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Expected re-acceleration in Eurozone growth isn't happening

Flash Eurozone composite PMI shows a further decline in May, still signalling continuing growth, but no acceleration for the time being

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The flash Eurozone PMI Composite Output Index declined to 54.1 in May from 55.1 in April, undershooting consensus expectations. Both the Services PMI Activity Index (53.9) and the Manufacturing PMI Output Index (54.5) are now at their lowest level in more than a year.

Input cost inflation accelerated to a three-month high on the back of higher fuel and energy prices, while in some countries wage pressures are starting to show. But this is squeezing margins rather than increasing inflation as average selling prices for goods and services rose at the slowest rate since September 2017. Companies have mentioned difficulties in hiking prices because of weak final demand.

> *Contemplating the Eurozone's growth perspectives we, unfortunately, might have to refer to the famous Looney Tunes catchphrase "That's all folks!"*

It has been repeated ad nauseam that first-quarter growth in the Eurozone has been slowed by temporary factors like bad weather, the timing of the Easter holidays, a flu epidemic and strikes. But until now we've hardly seen an uptick in the sentiment indicators in the second quarter, suggesting that there is not much of an acceleration to be expected. Admittedly, May might have also been distorted by the number of holidays, but even then, the decline in sentiment remains significant.

To be sure, the current level of the PMI is still compatible with quarter-on-quarter GDP growth of about 0.4%. However, some challenges remain. The high oil prices sapping consumer purchasing power, the still not revolved trade issues with the US and the potential financial market tensions the new Italian government might provoke could all weigh on growth in the coming quarters.

> We still expect GDP growth to come in at 2.2% this year, but one senses that the growth momentum is more likely to slow rather than accelerate again. In 2019, expect growth to fall back to 1.8% at best. Contemplating the Eurozone's growth perspectives we, unfortunately, might have to refer to the famous Looney Tunes catchphrase "That's all folks!".

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