

Snap | 28 November 2024

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



Following 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.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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 www.ing.com.