

Snap | 29 September 2022

## Eurozone sentiment indicator drops markedly in September

The drop from 97.3 to 93.7 in the eurozone economic sentiment indicator indicates a likely contraction in the economy in the third quarter. Selling price expectations have been on the rise again, increasing the risk of a longer period of stagflation in the eurozone economy



Selling price expectations are increasing again as businesses face higher energy costs

The eurozone economy is slowing rapidly as high prices reduce business activity and dampen consumer demand. We expect that a recession could, therefore, have already started.

For industry, production expectations dropped sharply in September. Backlogs of work have fallen as new incoming orders disappointed in recent months and in some industries production is reduced as high energy costs impact the profitability of production. With energy costs still at unsustainably high levels for some industrial sectors, this is adding to the bleaker outlook for industrial production.

For the services sector, confidence fell even more as the post-pandemic catch-up demand is fading and the purchasing power squeeze is starting to bite. The services indicator dropped from 8.1 to 4.9 as businesses indicate that demand has recently weakened and they are becoming gloomier about demand in the months ahead.

Despite the clear slowing of the economy, selling price expectations are increasing again as businesses face higher energy costs again due to the spike in prices in August. This is particularly worrisome as it could prolong a period of stagflation in the eurozone economy. For the ECB, the path is already quite clear: the central bank is set to hike in the coming meetings regardless of a slowing economy. The increase in selling price expectations will only strengthen that view for the October meeting.

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