

## Eurozone selling price expectations give a mixed picture of inflation outlook

The Economic Sentiment Indicator (ESI) fell from 93.6 in August to 93.3 in September. This is consistent with sluggish economic activity. Selling price expectations are becoming more benign overall, but some sectors are still giving warning signs that the fight against inflation is not quite over



The ISM services index was below consensus in March

The eurozone economy has broadly stagnated in recent quarters and there is little in today's ESI data that would change that view for the current quarter or the months ahead.

Industry sentiment ticked up from -9.9 in August to -9 in September, which was mainly on the back of the recent improvement in production after a very weak August. Order books also slightly recovered after a deep decline in August, which means that current levels are still well below where they were at the end of the second quarter. Export order books and employment expectations are still falling though. This means that, overall, broad-based manufacturing weakness remained at the end of the third quarter.

Services sentiment weakened from 4.3 in August to 4 in September as demand has recently slowed. Expectations are picking up a bit though and employment expectations are even

accelerating at this point – leading to an economy-wide increase in employment expectations in September despite very weak economic activity.

Selling price expectations ticked up for industry, with quite significant increases in some of the sectors closest to the consumer such as auto, wearing apparel and furniture. While we still expect significant declines in goods inflation for the coming months, this does indicate that the decline might be slower than expected. Services selling price expectations are more elevated but did come down significantly again in September, maintaining a downward trend.

Overall, the picture painted by the survey is one that confirms broad economic stagnation with quite some weakness in the outlook. Businesses overall are lowering selling price expectations but the uptick in some sectors witnessed this month does serve as a warning sign that the drop in core inflation could potentially be slower than expected.

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