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## Eurozone sentiment ticks up in May, remains downbeat overall on Middle East war

Economic sentiment remains below the lowest reading of the 2022-23 energy shock. Concerns about growth are persisting, but the tick down in selling price expectations brings hope of a modest price through of input costs to core inflation



Economic sentiment remains below the lowest reading of the 2022-23 energy shock, though an improvement in services provides some glimmer of a silver lining

Markets are once again hopeful that US-Iran negotiations will stick, but the impact on the real economy remains uncertain as the Strait of Hormuz remains largely closed. While the PMI was all-round downbeat this month, the European Commission's economic sentiment indicator ticked up a bit from its April reading of 93.2 to 93.5.

Still, after a plunge in April, this remains a worrisome reading. For context, the lowest reading during the previous energy shock was 93.7. Small improvements in services and consumer sentiment were weighed down by declines in industrial, retail and construction sentiment.

In industry, recently observed production was weaker than last month, and expectations for future production also dropped. In services, the large April decline saw some moderation. The assessment of the current business environment picked up somewhat, and expectations for employment and demand for the months ahead are slightly better.

Interestingly, selling price expectations came down a bit for both goods and services. After soaring in March and April, some moderation in May indicates that the spreading of higher input costs into core inflation will slow a bit. This indicator has a decent lead over goods and services inflation, so while there is still an increase of core prices in the making, the May downtick at least indicates that the acceleration will take a breather soon.

Overall, the outlook for the economy is clearly weighed down by the Middle East war. April and May both showed a slow economic environment with downside risks to growth. The fact that services sentiment is slightly less gloomy is a silver lining, as is the small drop in selling price expectations. Nevertheless, it remains clear that a resolution of the Middle East conflict cannot come soon enough for the fragile eurozone economy.

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