# Eurozone sentiment shows surprise resistance in November

The unexpected rise in the European Commission's economic sentiment indicator should reassure ECB hawks in opposing a 50bp rate cut in December

Folowing last week's declining PMIs, the European Commission's economic sentiment indicator (ESI) just brought a small positive surprise.

In November, the ESI increased marginally to 95.8, from 95.7 in October. Looking at the components, industry showed a small improvement, while sentiment in services and among consumers dropped. Interestingly, price expectations in industry increased to their highest level this year, while price expectations in services came down.

## Today's economic sentiment data is comforting the hawks

Earlier today, monetary developments in the eurozone gave some comfort to proponents of the view of a gradual recovery of the entire economy. There isn't any strong growth momentum, stemming from monetary developments, but a continued increase in housing loans and longer-dated corporate loans should at least gradually support the economy.

Yesterday, ECB Executive Board member Isabel Schnabel broadly laid down what currently seems to be the dominant view of the ECB hawks: confidence indicators are pointing down but have not always been reliable in the past, inflationary risks have come down but are not gone, yet, and there was no recession risk.

While these arguments are well known, the more interesting parts of her interview were that there is no need to go into easing territory, Trump's economic policies could be inflationary, and monetary policy should not react to structural weakness.

We have some doubts that Trump's economic policies would be inflationary for the eurozone; if anything only once the eurozone reacts to any US industrial policies with its own tariffs and debt-funded industrial policies.

And it remains to be seen whether the argument that monetary policy should not tackle structural economic weakness will really be the prevailing view at the ECB. We have been there before. In any case, Schnabel's interview plus other ECB officials' comments in recent days suggest that the debate on whether the ECB should cut by 50bp or 25bp at the next meeting is still on.

Today's ESI should be taken with a pinch of salt as it wouldn't be the first time that sentiment indicators react with a delay to political events, like the US elections. At face value, however, it will comfort the ECB hawks to oppose a 50bp rate cut at the December meeting.

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