

Europe Flash

ESI confirms lower confidence at the beginning of Q2

Bottom line: After the improvement observed during Q1, economic confidence as reflected in the ESI indicator declined in April, was in line with disappointing PMI data released earlier this week. Both suggest that Eurozone entered Q2 on a negative footing, offsetting the relative improvement observed in Q1. All four largest countries in Eurozone registered falls in confidence, while by sector only retail trade escaped from the drop.

- Economic sentiment deteriorates in all sectors but retail trade**

The European Commission's Economic Sentiment Indicator (ESI) interrupted the positive trend observed in Q1, with the overall index falling back to 92.8, losing 1.7p in April. The deterioration can be blamed on the industry (at -9.0) and services sector (at -2.4), with only retail trade resisting the drop. Looking at the breakdown by country, we observe that all four biggest countries registered losses in sentiment, with core countries still being more resilient. Italy suffered the most (-5.7), followed by Spain (-1.8), Germany (-1.0) and France (-0.4). Greece and Portugal surprised on the upside (+1.6 and +1.4 respectively).

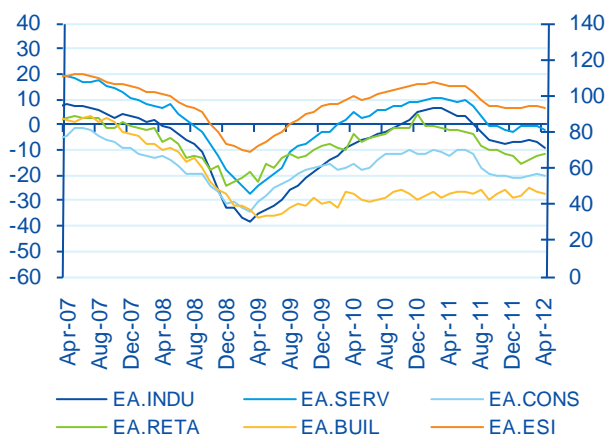
- Industry and services are leading the fall in April**

The services sector registered the sharpest drop in confidence, as the sub-index fell by 2.1, reflecting a more negative assessment of all components. Industry weakened only slightly less, by 1.9p, owing to stronger pessimism about production expectations and order books. These results are aligned with PMI figures for April, suggesting that both sectors fell in contraction at the beginning of Q2. The sentiment in construction also weakened, by 0.7p, due to worsened employment expectations. On the positive side, the more optimistic view on the volume of stocks in retail trade led to a gain of +0.6p in the respective index.

- Consumers also turned more pessimistic**

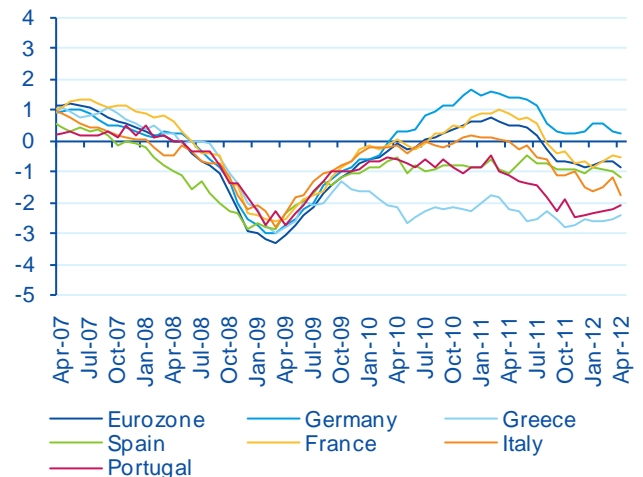
After improving during each previous month in Q1, households' confidence started falling in April, with the index losing 0.8p, mainly dragged down by gloomier expectations about the general economic situation, which more than offset the easing of unemployment fears observed during the same period.

Chart 1
ESI by sectors



Source: EC and BBVA Research

Chart 2
ESI by countries



Note: data is normalized to 0
Source: EC and BBVA Research

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