

## 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



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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.

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