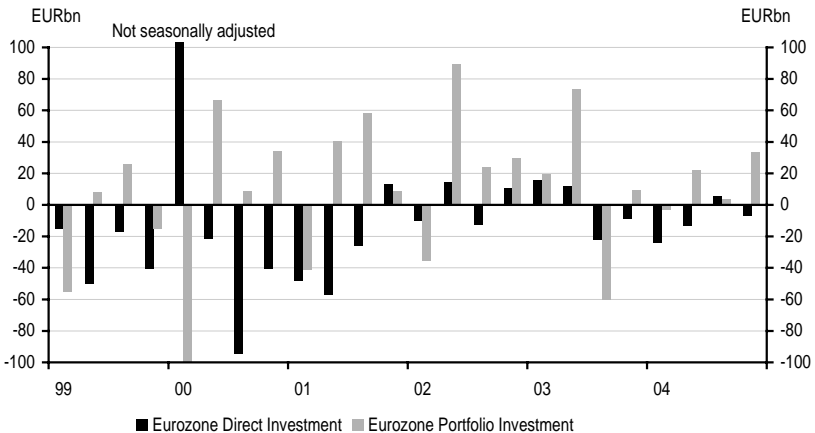
## 37. Strong external surplus reflects relatively weak domestic demand



Latest data point: 04Q4

Source: Thomson financial Datastream, HSBC

## 38. Net portfolio investment inflow in Q4

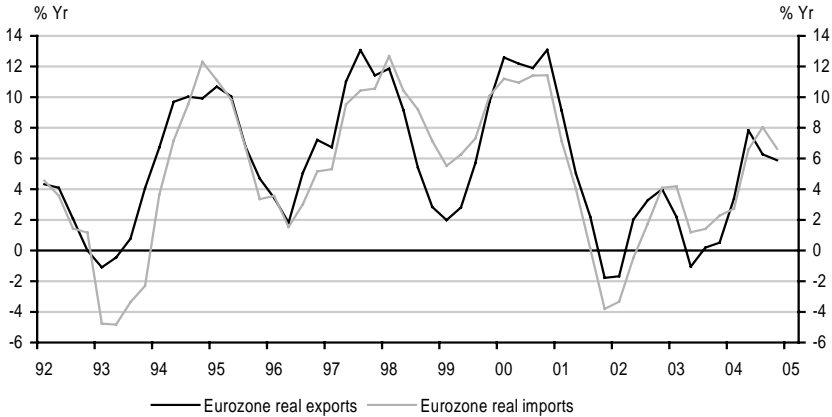


Latest data point: 04Q4. \*00Q1 largely reflects Vodafone's purchase of Mannesman

Source: Thomson Financial Datastream, HSBC

## 9. Trade & Exchange rates

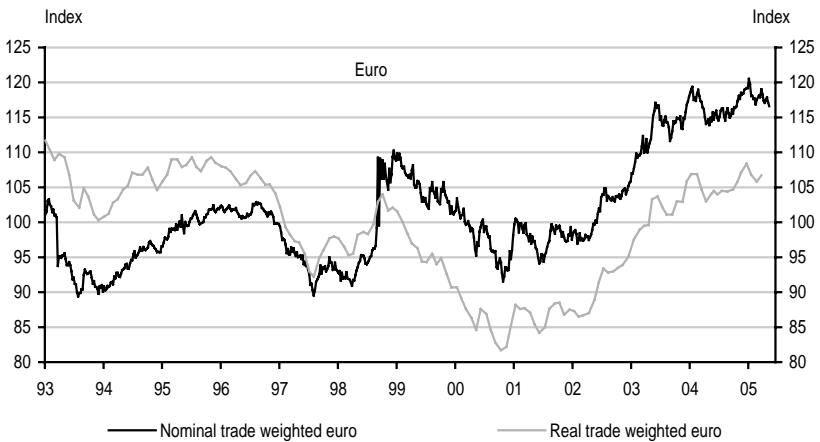
### 39. Year-on-year export & import growth have peaked



Latest data point: 04Q4

Source: Thomson Financial Datastream, HSBC

### 40. Nominal trade weighted euro down slightly but still very high

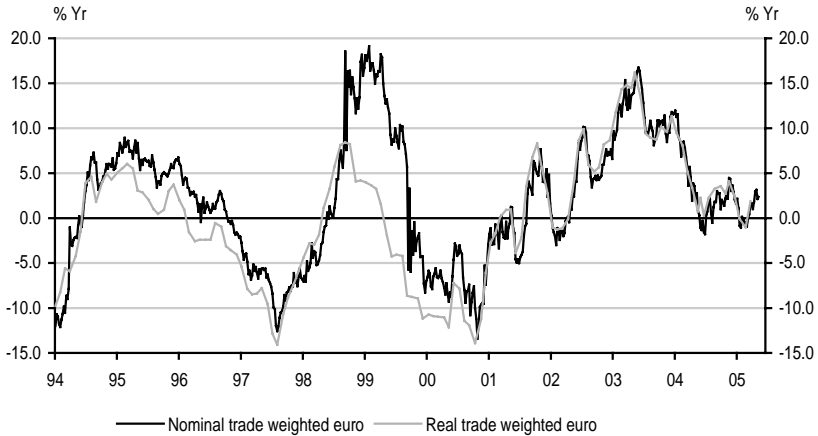


Latest data point: May/Mar

Source: Thomson Financial Datastream, HSBC

## 9. Trade & Exchange rates

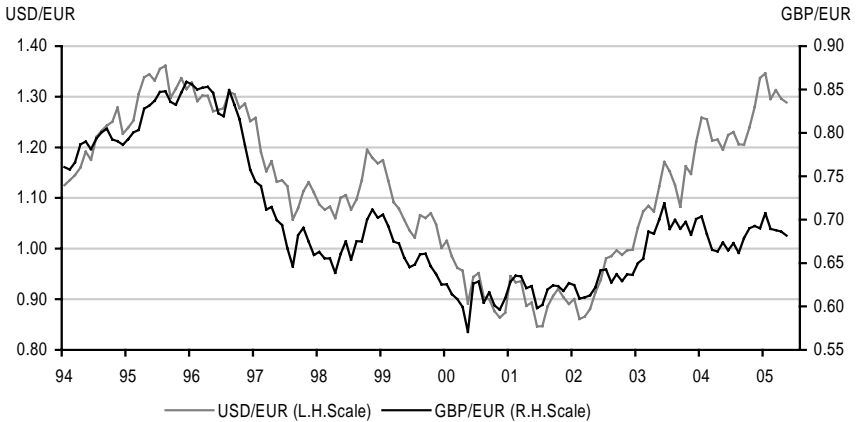
### 41. Nominal & real trade weighted euro up 3% year-on-year



Latest data point: May/Mar

Source: Thomson Financial Datastream, HSBC

### 42. Euro's upward trend struggling to get back above \$1.30

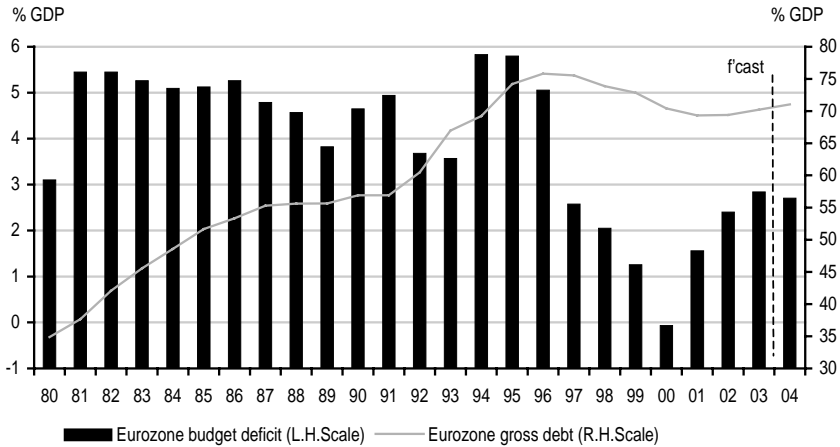


Latest data point: May

Source: Thomson Financial Datastream, HSBC

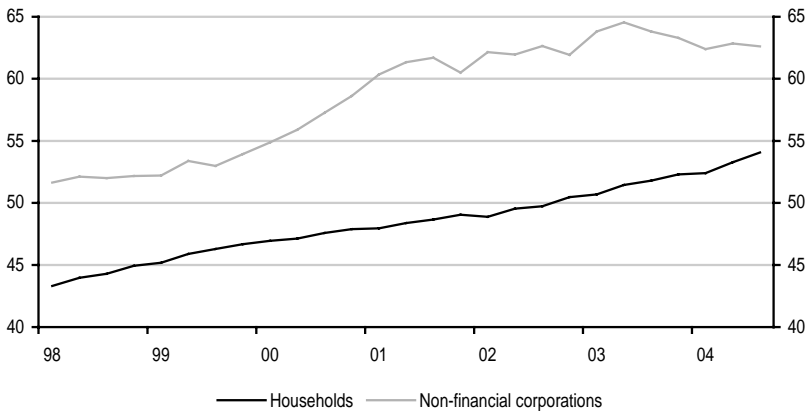
# 10. Deficit and debt indicators

## 43. Public sector debt edging higher again



Source: HSBC, Thomson Financial Datastream

## 44. Corporate debt down only slightly from its 2003 peak



Latest data point: 04Q3

Source: HSBC, Thomson Financial Datastream

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This report must be read with the disclaimer, disclosures and analyst certifications on p20 that form part of it.

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