

Eurozone economy braces itself for prolonged sluggishness

Economic sentiment dropped in October as the first countries reported somewhat better-than-expected GDP growth in the third quarter, making a technical recession in the second half of the year unlikely – but a decline in 4Q is a realistic prospect. Businesses report a slight tick-up in selling price expectations, but hard data still looks benign



A technical recession in the second half of the year appears unlikely, but a decline in the fourth quarter remains a realistic prospect

The decline in the Economic Sentiment Indicator (ESI) in October came as no surprise after the PMI had already dropped further into contraction territory. Still, the drop was relatively mild – from 93.4 to 93.3. This essentially means that sentiment was relatively stable at a low level. Coming from 99.5 in January, the ESI has been indicating that conditions have weakened more or less throughout 2023. With GDP growth already in broad stagnation, we expect that trend to continue in the fourth quarter. The third-quarter GDP data is a mixed bag so far, with Germany and Austria at -0.1% and -0.6% respectively, but Belgium and Spain growing strongly at 0.5% and 0.3%. This makes it likely that eurozone GDP did not contract in the third quarter – but a small decline in the fourth quarter is a realistic prospect.

The ESI does not show any marked deterioration though. Industry saw sentiment weaken slightly, while services sentiment ticked up a bit. Overall, movements aren't too significant at the moment, with a slightly more negative consumer. Retail trade did see a marked deterioration of sentiment, mainly related to weaker recent activity, slowing expected output ahead and higher inventories.

The underlying picture is still quite negative. The service sector increase is only based on expectations, while recent production was still weaker in October. New orders in manufacturing continue to drop, and so does capacity utilisation. Employment demand from manufacturing is outright negative, and in services, it has now dropped below the historic average. This paints a picture of a slight contraction in activity, while increased service sector optimism adds a bit of hope for the coming winter months.

The inflation picture showed two small increases in selling price expectations for both goods and services. This is a warning sign that higher oil prices and elevated wage growth could keep core inflation somewhat elevated, but at the same time, we see retail selling price expectations still falling. With manufacturing companies producing more B2B, the picture is still quite benign for consumer core inflation in the coming months, although stubborn pipeline inflation serves as a warning signal for 2024. The downward momentum for core inflation is confirmed by the weak German regional and Spanish inflation data already out for October this morning.

Author

Bert Colijn

Chief Economist, Netherlands

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.