

Eurozone sentiment cooled further in August as recession looms

The Economic Sentiment Indicator fell modestly from 98.9 to 97.6 in August. Both industry and services indicate weakening economic activity. Meanwhile, recession prospects are causing more moderation in selling price expectations for the months ahead



We expect the eurozone economy to enter a shallow recession in the current quarter

A recession is drawing closer as businesses are becoming more pessimistic about economic activity at this point. Recent production for industry and demand for the services industry fell considerably in August and the manufacturing sector indicates rapidly weakening order books. Fewer businesses have been hiring as weaker activity demands fewer workers, although the positive note is that the Employment Expectations index remains above its long-term trend. Nevertheless, we do expect that the economy will enter a shallow recession in the current quarter.

Most notable from the survey is that selling price expectations from both manufacturers and service providers have been falling for four months in a row now. Generally correlated with core inflation, this begs the question of whether peak inflation is indeed drawing closer. The question here is how the next jump in gas and electricity prices will put pressure on margins, which could lead to more pressure on core inflation in the months ahead. But the rapidly slowing economy is clearly cooling inflation prospects as well.

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