

NO. 944, 25 MAY 2026

2Q eurozone growth may stall, with the risk of a decline

- After Eurostat's second estimate confirmed a slowdown in eurozone growth to 0.1% in the first quarter of this year from 0.2% recorded at the end of last year (or if we exclude Ireland to 0.2% from 0.4%), a new wave of survey indicators pointed to a certain stagnation accompanied by the risk of a possible decline in the second quarter. Namely, the May Purchasing Managers Index (PMI) published on Thursday deepened its decline from 48.8 in April to 47.5 – the lowest level since October 2023 – thus recording the second consecutive month below the so-called no change level (50.0), implying a contraction in activity in the second quarter. The decline in the index was recorded in both the manufacturing and services sectors, with the composite indicator in the latter sinking to 46.4 from 47.6 a month earlier – thus touching the lowest level since January 2021. The services sector showed particular vulnerability given the negative impact of the energy shock and uncertainty on demand. At the same time, after four consecutive months of growth in the composite index, manufacturing recorded a decline to 51.4 in May from 52.2 a month earlier. Namely, as we wrote earlier, the growth of indicators in the previous two months reflected the so-called restocking and front-running, and the expectation was that this impact would subside. In addition, survey data indicate a return of contraction of new orders and backlogs in execution, with de facto stagnant production activity. Furthermore, delivery times are being further extended, which has not been seen since 2022, suggesting that the effects of the conflict are starting to spill over to supply chains, with delivery delays that could further amplify upside risks to inflation. Finally, in terms of prices, the PMI composite index of input prices accelerated for the sixth month in a row, rising to 70.5 from 68.3, the highest level since the end of 2022, mainly due to higher costs of industrial production. The pass-through of these costs to final prices remains limited for the time being, with the composite sales price index rising by one tenth, to 56.9, although it remains at its highest level since March 2023 (in manufacturing to 61.9 from 61.1, while in services it remained unchanged at 55.3). Weak demand and uncertainty are likely to constrain, or at least delay, corporate sales price growth, but upside risks remain consistent with the ECB's first precautionary 25 basis point rate hike in June.

Looking at countries, a sharp decline in the composite PMI was recorded in the otherwise volatile French data, while Germany recorded a slight increase after consecutive declines in March and April, and data for Italy and Spain will be available in early June. As far as France is concerned, decline in the index was also recorded in the services and manufacturing sector, and unfavourable development was confirmed by the INSEE indicator published a day later, which, although supported by the improvement of the manufacturing component, remained unchanged at the overall level, given that both the service and retail segment recorded a second consecutive monthly decline, in services to the lowest level recorded since April 2021, and in retail since 2020. Simultaneously, the German IFO index rose slightly (unexpectedly) to 84.9 from 84.5, after two months of decline, but is still well below the average recorded in the first quarter of the year. The slight increase was driven by a better assessment of the current situation (86.1 vs. 85.4), which nevertheless remains below the March level. Expectations also improved marginally (83.8 vs. 83.5), which is also the survey component that has weakened the most since the outbreak of the Middle East conflict. In short, despite the recovery in May, the survey still points to a weakening of economic activity in the current quarter, following better-than-expected GDP growth at the start of 2026 (0.3% qoq).

Continued decline in PMI indicators in May, with price index acceleration

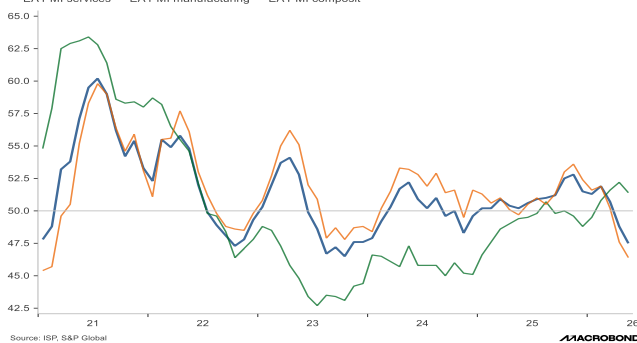
The gloomy expectations were also confirmed by the publication of consumer confidence indicator at the level of the eurozone. Namely, although the indicator recorded a slight recovery to -19.0 in May (after two consecutive months of strong decline) from -20.6 recorded in April, which kept consumer confidence above the historically lowest level recorded during 2022, it is still approximately at the levels at which it bottomed out during the global financial crisis, i.e. European debt crisis.

Slight recovery in consumer confidence in May after two consecutive months of strong decline

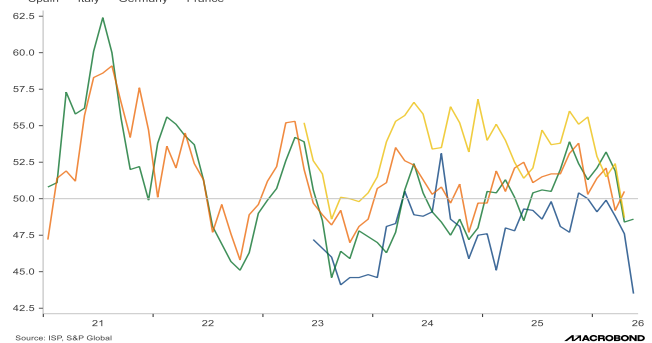
In conclusion, the latest data do not provide any reasons for the ECB Governing Council to deviate from the initial 25 basis point rate hike in June. Indeed, in light of the strong growth in inflation expectations reflected in the household and business confidence surveys, the likelihood of the shock spilling over is increasing and the possibility that the ECB will raise interest rates threefold in 2026 and then return to a wait-and-see approach in 2027 is increasing. For now, according to the assessment of our parent bank, we expect a third increase in February 2027, although not with full probability, given the uncertainties that continue to surround the crisis in the Middle East. The ECB will therefore maintain a data-driven approach, with decisions taken on a meeting-by-meeting basis, and the final trajectory will largely depend on the following variables: (1) timing of the opening of the Strait of Hormuz, (2) damage to the region's energy infrastructure, (3) spillover of price increases, and (4) extent to which wage negotiations will include workers' demands for a recovery in purchasing power.

ECB: Two likely, three possible, interest rate hikes

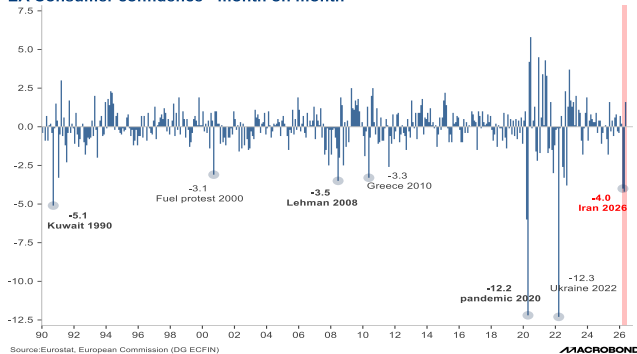
EA: Purchasing Managers Index
 EA PMI services — EA PMI manufacturing — EA PMI composit



EA: Purchasing Managers Index
 Spain — Italy — Germany — France



EA Consumer confidence - month on month



EA: Consumer confidence



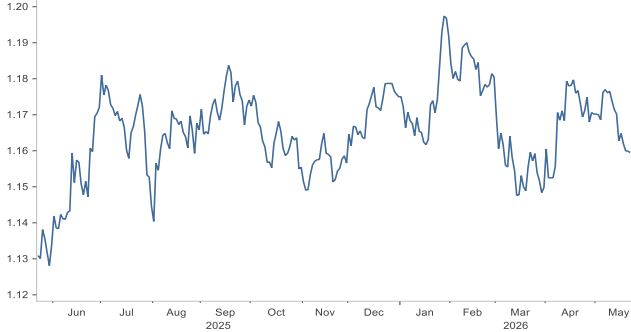
On the domestic front, the statistical week was relatively poor, and out of the more important data, labour market data for April and average wage trend for March were published. According to the published data, the cooling of the labour market continued in April. Namely, as we have already written in Weekly Analysis no. 942, in contrast to the HZMO data, which indicate a noticeably slower but still positive growth of the total number of insured persons than in the same period last year

Cooling of the labour market

(0.9% vs 3.3%), preliminary CBS data suggest stagnation in employment growth for the third month in a row. At the same time, the decline in the number of unemployed persons continues to accelerate and at the end of April amounted to 67.5 thousand or -17.1% less than a year earlier, which lowered the unemployment rate to a historically low 3.8%. During the first four months, an average of 15.4 thousand persons left the register of unemployed persons per month (+6.3% compared to the same period last year), with about 9.8 thousand (-5.7%) persons leaving the register for employment, while about 4.9 thousand (+44.4% compared to the same period last year) left the register due to deregistration and non-reporting or non-compliance with legal provisions. As far as wages are concerned, the average net earnings for March amounted to EUR 1,555, or 7.4% more than in the same month last year in nominal terms and 2.5% in real terms (1.5% deflated by inflation in the month in which they were paid – April). The week ahead will be more interesting in terms of domestic disclosures, including the assessment of GDP trends in the first quarter, but also the announced publication of a new package of anti-inflation measures.

- The EUR/USD exchange rate closed at \$1,160 to the euro on Friday (-0.3% compared to Friday a week earlier).
- Compared to Friday a week earlier, the 3M Euribor closed the week at 2.20% (-3 basis points), while the 6M Euribor closed the week at 2.55% (-1 b.p.).
- Crobex closed the week at 4,144 points, +1.4% week-on-week, with CROBEXindustry and CROBEXtourist recording a decrease of 0.2% (to 3,900) and -2% (to 5,538), while CROBEXnutris recorded an increase of 0.8% to 847 points. Crobis stagnated at 98.3 points.

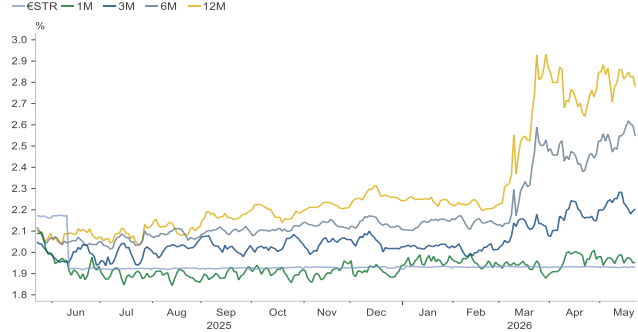
EUR/ USD



Source: ECB

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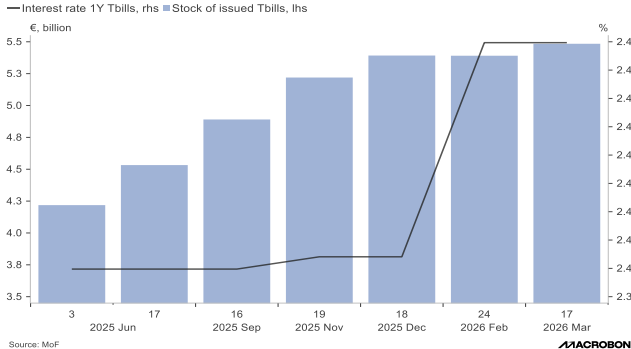
Euribor



Source: EMMI, ECB

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T-bills



Source: MoF

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Crobex/Crobis



Source: Zagreb Stock Exchange

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