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EUROZONE: Confidence softens.

More signs of fresh weakness which the ECB is starting to recognize

EU Commission business and consumer survey figures for April provided more sobering messages, with a clearer contraction being flagged in all Eurozone countries bar Germany, but even the latter seeing a softening in activity. Indeed, the overall economic sentiment index (ESI), which aggregates the sector surveys detailed below and is designed to track GDP growth, dropped a larger-than-expected 1.7 points to 92.8, thereby exactly unwinding the recovery from the December trough.

Notably, this softer ESI reading reflected broad-based declines in all sector bar retailing, with the fresh drop in services sentiment being the most marked. As for the consumer, it is notable that the willingness to make major purchases softened afresh, while inflation expectations bounced back somewhat.

However, the notable development was the further fall back in industrial sentiment, the latter hit by weaker (domestic) orders. Regardless, the latest overall figure (by moving further below the 100-mark) implies that Eurozone economic activity is probably contracting. As a result, they echo the tone of other alternatively-sourced survey numbers such as the PMIs, suggesting that a further contraction in GDP is now likely in the current quarter. Moreover, these and other survey data continue to suggest that whatever may be happening to activity in Germany and France, the rest of the Eurozone economy is still contracting clearly and perhaps more severely, and with no end in sight!

Notably, the most recent ECB rhetoric has started to acknowledge this weaker backdrop, with President Draghi in a keynote speech on Wednesday no longer pointing to an expected growth recovery in the course of the year as well as making no further mention of short-term upside risks to inflation.