

Sentiment is slowly improving for the eurozone economy

The end of a long period of stagnation in the eurozone is getting closer as businesses are becoming more upbeat about the months ahead. Inflation expectations for services are becoming more benign, which will confirm the ECB's view that rates can moderate



Just as the mood couldn't get more downbeat about European competitiveness, the economy is starting to show more green shoots in terms of economic activity. Of course, structural and cyclical factors are very different, but the current mood may be overstating Europe's economic misery a bit. After a long period of economic stagnation following the energy crisis, the eurozone economy is expected to see growth pick up over the coming quarters.

The economic sentiment indicator for the eurozone increased modestly from 95.5 to 96.3. Small improvements in sentiment were broad-based among industry and services businesses, as well as consumers.

In manufacturing, the indicator for order books has bottomed out recently and showed the strongest reading since November – albeit at very low levels. Still, with export orders showing a similar pattern and inventories slightly down, this can qualify as a cautious green shoot for the

manufacturing sector. The trend in production has been down for a while now, but slightly improving global conditions imply that some recovery could be in the making for the second half of the year.

In the service sector, activity remains muted but businesses are becoming increasingly upbeat about the outlook for the months ahead. Expectations are also that improvements in real wages will bring the consumer to spend more on services in the second half of the year. With muted activity now, services inflation is set to moderate according to the survey. Selling price expectations in the service sector remain elevated but did drop to the lowest reading since September. For the European Central Bank, this will be an important reassurance that services inflation is not reaccelerating.

All in all, the eurozone economy seems to be showing more signs of an imminent pickup in growth. Nothing spectacular, but an end to stagnation is in the making nonetheless. With inflation expectations getting more benign for services, it looks like the ECB can contribute to a more favourable environment with rate cuts starting in June.

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