

Europe macro tracker

New PMs, nascent dovish developments

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Economics - Europe

Survey indicators point to a looming recession in the eurozone and the UK as tighter monetary conditions feed through to the economy in spite of cost pressures for firms starting to abate and gas prices having fallen a long way. For now, though, we do not expect a dovish pivot by the ECB, but a pause is possible as recession starts to bite.

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A recession is coming (if it isn't there already)

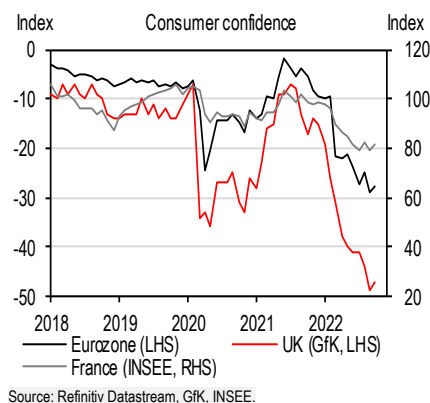
1. The eurozone PMIs fell deeper into contractionary territory in October...



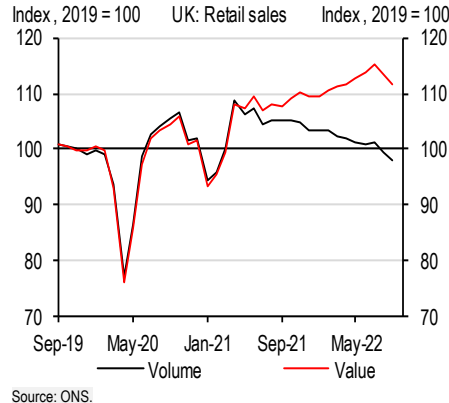
2. ...even though the labour market continues to show some resilience



3. Consumer confidence edged up in October but remains very low, particularly in the UK



4. The real income squeeze is particularly evident when looking at retail sales in the UK



This is a Free to View version of a report with the same title published on 26-Oct-22. The full version of the note is available for clients of HSBC and contains further discussion of the Macro scenario currently affecting Europe. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Disclosures & Disclaimer

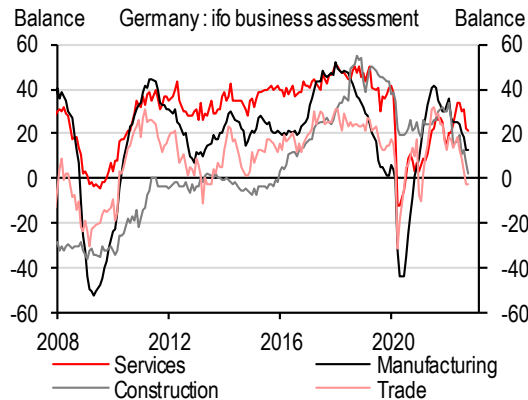
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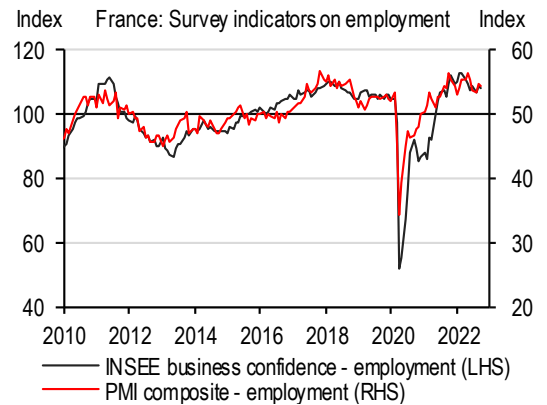
Manufacturing sector likely hit hardest

5. Business expectations have been falling back across the board



Source: Macrobond, HSBC.

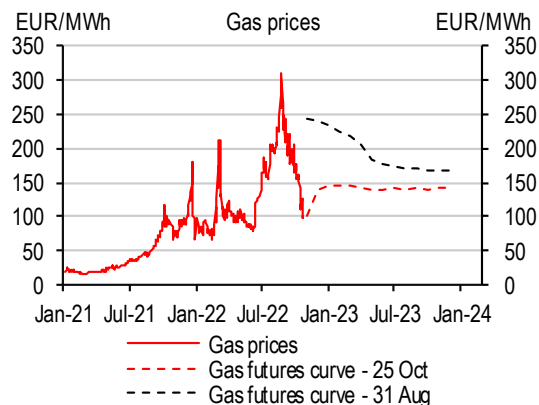
6. Employment expectations remain fairly solid though



Source: INSEE, S&P Global PMIs.

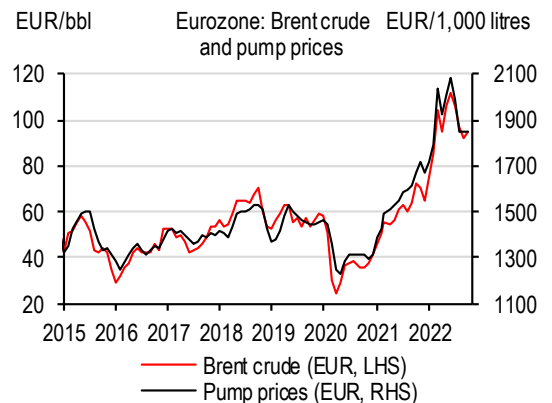
Some inflationary pressures might be starting to abate

7. Wholesale gas prices has fallen a long way since August, but futures have moved less



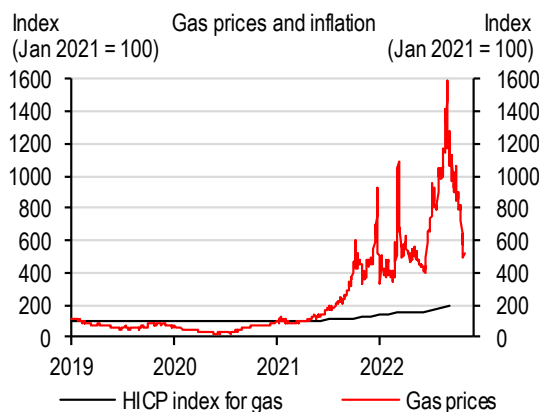
Source: Bloomberg.

8. The oil price has also fallen significantly and pump prices have adjusted fairly quickly



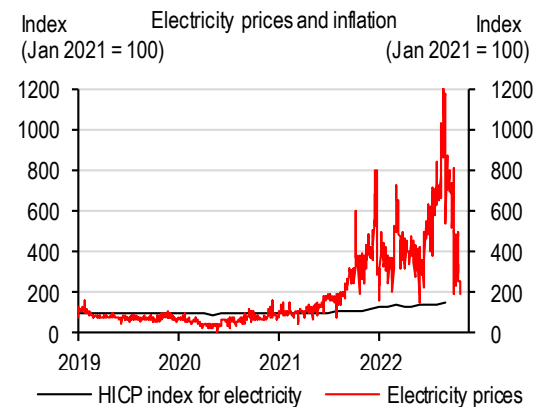
Source: European Commission, Refinitiv Datastream, HSBC.

9. Retail gas prices have risen a long way but there might still be some catching up to do...



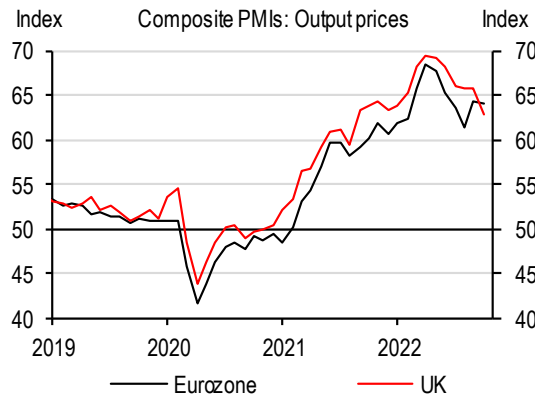
Source: Eurostat, Refinitiv Datastream, HSBC.

10. ...and the same for electricity prices, even though a decoupling from gas prices could help



Source: Eurostat, Refinitiv Datastream, Bloomberg, HSBC.

11. The PMIs are showing some of the cost pressures for firms starting to abate a little



Source: S&P Global PMIs, Refinitiv Datastream.

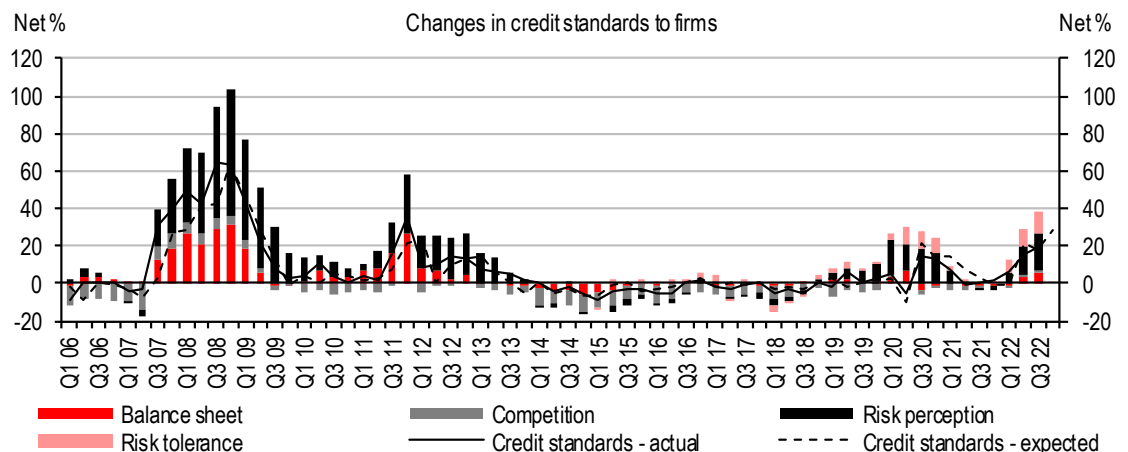
12. But with inflation staying high, the risk of second round effects on wages remain elevated



Source: INSEE business survey.

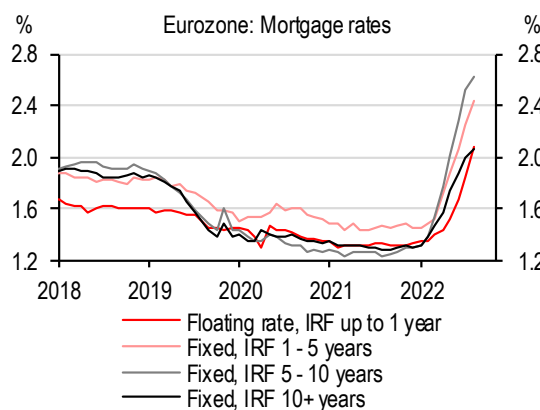
The tightening in the real economy has started

13. The latest ECB Bank Lending Survey showed a further tightening in corporate credit conditions, driven by rising risk perceptions by banks and also higher bank funding costs



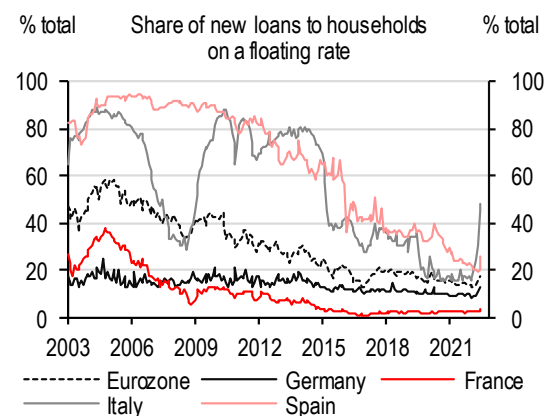
Source: ECB Bank Lending Survey.

14. Mortgages are getting more expensive across all tenders...



Source: ECB, HSBC.

15. ...but at least most eurozone households had switched to a fixed-rate in recent years



Source: ECB, HSBC.

Disclosure appendix

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