

Eurozone economic sentiment still in a rut

The Eurozone economic sentiment indicator declined from 112.1 to 111.6 as global and local concerns dampen expectations about the second half of the year. A cruising speed of 0.4% GDP growth now looks like the best case scenario



Source: Shutterstock

The Eurozone economy has adopted a modest pace of growth this year and signs of acceleration towards the end of the year are few and far between. A cruising speed of 0.4% GDP growth looks like the best case scenario as global economic and political concerns cause Europeans to be less optimistic by the month.

The decline in business sentiment was broad-based with both industry and services experiencing declining sentiment in August. Even though a truce was reached in the trade dispute between the EU and US, concerns are far from over. Worries about emerging markets and doubts about the shelf-life of the deal between Juncker and President Trump, but also caution surrounding the Italian budget discussions have added to lower confidence. Service sector businesses are especially worried about future demand, while in manufacturing the new orders indicator reached their lowest level in 12 months.

Consumers saw confidence decline sharply in August from -0.5 to -1.9, mainly due to growing concerns about unemployment. However, despite the decline in hiring expectations in manufacturing, service sector employment growth is expected to remain strong. Employment is therefore likely to support growth in the months ahead, but the impact on household consumption will be limited with lower confidence among consumers.

As economic confidence has been subsiding over the course of the year, so have expectations about GDP growth above 2%.

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