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MORE SIGNS THAT EUROZONE SENTIMENT IS LEVELLING OFF

Berenberg Macro Flash

Eurozone economic sentiment index (ESI), April

	Economic sentiment
Actual:	112.7
Previous:	112.7
Consensus:	112.0
Berenberg:	112.0

Eurozone sentiment stabilised in April: In line with the recently published Eurozone PMI composite index, the ESI remained unchanged in April at its March level of 112.7. We expected due to a couple of likely temporary factors (cold weather, trade tensions and influenza) a small monthly decline in April to 112.0. The steady ESI may be the first sign (together with the PMI) that sentiment has found a bottom and could recover in the months ahead. It also fits in with our call that GDP growth might rebound in Q2 to 0.6% qoq after an estimated 0.4% qoq in Q1 (and 0.7% in Q4 2017). On a sector basis, confidence dropped in the retail, services and construction sector. However, those drops were offset by rising manufacturing and consumer confidence. On a country basis, **Greece** (+3.8 points), **Spain** (+1.6) and **France** (+1.1) recorded significant gains in April while sentiment fell the most in the **Netherlands** (-2.3), **Portugal** (-1.9), **Austria** (-1.7) and **Italy** (-0.4). **Germany's** ESI remained stable at 112.2.

Trade tension impact: The export order books of manufacturing companies seem to have suffered from the trade tensions with the US. Export orders fell to a six months low in the Eurozone, due to sharp drops in Spain (-6.4), Italy (-4.5) and to a lesser extent in France (-2.0). However, export order books in Germany (+1.8), Austria (+1.2) and the Netherlands (+0.7) improved month on month.

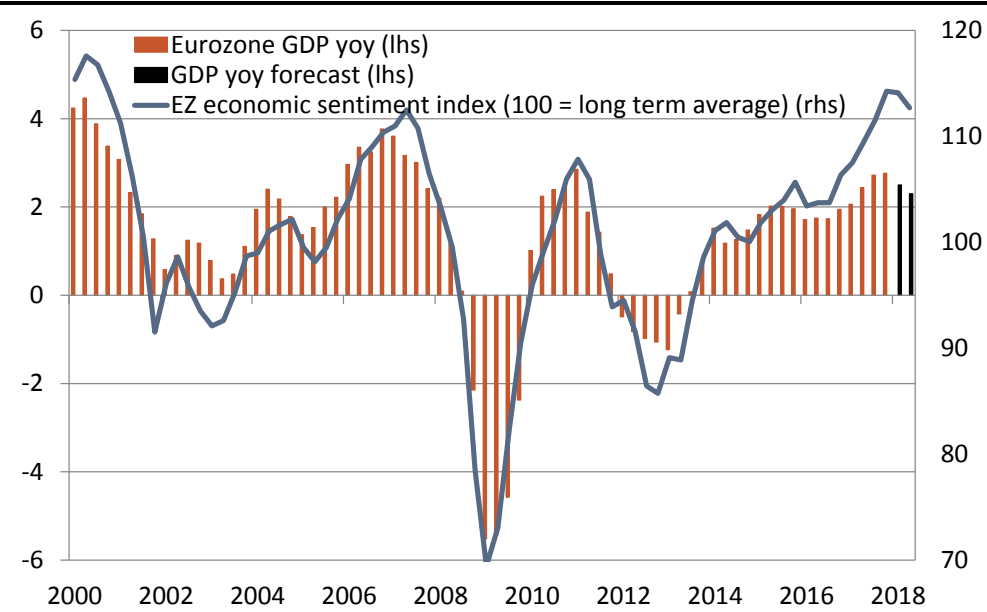
Inflation outlook is muted: Labour shortages in the industrial sector climbed in Q2 to the highest level since 1985, indicating that wage pressures could increase in the mid-term. Meanwhile, selling price expectations increased in the services sector. However, selling price expectations in the construction, industry and retail trade sector declined, which could indicate some margin pressure on companies working in those sectors. Consumer price expectations remained flat in April.

Further highlights: First, **UK's** ESI decreased by 0.4 to 104.9, the lowest level since September 2016, as UK consumer confidence fell to the second lowest level since 2013. Second, the **Spanish** ESI jumped to the second highest level since 2001, indicating a strong start into Q2 (after a strong 0.7% qoq in Q1), while confirming our view that the Catalan political turmoil has no significant impact on the economy. Third, **Italy's** ESI declined by 0.4 to 109.4, the lowest level in 8 months, mainly due to political uncertainty following the March general election. Fourth, the **Greek** ESI remains volatile (+3.8 points in April after -4.5 points in March) amid uncertainty about the future path of Greek's structural reforms and debt sustainability following the end of the third bailout in August.



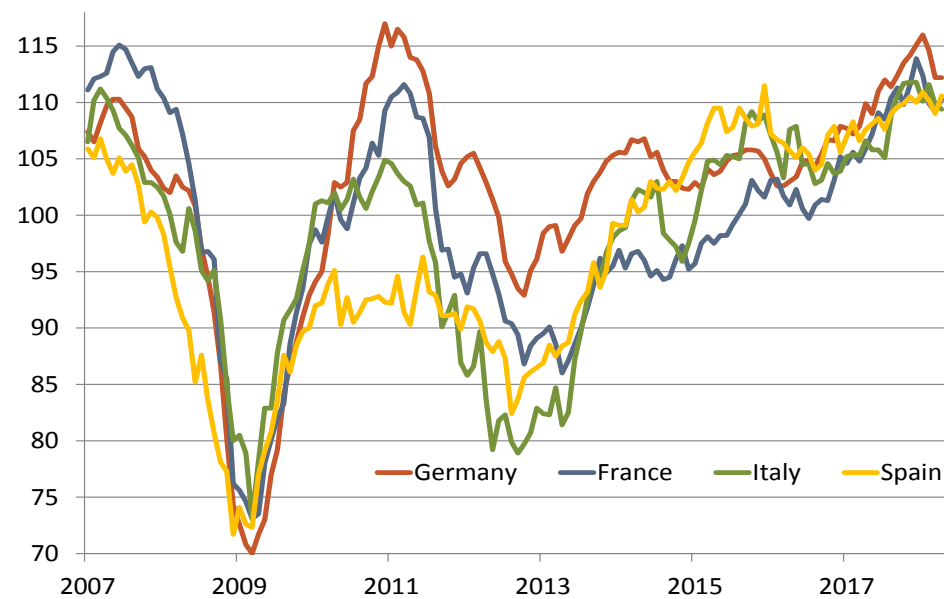
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Chart 1: Eurozone economic sentiment index (quarterly average) vs. GDP qoq growth (in %)



April economic sentiment index reading is a proxy for 2Q 2018. Sources: European Commission, Eurostat

Chart 2: Economic sentiment across major Eurozone countries



Monthly data. Sources: European Commission, Eurostat.

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Eurozone economic sentiment, by sector

	APR	MAR	FEB	JAN	DEC	NOV
Economic sentiment	112.7	112.7	114.4	115.1	115.3	114.4
Industry	7.1	7.0	8.8	9.8	9.6	9.1
Services	14.9	15.9	17.0	15.9	16.9	15.7
Consumer	0.4	0.1	0.1	1.4	0.5	0.0
Retail	-0.6	0.7	3.6	4.1	4.9	3.1
Construction	4.5	5.2	4.3	4.8	3.2	1.8

Eurozone economic sentiment, by country

	APR	MAR	FEB	JAN	DEC	NOV
Germany	112.2	112.2	114.6	116.0	115.1	114.2
France	110.3	109.2	109.9	112.4	113.9	111.6
Italy	109.4	109.8	111.6	110.1	111.8	111.8
Spain	110.6	109.0	110.2	110.9	110.0	110.5

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