

Eurozone economy: unsure about current strength but weakness ahead confirmed

Economic sentiment is a bit at odds with the PMI, providing a clouded view of economic activity in June. Bank lending also remains decent for now. The outlook continues to be one of rapidly slowing activity though



Service sector businesses are becoming less positive about business in the months ahead

Economic sentiment at odds with PMI

The Economic Sentiment Indicator for the eurozone fell from 105 to 104 in June, which was less than expected. In fact, it is mainly the consumer becoming more gloomy that drove the overall index down. Manufacturing and services actually saw sentiment improve in June, which is at odds with the earlier-released PMI that showed a marked decline for both broad sectors.

Manufacturers actually became more optimistic about current production in June and also about production in the months ahead. Even orders improved. Services showed strong recent demand, but service sector businesses are becoming less positive about business in the months ahead. The latter seems to bring confirmation that a further slowdown is in the making. But once again, the overall picture is much more positive than what the PMI painted last week and provides a clouded view of how the eurozone economy performed in June.

Selling price expectations fall for the second month in a row

Selling price expectations are also important, and this declined for the second month in a row for both industry and services, although they remain at elevated levels. This suggests that businesses are finding it increasingly tough to price higher input costs through to the consumer.

Bank lending holds up while money growth continues retreat

Bank lending in the eurozone remains modestly above trend at this point. Non-financial corporates saw loans increase by 0.5% month-on-month in May, which is similar to April. Household borrowing increased from 0.4 to 0.5% this month. Annual data presented by the ECB show fast increases, but these data are influenced by strong base effects and therefore the suggestion that lending is picking up drastically can be ignored. Still, with financial conditions tightening and the economic outlook worsening rapidly, it is notable that loan growth has held up so well.

Broad and narrow money indicators continue to show steady declines in growth as ECB support is being taken away. Annual growth in M1 has decreased from 8.2% in April to 7.8% in May. This is generally considered to be a strong leading indicator for growth in the eurozone. Although doubts about the mechanics of this in times of asset purchases seem valid, the decline in M1 growth is just one more take that leads to a significant slowing or contracting eurozone economy.

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