

Eurozone PMI falls in May amid service sector weakness

The composite PMI declined from 50.4 to 49.5 in May, indicating that the eurozone is falling back into stagnation. It's worrisome that the main culprit is the service sector, which has long been the main engine of growth for the eurozone



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The trade war is weighing on the eurozone economy, but likely mostly through the uncertainty channel rather than direct trade effects so far. This is clear in May's PMI, which showed only modest declines in new orders from abroad while manufacturing output actually increased again. The service sector, which has seen solid growth over recent years as manufacturing contracted, continues to slide according to the survey, which could well be related to high uncertainty and adds fuel to further growth concerns.

For manufacturing, new orders have actually stabilised after a long period of declines. Inventories of finished products are not falling as much as has been the case before. This could mean that sales have disappointed, but it could also be an early indication that businesses are now increasing orders again because the inventory cycle is turning. While the trade war clearly presents a

downside to eurozone manufacturing activity, there is some upside risk to manufacturing activity if the inventory cycle is indeed turning.

For the moment, though, it looks like the eurozone economy is falling back into stagnation after a strong first quarter. Still, in fairness, the first quarter was also boosted by some front-loading exports to the US. Sluggishness remains the name of the game for eurozone economic activity, and risks seem to be to the downside for the short term as the trade war could intensify.

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