

Snap | 28 May 2020

Eurozone economic sentiment provides mixed signals about recovery

The economic sentiment indicator increased less than expected in May, from 64.9 to 67.5. A further deterioration in services sentiment despite easing lockdowns buries hopes of a swift recovery



Source: Shutterstock

Just a small tick up in sentiment after the historical drop in April was not what was expected for May. Economies are starting to reopen and most eurozone countries saw the bottom in terms of daily activity at the end of April. With factories also reopening, a larger improvement in sentiment was to be expected. While industry saw sentiment bounce back from -32.5 to -27.5, services sentiment deteriorated further from -38.6 to -43.6.

By country, France saw a further deterioration in May as the lockdown continued through the survey period, while countries like the Netherlands and Germany saw above average improvements. Austria, which was the first to ease measures and announce an exit path out of lockdown, saw a marked improvement in economic sentiment from 61.9 to 68.8. This suggests that domestic lockdowns continue to dominate the economic situation for the moment.

The decline in services sentiment was mainly due to a fall in recent demand and the business situation, but we did see improvements in expected demand for the months ahead. This suggests

that the gradual easing of measures may have a slight delayed effect on output recovery. For industry, a similar pattern emerges, but the decline in recent production was much smaller than in April and expectations for production in the months ahead have been lifted even though order books are still falling.

A continued reason for concern about the recovery is the expectation for employment in the months ahead. While service sector businesses are becoming more optimistic about demand, they are becoming more pessimistic about employment expectations in the months ahead. In industry, employment expectations were only slightly above April readings. This indicates that the increase in unemployment is likely to continue for the months ahead, dampening hopes of a swift recovery.

For the European Central Bank, today's data indicates that continued monetary support is important. The economy is not going through a V-shaped recovery and higher unemployment will only drag out the recovery phase. At the same time, businesses are indicating very weak price pressures at the moment, making deflation in the short-run and more deflationary pressures in the medium-term a likely scenario.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.