

## Eurozone sentiment brings inflation relief, but no signs of recovery for growth

Economic sentiment fell again in February, from 95.8 to 95.4. The economy remains stuck in stagnation with services weakening. The good news is that selling price expectations ticked down again, all providing fuel for rate cuts later this year



Sunrise in Amsterdam, the Netherlands

The eurozone economy has been stagnant since late 2022 and surveys have shown that there is no meaningful improvement happening in the first quarter. The February PMI allowed the 'glass half full' crowd to see some green shoots, but the European Commission Economic Sentiment Indicator pours some cold water on those takes.

The industrial sector saw confidence remain broadly stable, going from -9.3 to -9.5 in February with weak production expectations and new orders showing signs of bottoming out, but inventories remaining high.

The Services Confidence Indicator dropped from 8.6 to 6.0 with a notable decline in recent demand and much weaker expectations of demand in the months ahead. This also resulted in a weaker employment outlook.

The upside to this weak survey is that selling price expectations also ticked down for services, coming as a relief around simmering inflation concerns. Services inflation expectations had risen for four months in a row, bringing it back to levels associated with a rebound in price growth. The dip in February is not strong enough to take away all hawkish worries – but it at least shows that there is no further acceleration.

For goods, selling price expectations ticked down in February, confirming our view that the impact of the Red Sea disruptions on inflation is very limited given weak demand for goods and well-filled inventories.

All of this rounds up as quite a dovish survey for the European Central Bank. There is little indication of a rebound in economic activity and green shoots are few and far between at this point. We expect growth to cautiously pick up towards the summer. Inflationary pressures on the services side were milder this month as the sector sees demand weaken and becomes less upbeat about the months ahead. To us, this paves the way nicely for small ECB rate cuts from June onwards.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

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