

Eurozone: modest decline in sentiment is actually decent news

Sentiment was better than expected in January, but we still forecast negative GDP growth in the first quarter. For the European Central Bank, the most important takeaway from the survey is the high selling price expectations in industry. This adds to temporary pipeline inflation pressures for 2021



Source: Shutterstock

The Economic Sentiment Indicator fell from 92.4 to 91.5 in January. The decline in sentiment was expected to be larger, which would have been in line with the weak readings for the PMI and German Ifo. The reading of 91.5 leaves it well above November levels, which was mainly due to improving manufacturing sentiment. The largest declines were seen in retail, which makes sense given the non-essential retail shutdowns in Germany and the Netherlands since the December survey. Services in general continue to perform much worse than manufacturing, which is still on a path to recovery from the first wave.

For industry, order books continue to improve with fast growth in export orders at the moment. Production was slightly weaker for January, but expectations for the months ahead continue to be quite bright. Most important to note for the ECB is that pipeline inflation for industry is increasing

on the back of the supply chain hiccups and container price increases. Industry reported sharply higher selling price expectations for the second month in a row, which could add to price pressures over the course of the year.

Services continue to show weakness with lockdowns extended into the new year and most shutdowns focusing on service sectors. While expectations for demand in the months ahead remained more or less stable, the business situation did deteriorate over the course of the month. Vaccination hopes will no doubt fuel optimism for the moment, but with new cases continuing to be elevated, new extensions of measures cannot be ruled out. This makes the short-term service sector outlook very uncertain and leads us to believe that GDP will shrink once more in 1Q.

Author

Bert Colijn

Chief Economist, Netherlands

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.