

Snap | 27 February 2019

Eurozone economic sentiment slightly weaker in February

The economic sentiment indicator declined marginally from 106.3 to 106.1. Although this month's surveys provide some encouragement, the Eurozone economy is not out of its slow growth rut just yet



Source: Shutterstock

Wrapping up the Eurozone surveys for the month, the conclusion to be drawn is that consumers and the service sector are doing better, but the manufacturing sector continues to provide a reason for concern. This was broadly reflected in the Eurozone Sentiment Indicator (ESI), as consumer, retail and services confidence improved. Industrial confidence came in weaker as order books and production expectations decreased in February.

The consumer has become more upbeat about the future, which is a positive sign for the service sector in the months ahead. Consumers are now less worried about unemployment and the general economic situation for the coming months and have seen their finances improve recently. Even though this is the case, consumers remain cautious around large purchases, indicating that consumers aren't fully convinced of economic strength in the months ahead either.

Selling price expectations weakened considerably for both industry and services, adding to the already muted inflation outlook for the months ahead. This indicates that businesses are not

yet prepared to transfer higher wage costs through to the consumer as the business environment uncertainty prevails.

The ECB governing council has been debating whether the slowdown is temporary or of a more permanent nature. While February's surveys do justify some optimism about a cautious bounce back, the manufacturing sector problems and downside risks like Brexit and higher tariffs for the auto sector could still develop into something serious.

The governing council is therefore unlikely to have a unanimous verdict on the temporary versus permanent matter at the March meeting.

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