

Snap | 27 February 2020

## 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



Source: Shutterstock

### 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.

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

### 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.

## Author

### Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@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 <http://www.ing.com>.