

## Eurozone: Economic sentiment plummets in March, more to come...

The Economic Sentiment Indicator fell from 103.4 to 94.5, the worst month ever as businesses brace for what's to come



Vasco da Gama shopping center in Lisbon, Portugal

After four months of increases, economic sentiment nosedived in March, proving it is not immune to the fallout from the coronavirus. This decline may be historically large, but the survey was conducted between 26 February and 23 March and fieldwork was hindered by containment measures. That means that the decline understates the actual fall in sentiment for March.

The decline was uneven across sectors as the service sector was far harder hit than industry; a decline in the services indicator of -13.3 compared to -4.6 in industrial confidence. This is consistent with the PMIs, which showed a similar picture. Bear in mind though, manufacturing was already in recession going into this. The differences by country are also large, although they should be taken with a pinch of salt because of the data limitations mentioned above. Italian sentiment dropped by 17.6 points, German sentiment by 9.8, but the Spanish, French and Dutch indices fell by 5 points or less.

Because of the early data collection, actual observed production did not fall nearly as much as expected. Eurozone industry indicated that production observed in recent months fell slightly, from -0.6 to -3.5, while order books hardly dropped at all: -15.1 to -16.6. Expectations declined

from 4.7 to -9.4 though. In services, recent output declined more, indicating that the service sector was already more directly hit in March. Expectations fell much faster though, indicating that eurozone businesses were bracing themselves for what's to come at the time of the survey.

The effect of the current crisis on inflation is somewhat ambiguous as energy prices have plummeted on the back of the oil price decline, but the Saxony inflation figures released earlier this morning also show that food and some goods prices have increased. Make no mistake though, this crisis is deflationary: the ESI shows that selling price expectations for both goods and services dropped dramatically in March.

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