

Snap | 27 September 2024

## Eurozone sentiment points to further inflation easing in the short run

The Economic Sentiment Indicator dropped from 96.5 to 96.2 in September. Weaker growth prospects and easing inflation concerns show a clear turning in eurozone sentiment at the moment, which adds dovish pressure on the ECB



### Selling price expectations in line with further easing of inflation

Inflation prints for Spain and France have come in very soft this morning, likely resulting in a first sub-2% eurozone inflation print for September. While this is related to base effects and inflation is expected to tick up again towards the end of the year, the question is by how much this can happen. Petrol prices have dropped significantly in recent weeks on the lower oil price, which limits the prospects of a headline inflation rebound. For the European Central Bank, a lot of focus will be on whether core inflation will come down though, with services inflation as its main concern.

Today's ESI shows that selling price expectations for services continued to moderate slightly. Our expectations are that services inflation should drop to just above 3% in early 2025, down from 4.1% in August. Where lower energy prices may therefore impact headline inflation now, we expect a more gradual easing of core inflation in the months ahead.

## ECB consumer expectations for inflation also fall

Meanwhile, the ECB also released its Consumer Expectations Survey for August this morning. This showed that perceived inflation continued to fall and that inflation expectations also dropped. Inflation expectations for the coming 12 months eased from 2.8 to 2.7% and for the next three years, consumers now expect inflation to come in at 2.3%. This indicates that inflation expectations for consumers seem well anchored at the moment.

## Growth worries slowly take centre stage again

While the ESI dropped from 96.5 to 96.2 in September, this was not as large a downturn as the PMI showed. Still, all main eurozone surveys for September have now come in weak and this means that with inflation relatively benign, the focus of policy makers is shifting from inflation to growth worries at this point. For the ECB, this means that the pressure to lower interest rates from current restrictive levels quickly will increase.

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