

Eurozone economic sentiment drops in April on trade tensions

The recent tariff and trade tensions have taken a predictable toll on the eurozone economy, driving economic sentiment to its lowest point since December



The tariff blast since Donald Trump's 'Liberation Day' has completely wiped out the tentative return of optimism in the eurozone. The European Commission's economic sentiment indicator dropped to 93.6 in April, from 95.0 in March, and is down to the lowest level since December last year.

Weaker sentiment across all sectors but not across all countries

Looking at some of the components, the sentiment weakening is broadly spread across all major sectors, but not so equally across countries. Smaller countries like Ireland and Belgium but also the Netherlands saw a relatively significant drop in sentiment, while France and Germany have been holding up relatively well. However, we wouldn't take too much comfort in the fact that the two largest eurozone economies remained relatively stable. Instead, we expect a delayed reaction in the coming months.

At the same time, today's report also shows that some improvement in eurozone industry had

been in the offing, prior to 'Liberation Day'. The assessment of order books continued its very gradual bottoming out, and inventories started to come down. Normally, this would be a combination that would tentatively bode well for future production, if it weren't for the new trade tensions and uncertainty.

Looking ahead, the news flow on trade and tariffs has calmed down in recent days. However, this doesn't take away from the fact that the applied tariffs are still higher than at the start of the year, despite exemptions and the 90-day pause, and the threat of more to come is still hanging over the global economy. The heightened level of uncertainty remains, which is another dampening factor for economic activity in the eurozone.

All in all, today's economic sentiment indicator is another illustration of how the last four weeks of tariff tensions and uncertainty have entirely wiped out the tentative return of optimism in the eurozone. Unless there are major changes in US trade policy, sentiment as well as economic activity in the eurozone will remain subdued over the coming months.

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