

## Eurozone inflation is on track towards 2% while sentiment remains sluggish

The increase in economic sentiment does not bring much relief but confirms a picture of a mildly contracting economy. Inflation data is coming in low for November and while some concerns about services inflation expectations remain, sluggish demand is set to keep it on track towards 2%



The Economic Sentiment Indicator for the eurozone ticked up slightly from 93.5 to 93.8. While at sluggish levels, most sectors saw small improvements in sentiment. Industry was the exception. New orders continue to weaken and while production observed in recent months was a bit better, expectations are falling again. For services, recent demand improved but expectations of demand in coming months remain weak. Overall, this is in line with an economy mildly contracting in the current and coming quarter.

At the same time, employment expectations dropped again in November, indicating that the labour market is turning. We think that small employment losses may be on the cards for the coming quarters.

Consumer inflation expectations dropped again in November, which also holds true for selling price

expectations for goods. In retail, selling price expectations also dropped again in November, but overall services saw an increase again. While the latter can be considered worrisome to hawks on the European Central Bank's governing council, we do want to emphasise that sectors selling most directly to the consumer saw a modest decline again in inflation expectations.

Incoming inflation data continues to be very encouraging. The Spanish and German regional inflation data for November so far points to a larger-than-expected drop in eurozone inflation. That data will be out tomorrow, and could be another surprise to the downside. Overall, inflation looks to be benign in the eurozone with weak demand and supply-side pressures remaining mild. For the ECB, this confirms the view that next year could bring about a first rate cut. With inflation trending down better than expected, this could happen earlier than expected.

## Author

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@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 [www.ing.com](http://www.ing.com).