

## Eurozone sentiment survey for May adds to growth worries

The eurozone likely saw negative growth over the winter. Economic sentiment in May unfortunately does not suggest that a vibrant recovery is underway. Weak growth and a falling inflation outlook both add to expectations that the peak in ECB rates is getting near



A technical recession in the second half of the year appears unlikely, but a decline in the fourth quarter remains a realistic prospect

Data on the eurozone's economic performance have been a mixed bag recently. While original data on the fourth quarter of last year and the first quarter of 2023 came in quite positive, recent German revisions make it very likely that the eurozone was in fact in a mild recession over the winter. Recent survey data had been decent, but we nevertheless do not expect more than a very modest recovery of growth in the second quarter. The May sentiment survey adds to this view as it surprisingly dropped from 99 to 96.5, the weakest reading since November.

Weakness was seen across businesses as services and industry recorded declines in sentiment. The largest drop was seen in retail trade, which does not bode well for household consumption. Interestingly, the consumer did not see a decline in confidence in May, although confidence is still at historically weak readings.

For industry, order books continue to dampen and production expectations are adjusting accordingly. For services, demand has recently been weakening and this has resulted in less hiring. Overall, services continue to perform rather well historically, but May was generally quite weak.

Price expectations are adjusting as well, though much faster in manufacturing than in services. It is quite established at this point that the main concern around inflation should still be in services, as goods inflation looks set to weaken materially in the months ahead. For the ECB, this adds to the picture that the inflation outlook is becoming more benign.

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