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Eurozone sentiment reveals inflation alarm bells are ringing

The Middle East war has clearly thrown the eurozone economy off track. The economic sentiment indicator fell from 98.2 in February to 96.6 in March



The eurozone sentiment indicator for March shows that businesses and consumers' sentiment has dropped and that price expectations have increased on the back of the Middle East war.

The Middle East war has clearly thrown the eurozone economy off track. The economic sentiment indicator fell from 98.2 in February to 96.6 in March. Where recent months still revealed more confidence in a recovery on the back of stronger public investment and consumer spending, worries about a new energy crisis have taken over this month.

Selling price expectations for industry jumped from 12.3 to 19.7, the highest level since February 2023. With input prices on the rise due to higher energy costs and supply chain disruptions, this makes sense. The service sector saw a much smaller increase in selling price expectations, reflecting the sector's lower reliance on energy as an input. Consumer inflation expectations have soared the fastest though, indicating that concerns about prices have spread fast.

The decline in sentiment was mainly felt among consumers and retailers. Broader service sector sentiment was stable, as was the case for industry. Recent production for both broad sectors has not yet been affected, according to the survey. Expectations for the months ahead did decline though, indicating that businesses are starting to brace for the negative impact of the war.

So when taking stock at the end of March, the Middle East war has so far scared consumers significantly as they worry about inflation but has not yet affected output for businesses significantly. But expectations of higher selling prices and weaker demand have already filtered through to businesses. A relatively quick end to the conflict would limit the economic fallout of course, but concerns about longer-lasting effects are clearly starting to affect the mood in Europe.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

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