

Snap | 29 November 2023

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.

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