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Eurozone economic sentiment tumbles in April

The European Commission's economic sentiment indicator plunged in April, raising concerns about second quarter growth prospects. Inflation expectations have surged well above their long-term average, giving the European Central Bank's hawks ammunition to plead for an interest rate hike



Economic sentiment has significantly slowed while inflation expectations have surged in the eurozone

Economic sentiment falls for the third month in a row

After a brief recovery earlier in the year, the European Commission's economic sentiment indicator plunged in April to 93 from 96.2, the third consecutive decline. Confidence weakened across all sectors, with services and retail trade particularly affected. That is probably due to a strong decline in consumer confidence, with consumers mentioning fewer major purchases both in the present and over the next 12 months. With unemployment expectations rising, a feeling that is corroborated by weakening hiring intentions in all sectors, households are likely to increase savings, weighing on consumption growth. All of this seems to point to weakening growth in the second quarter.

Price expectations further accelerate

Meanwhile, price expectations surged in all sectors, reaching levels well above historical norms. Consumers' price expectations also spiked (to 49.1 from 43.5, while in January the level was 24.6), signalling broad-based concern about accelerating inflation. This comes on top of the Consumer Expectations Survey, which yesterday showed that 12-month inflation expectations had increased to 4% in March. We now seem to have a combination of companies willing to increase prices on the back of the energy shock and consumers' inflation expectations rising rapidly.

That is exactly the scenario the European Central Bank wanted to avoid and which is likely to embolden the more hawkish members of the Governing Council. That said, we still believe that this is not yet enough information for the ECB to hike interest rates tomorrow. But at the current juncture, the probability of a June hike has further increased.

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