

## Eurozone PMI falls in May amid service sector weakness

The composite PMI declined from 50.4 to 49.5 in May, indicating that the eurozone is falling back into stagnation. It's worrisome that the main culprit is the service sector, which has long been the main engine of growth for the eurozone



Sluggishness remains the name of the game for eurozone economic activity, and risks seem to be skewed to the downside for the short term

The trade war is weighing on the eurozone economy, but likely mostly through the uncertainty channel rather than direct trade effects so far. This is clear in May's PMI, which showed only modest declines in new orders from abroad while manufacturing output actually increased again. The service sector, which has seen solid growth over recent years as manufacturing contracted, continues to slide according to the survey, which could well be related to high uncertainty and adds fuel to further growth concerns.

For manufacturing, new orders have actually stabilised after a long period of declines. Inventories of finished products are not falling as much as has been the case before. This could mean that sales have disappointed, but it could also be an early indication that businesses are now increasing orders again because the inventory cycle is turning. While the trade war clearly presents a

downside to eurozone manufacturing activity, there is some upside risk to manufacturing activity if the inventory cycle is indeed turning.

For the moment, though, it looks like the eurozone economy is falling back into stagnation after a strong first quarter. Still, in fairness, the first quarter was also boosted by some front-loading exports to the US. Sluggishness remains the name of the game for eurozone economic activity, and risks seem to be to the downside for the short term as the trade war could intensify.

## Author

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).