

## Eurozone sentiment stable in February

The economic sentiment indicator showed a slight decline from 99.8 in January to 99.7 in February. This broadly stable reading casts some doubt on the pace of recovery in the first quarter. The inflation outlook from the survey is a mixed bag with continued high services inflation in the making, but goods inflation is set to drop from here



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The economic sentiment indicator for February seems slightly less optimistic than the PMI. The broad picture that remains is one that shows an economy still struggling with high inflation but profiting from fading supply-side problems. This leaves economic growth around stagnation for the winter months.

The industrial survey was slightly less optimistic than in January, the index stood at 0.5 compared to 1.2. This was mainly because of weaker production expectations and a contracting order book component. Recent production surged though, from 0.6 to 5.2 in February, likely related to supply chain problems easing, which causes some catch-up production. That will boost first-quarter growth, but the survey does not give the impression that this is a trend that can last much longer.

For services, we saw a more cautious survey altogether. Both recent demand and expected demand weakened in February, though moderately. While employment has recently surged in services, more moderate hiring is on the cards for the months ahead. This is a bit at odds with a

more optimistic PMI from last week, so we're cautious about over-interpreting either but it does somewhat dampen expectations for the near-term outlook.

Selling price expectations show a clear divergence between goods and services, which is key for core inflation developments ahead. We see a strong decline in the indicator for goods price expectations as easing supply chain problems and lower energy costs have caused input price growth to plummet. Services expectations are higher and more influenced by increasing wage costs, which should be a key factor for the ECB to focus on moving forward. Perhaps some good news there as well; while the number of businesses increasing prices remains at a high level, the indicator did reach its lowest level since August.

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