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MORE SIGNS THAT EUROZONE SENTIMENT IS STABILISING

Berenberg Macro Flash

Eurozone economic sentiment index (ESI), June

	Economic sentiment
Actual:	112.3
Previous:	112.5
Consensus:	112.0
Berenberg:	112.3

Bottoming out? The ESI declined only slightly from 112.5 in May to 112.3 in June, which was in line with our expectations. Confidence fell in the consumer and construction sector, but remained stable in the industrial, services and retail trade sector. The lower consumer sentiment likely suffered from higher energy prices. In combination with other recent survey data (Eurozone PMI services and German Ifo expectations) the broadly stable ESI provides more evidence that sentiment is bottoming out and could start to recover in the months ahead. It also fits in with our call that GDP growth will remain stable in Q2 and Q3 at 0.4% qoq like in Q1, but will accelerate to 0.5% qoq in Q4.

On a country basis, **Portugal** (+2.1), **Italy** (+1.2 points), **Finland** (+1.1) and **France** (+1.0) recorded significant gains in June while sentiment fell the most in the **Netherlands** (-1.8), **Greece** (-1.7) and **Germany** (-0.8). **Spain's** ESI remained stable.

Trade tension impact: The export order books of EU manufacturing companies seem to have suffered from the recent increase in trade tensions with the US after the G-7 meeting in Canada. Export orders fell by 1.2 points to a two months low in the Eurozone, due to sharp drops in Spain (-7.7) and to a lesser extent in Germany (-1.0). In Italy they remained unchanged and even slightly improved in France (+1.3) and the Netherlands (+0.3) month on month.

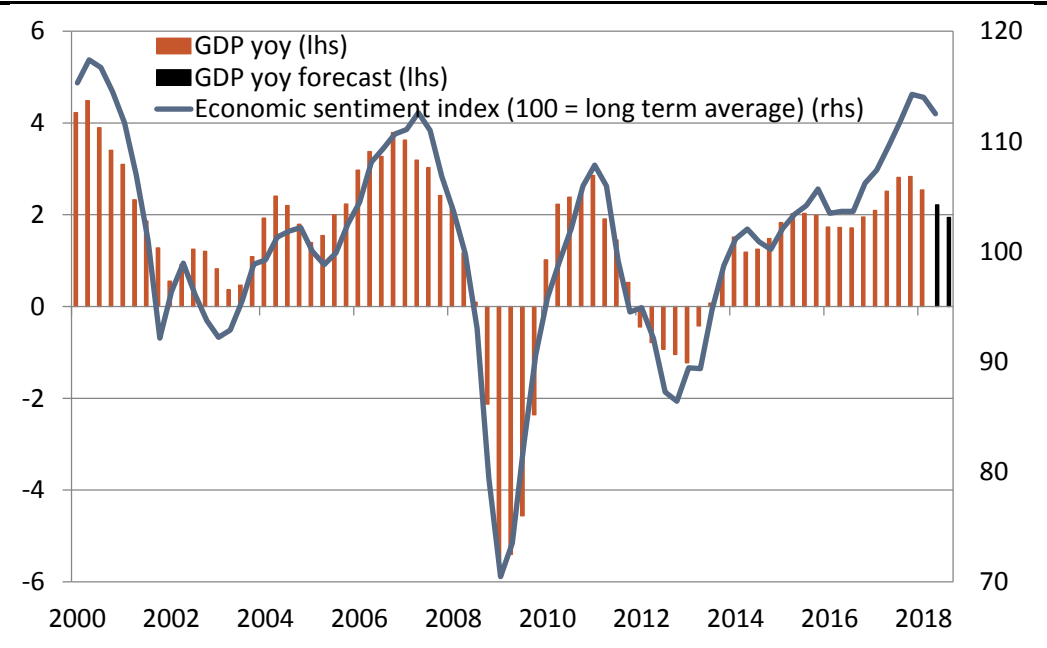
Inflation outlook is muted: Selling price expectations increased in the industrial sector (+0.6) and remained more or less unchanged in the services sector (+0.1). However, selling price expectations in the construction (-1.8) and retail trade sector (-0.4) declined which could indicate some margin pressure on businesses operating in those sectors. Consumer price expectations remained flat in June.

Further highlights: First, **France** is again on track to close the ESI gap with Germany. The gap of 2.3 points in June is the smallest since December 2017. Second, the **Hungarian** ESI jumped to the highest level on record, suggesting that the export-oriented Hungarian economy is not concerned about a negative impact of a potential trade war with the US. Third, **Portugal's** economic upswing is likely to continue as the Portuguese ESI jumped to one of the highest levels since 1988. Fourth, receding risks of **Italy** leaving the Eurozone helped Italian consumer sentiment to rise to a 2.5 year high.



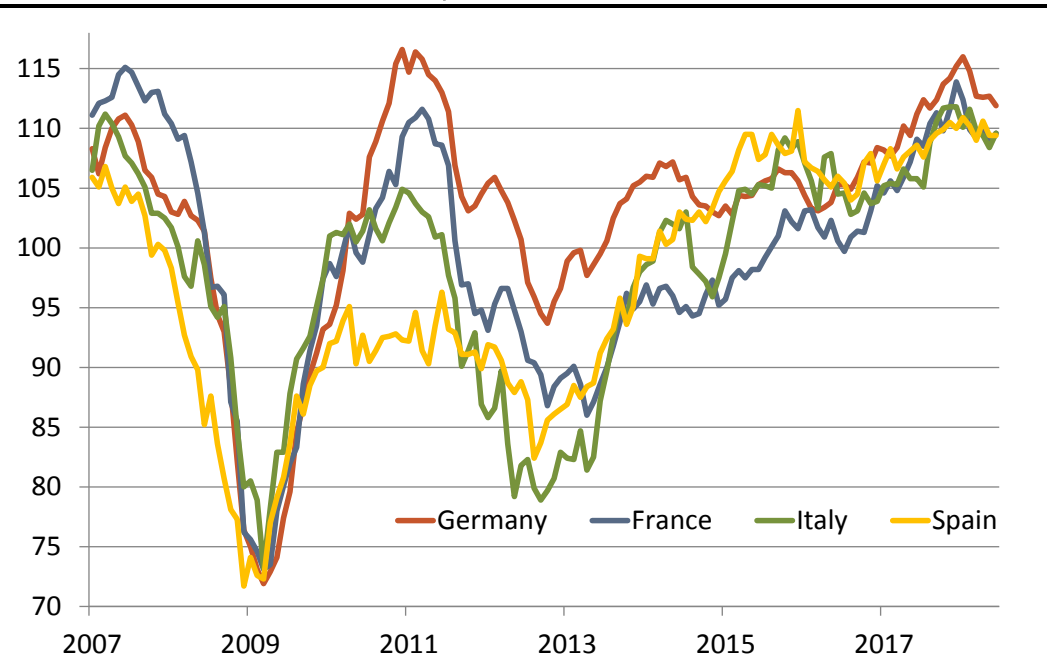
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Chart 1: Eurozone economic sentiment index (quarterly average) vs. GDP yoy growth (in %)



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

	JUN	MAY	APR	MAR	FEB	JAN
Economic sentiment	112.3	112.5	112.7	112.8	114.3	114.9
Industry	6.9	6.9	7.3	7.0	8.8	9.7
Services	14.4	14.4	14.7	16.0	16.9	15.9
Consumer	-0.5	0.2	0.3	0.1	0.1	1.4
Retail	0.8	0.7	-0.7	0.8	3.5	4.1
Construction	5.6	7.1	4.6	5.2	4.2	4.7

Eurozone economic sentiment, by country

	JUN	MAY	APR	MAR	FEB	JAN
Germany	111.9	112.7	112.6	112.7	114.8	116.0
France	109.6	108.4	110.2	109.2	109.9	112.4
Italy	109.6	108.4	109.4	109.8	111.6	110.1
Spain	109.4	109.4	110.6	109.0	110.2	110.9

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