

Decent eurozone sentiment masks a sputtering growth engine

The manufacturing sector is weathering the trade war storm quite well so far, but weaker services are a bigger concern for growth in the eurozone at the moment



The eurozone's service sector is seeing weaker demand and a slowdown in expected employment, signalling a broader trend that could be getting lost in the trade headlines

While the eurozone PMI deteriorated in May, the European Commission's economic sentiment indicator actually picked up a bit compared to the April reading (up from 93.8 to 94.8). This was mainly due to a slightly more upbeat consumer, but industry sentiment also ticked up again.

At this point, the general response in May seems to be one of slight relief compared to April concerns. But given how fast sentiment changes related to trade war and broader geopolitical concerns, it is still hard to draw definitive conclusions around economic strength in the bloc. Overall, after a strong GDP figure in the first quarter, we expect growth to drop back to stagnation this quarter.

For industry, it is notable that improvements continue despite trade war uncertainty. In May, order books improved, stocks of finished products were reduced, and production increased. The manufacturing sector has seen output decline for a prolonged period, but current developments point towards the start of a slight recovery. The likelihood of that happening depends on whether the trade war escalates.

For services, the picture in recent months has weakened. Since March, confidence has trended at a notably lower level. This is not just related to pessimism, but the service sector also reports weaker demand and a slowdown in expected employment over recent months. That looks like a broader trend getting lost in the trade development headlines.

From a sectoral perspective, things don't look strong for eurozone growth. The reliable service sector growth engine is sputtering, while the smaller manufacturing sector is showing the first signs of recovery just as the trade war brings huge uncertainty. Overall, this does not encourage expectations of a miracle upturn. Expect growth rates around zero for the coming quarters – something the eurozone has gotten painfully used to in recent years.

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