

## Eurozone economy still suffering from winter blues

The economic sentiment indicator of the European Commission fell further in January. While forward-looking indicators don't point to much improvement in Q1, consumers are offering a glimmer of hope



Source: Shutterstock

### Sentiment cools further

With the winter cold, business sentiment seems to have fallen below the freezing point.

The European Commission's economic sentiment indicator (ESI) continued its decline in January to 106.2 from 107.4 in December last year. The outcome was worse than expected as the estimated consensus was 106.8. The bigger countries including Germany (-0.8), Italy (-1.3) and the Netherlands (-4.1) saw confidence slip, while it remained broadly stable in Spain (+0.1). What's interesting is that despite the 'yellow vest' protest, France actually saw a 0.5 point pick-up in sentiment.

The manufacturing sector (-1.8), the services sector (-1.2) and retail trade (-1.8) all saw a drop in confidence. However, construction confidence actually increased (+0.9). Another positive note was the 0.4 point rise in consumer confidence.

## Forward looking indicators are not helping

Where do we go from here? Forward-looking indicators like order books and production expectations in the more cyclical manufacturing sector don't bode well for first quarter growth. Export order books also took another hit. Industry mentioned a significant drop in the competitive position on foreign markets outside the EU.

---

*With businesses worrying about their competitive position, we just don't buy the ECB's story that higher wages will be eventually passed through to the consumer*

---

On a more positive note, employment expectations have risen in retail trade and the construction sector, though they have lost ground in both industry and services. For the time being, consumers seem less worried about unemployment, which could support consumption in the coming months.

In terms of inflationary expectations, we are still far from a sustained uptick. Selling price expectations increased slightly in services but fell back in retail trade, construction and industry. Consumer price expectations also retreated in January. With businesses worrying about their competitive position, we just don't buy the ECB's story that higher wages will be eventually passed through to the consumer. Today's figures seem to corroborate our view.

## No all gloom and doom

While the GDP figures coming in for the fourth quarter are less dramatic than one could have feared (e.g. +0.3% in France), there are no signs of an acceleration in GDP growth.

On the contrary, the lasting uncertainty surrounding Brexit, the threat of further trade skirmishes and a difficult political climate are pushing businesses into wait-and-see mode. It is telling that the share of managers who see their current production capacity as more than sufficient, increased markedly. Fortunately, consumer confidence is no longer falling, which at least offers some hope that it cannot only go downhill from here.

At this point, we think the risk of a recession this year still remains low, unless all downward risks materialise. That said, the best now lies behind us, and Eurozone growth should come out between 1.0% and 1.5% in 2019, nothing to cheer about. We, therefore, think ECB policy will have to remain very supportive and we expect the ECB to decide on a new (T)LTRO for the banks by June, to keep easy credit conditions in place.

## Author

### **Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.