

Eurozone: no summer relief for the economy

The Economic Sentiment Indicator declined from 103.3 to 102.7 in July. As industry indicates an alarming drop in production, concerns about growth in the second half of the year persist



Source: Shutterstock

Worries about the eurozone economy persist in the third quarter, with economic sentiment continuing to decline in July. While consumer confidence improved, businesses shared a view of deteriorating sentiment across sectors.

For the service sector, this is especially worrying, as it's defied the manufacturing downturn quite successfully up to now. Still, the underlying indicators provide some reason for cautious optimism as the decline was mainly due to a deterioration in expectations of future demand. Recent demand and employment actually improved slightly. That leads us to believe that service sector activity is not yet faltering, although the outlook does provide some cause for concern.

The industrial picture is more troubling. Order books continue to deteriorate, causing businesses to be more pessimistic about future production. This also impacts hiring plans as employment expectations continue to deteriorate. Most worrying, however, is the alarming drop in production observed in recent months, which plummeted in Germany, the Czech Republic and Slovakia in July.

This is in line with very weak PMI results published last week and indicates that things may get worse before they get better.

Eurozone GDP data for 2Q will be released tomorrow and a slowdown from 1Q is widely expected. With alarming July survey data, the question is whether 3Q can come in much better.

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