# GLOBAL ECONOMY-Fed minutes, euro zone surveys to point the way

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## * Euro zone PMIs to show modest strength

* Fed minutes to reveal clues to tapering timetable

* China PMI may flash further stabilisation signal

By Alan Wheatley, Global Economics Correspondent

LONDON, Aug 18 (Reuters) - A blend of past and present holds the key this week to gauging global economic prospects.

Month-old minutes from the Federal Reserve could offer hints on when the U.S. central bank will scale back its extraordinary stimulus and up-to-date sentiment indicators will help track momentum in the reviving euro zone.

The single currency area ended an 18-month recession last quarter, growing 0.3 percent, and August business surveys are likely to show the modest recovery is slowly broadening out.

As well as a further rise in the euro zone composite purchasing managers' index (PMI), economists expect readings for the area-wide service sector and for French manufacturing to have punched through the no-change mark of 50 to show growth.

"The PMIs will confirm that pick-up we saw in the second quarter," said Daniel McCormack, a strategist at Macquarie in London. "All the evidence so far suggests that the trend has continued into the third quarter."

By the same token, the evidence is not pointing to a V-shaped recovery. For a start, April-June growth was flattered by a seasonal surge in auto production and a weather-related boost to German construction. Italy and Spain remained in recession.

"With fiscal austerity likely to remain a drag on growth and the financial sector still in a state of disrepair, growth looks likely to remain below average in the foreseeable future," said Jonathan Loynes with Capital Economics, a London consultancy.

And that annual average growth rate since the birth of the single currency in 1999 is just 1.3 percent.

DECODING THE FED

The U.S. economy is also performing poorly compared with past recoveries, but the Fed has been preparing markets since May for a reduction in the volume of bonds it has been buying to keep interest rates low and stimulate demand.

The only question is when the Fed will begin 'tapering' its asset purchases, now $85 billion a month. Investors will therefore be poring over the minutes of the central bank's July 30/31 deliberations for clues on whether the first move could come as early as September.

A lot will depend on the intervening data flow.

Jason Ware, chief analyst at Albion Financial Group in Salt Lake City, said the economy was stuck in an "uneven, muddle-through, sub-par recovery," but pointed to some encouraging underlying trends.

Retail sales have been resilient despite tax increases; the rolling six-month average of job growth has risen significantly; and the housing market is holding up despite a recent rise in mortgage rates as bond markets price in reduced Fed stimulus.

Housing dominates this week's U.S. data releases. Economists expect a rise in existing home sales for July but a pullback in new home sales after a jump in June.

"We're seeing continued strength in housing, which I think is key. Some data points have shown a slowing in activity, but I don't think we're going to pivot back the other way," Ware said.

Alongside improving confidence in Europe, signs of stabilisation in China have helped brighten the global economic picture this month.

August's PMI manufacturing survey for China conducted for HSBC is likely to confirm that though the index stayed below the 50 mark, the world's second-largest economy is picking up from an early-year trough.

Ken Courtis, a private-equity investor and fund manager active in China, said worries about the risks facing the economy, especially of a crash in the real estate sector, were overblown.

Courtis, a former vice-chairman of Goldman Sachs in Asia, said he remained broadly confident about China - certainly when compared with countries on the euro zone periphery or the likes of India and Russia.

"If I had to draw up a ranking of these countries, China would be more near the top of the list," he said.



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