Eurozone sentiment improves...but that was before coronavirus

Eurozone economic sentiment improves showing that the manufacturing sector is set for a recovery. However, the coronavirus crisis has changed the picture completely, delaying the upturn a little longer

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Sentiment improved for the fourth month in a row

Like the PMIs and Germany's Ifo-indicator, the European Commission's economic sentiment indicator improved in February, for the fourth consecutive month to 103.5 from 102.6 in January and that was better than expected. All sectors, except for construction, saw confidence improve but confidence in the retail sector remained flat.

The most encouraging news comes from the manufacturing sector, with a healthy increase in confidence for the second month in a row on the back of improving order books. And the jump in consumer confidence, with growing intentions to do major purchases in the future, bodes well (in theory) for consumption growth. On the other hand, selling price expectations fell in all sectors except industry - a sign that inflationary pressures are still largely absent.

Before the epidemic

Before getting too excited about the positive figures, we must remember the survey is conducted within the first two to three weeks of the month. The number of Covid-19 cases outside of China only started to increase significantly after 21 February. In other words, the survey was done at a time when Europe considered Covid-19 largely a Chinese problem with some minor negative effects on the rest of the world.

But since then the situation has changed considerably.

The good, the bad and the ugly

So what do today's the figures then tell us?

From the monetary aggregates earlier today, it was already clear that the eurozone economy was not growing strongly at the beginning of the year. The good news is that the manufacturing sector is bottoming out and that with the inventory correction coming to an end, the sector is set for a recovery. The bad news is that with the distortion of supply chains and trade flows caused by Covid-19, the upturn will now be a few months delayed.

> *We expect 0.7% GDP growth for the eurozone this year, with the risk to see an even lower outcome*

On top of that, things now also look a bit uglier in the services sector, which was up until now the stronghold of the economy that prevented a more severe slowdown in 2019. Especially leisure, tourism and transport are bound to suffer from coronavirus fears. Looking at the Chinese experience, peak Covid-19 should be behind us in the second quarter, but that still makes a rather weak first half of the year.

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Not much the ECB can do

While politicians are taking measures to contain the epidemic, there is not much the ECB can do. Any thoughts of monetary tightening can now be shelved for a while because both the inflation and growth outlook is likely to be adjusted downwards. That said, the marginal utility of further easing measures seems close to zero, if not negative.

Therefore, expect dovish language from the ECB, but not much more than that.

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