

Eurozone economic sentiment jumps as unemployment reaches new decade low

The Economic Sentiment Indicator improved as industry sentiment increased while services sentiment remained stable. The growth outlook is getting better, but the coronavirus is emerging as a downside risk



Vasco da Gama shopping center in Lisbon, Portugal

Compared to the other eurozone surveys that have come out this month, the ESI was surprisingly upbeat with an increase to 102.8 from 101.3. German and French industry, in particular, became a lot more optimistic about the outlook and somewhat less pessimistic about recent production developments. These are signs that the bottom in manufacturing is now getting close.

One has to be cautious in interpreting these numbers though as uncertainty around the impact of the coronavirus on the global economy is mounting. That has not been factored into these results just yet, meaning that the revival of optimism could be short-lived.

The unemployment rate ticked down to 7.4% in December, which is a new decade low and just a tenth of a percent above the lowest reading on record. While improvements in the labour market have slowed over the past few quarters, continued job growth does provide an important tailwind for the eurozone service sector and is set to continue in the months ahead as businesses remain

relatively upbeat about hiring expectations.

What is also important to note for the ECB is that selling price expectations have slowly picked back up compared to the past few months. Core inflation has jumped to 1.3% recently, re-igniting hawkish expectations for a sharp recovery of inflation to target. Given that expectations of price growth had been slowing over recent months, it seems too soon to expect inflation to move sustainably higher for now though, which will likely leave the ECB on autopilot for the year.

So while the first quarter will not see a sudden revival of growth, signs of recovery are becoming more apparent, which means that the manufacturing recession that the eurozone is currently in can be expected to end in the months ahead. That should lead to a subdued uptick in growth, even though downside risks to the growth outlook like the coronavirus could prolong the sluggish eurozone growth environment a bit more.

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