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EUROZONE SENTIMENT STRONG DESPITE SMALL SLIP IN MAY

Berenberg Macro Flash

Eurozone economic sentiment, May

	Economic sentiment	Consumer confidence
Actual:	109.2	-3.3
Previous:	109.7	-3.3 (flash)
Consensus:	110.0	-3.3
Berenberg:	110.3	-3.3

Despite a small slip in May, economic sentiment in the Eurozone remains close to a decade-high: The European Commission's indicator of confidence unexpectedly fell to 109.2 in May, from 109.7 in the previous month and below the Bloomberg consensus of 110.0. The average for the second quarter of 2017 based on April and May's values stands at 109.5, the highest level since 111.3 in Q3 2007. Other gauges of Eurozone confidence for May also reached multi-year highs – i.e. the Eurozone PMIs.

A calendar effect may have contributed to the small slippage: Easter shopping season fell fully into April likely pushing up sentiment in both the service and retail sector in April, while weighing on those two sectors in May. Sentiment among service providers dropped from 14.2 to 13.0 and fell from 3.1 to 2.0 among retailers – in both sectors confidence, however, remained above the March levels. Sentiment among manufacturing and construction businesses improved further compared to the previous month from 2.6 to 2.8 and -5.2 to -6.6, respectively, with both reaching multi-year highs (manufacturing: highest since 2011; construction: highest since 2008). Both benefitted from full order books, with manufacturing experiencing particularly strong foreign demand, and expect to raise employment. Consumers were upbeat (-3.3 after -3.6) on the back of improving labour prospects and a stronger economic situation in general.

Countries report mixed signals on a month-to-month comparison: Contrary to the Ifo and ZEW, the European Commission's gauge of confidence in Germany dropped from 111.0 in April to 109.5, largely owing to weaker readings for services and retail. Services are not part of the German Ifo, thereby partly explaining the difference between the two gauges of confidence in May. Sentiment in France rose significantly (+1.5) reflecting the relief about and expectations to deliver on reform proposals towards the new President Emmanuel Macron. The French economy may also provide help as Macron has taken power at a time of recovery. A second reading of GDP published this morning showed that the French economy expanded by more than originally estimated in Q1 (0.4% qoq instead of 0.3%). Sentiment improved slightly in Spain (+0.5), while it decreased in Italy (-0.9).

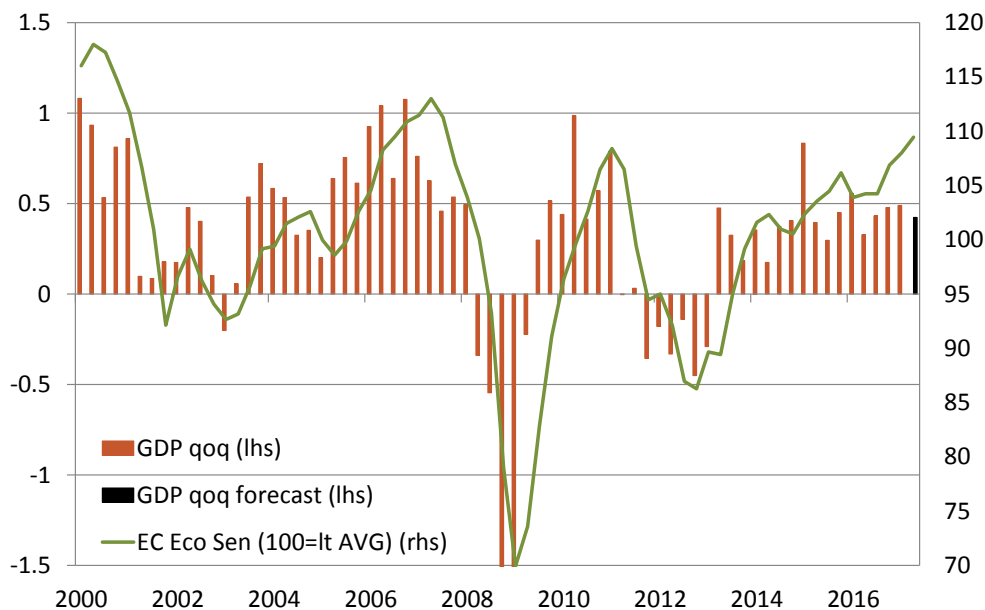
All good in the Eurozone? Pretty much. Business and consumer surveys for the Eurozone have been surging since late last year. However, the current level of confidence probably exaggerates the underlying activity of the real economy. The hard data, while also improving, is yet to fully live up to the soft data. Today's reading may be the first sign that soft and hard data will begin to converge again in the months ahead (see chart). Nevertheless, Eurozone fundamentals look good: demand is growing at home and abroad and chances are that economic reforms in France also trigger institutional adjustments in the Eurozone propelling growth in the currency union as a whole. Also, economic policies continue to support the recovery – fiscal policy will provide a small stimulus this year, and recent comments by Draghi show that the ECB does not seem to be in any hurry to withdraw the considerable monetary accommodation. There remains, how-



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ever, a fly in the ointment: We need to take serious the risk of snap elections in Italy which has increased serious. If the risk materialises and radicals come to power, the country's already lacklustre growth outlook and concerning debt burden would suffer further.

Economic sentiment (quarterly average) vs. GDP qoq growth (in %)



Sources: European Commission, Eurostat.

Eurozone economic sentiment, by sector

	MAY	APR	MAR	FEB	JAN	DEC
Economic sentiment	109.2	109.7	108.0	108.0	108.0	107.8
Industry	2.8	2.6	1.3	1.3	0.8	0.0
Services	13.0	14.2	12.8	13.9	12.9	13.0
Consumer	-3.3	-3.6	-5.1	-6.4	-4.9	-5.2
Retail	2.0	3.1	1.8	1.8	2.3	3.5
Construction	-5.7	-6.0	-9.9	-10.1	-12.9	-12.1

Eurozone economic sentiment, by country

	MAY	APR	MAR	FEB	JAN	DEC
Germany	109.5	111.0	109.2	108.3	109.1	109.4
France	107.7	106.2	105.1	105.9	105.0	105.5
Italy	106.1	107.0	105.6	105.7	105.5	104.2
Spain	108.4	107.9	106.9	108.7	107.4	106.0



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