Eurozone economic sentiment falls marginally in May

The drop in the Economic Sentiment Indicator from 112.7 to 112.5 shows that even before the Italian turmoil, sentiment wasn't really recovering

Source: Shutterstock

Much like fidget spinners, euphoria about Eurozone growth and politics is definitely was the in thing in 2017. Just a few months ago, the sky was the absolute limit for Eurozone sentiment, but now even stabilisation seems like a good result, as analysts expected worse.

Given that the survey does not account for the Italian turmoil, it's safe to say that moderating growth continues to be the message of 2018. While a few one-offs impacted the disappointing 1Q growth rate of 0.4%, it seems that there is more permanence to the slower growth than initially expected even though Eurozone fundamentals remain strong with labour market strength and a favourable investment environment.

The months ahead are likely to see uncertainty continue as the Italian political crisis could drag on during the summer. As developments towards a new government continue, uncertainty about the Italian stance towards the EU and the euro will prevail. Even though it is very unclear what the next steps will be, markets have clearly woken up from the euro-risk lull that started after the Macron

presidential election victory in France last year.

This continued uncertainty will weigh on Eurozone growth in the months ahead, and a bounce back to growth rates seen in 2017 seems very difficult. We still expect growth to be above trend and stronger than 2%, but growth rates of 0.7% seen in 2017 seem to be off the table.

Author

Bert Colijn
Senior Economist, Eurozone
bert.colijn@ing.com

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