Eurozone sentiment weakens ahead of steeper tariffs

Manufacturers are becoming increasingly upbeat about production expectations, but the service sector experienced a dip in activity in March. With service sector weakness and manufacturing expected to be affected by further steps in the trade war, the short-term growth outlook for the eurozone remains sluggish

Weakening service sector activity and deteriorating consumer confidence have prompted a drop in sentiment across the eurozone

The eurozone economic sentiment indicator dropped in March from 96.3 to 95.2. Sentiment fell mainly because of weakening service sector activity and deteriorating consumer confidence. Over the first months of the year, the picture of the economy is one of slight improvement compared to the fourth quarter when the eurozone economy stagnated. Still, the outlook remains fragile.

The service sector saw its assessment of the business situation drop to the weakest level since 2021, and the same holds true for the evolution of recent demand. As services have been the main engine of growth for the eurozone in recent years, this is a source of concern about short-term growth. Businesses in the service sector also scaled back hiring plans and reduced selling price expectations – the latter being a good thing as services inflation remains the main source of above-target inflation.

For manufacturing, hopes about future production have jumped on the EU defence spending and German infrastructure plans. These investments generally require a long lead-up up though. With US President Donald Trump's announcement on car tariffs and more to come next week, the outlook for manufacturing in the short run can hardly be called positive. For now, order books remain weak while selling price expectations are high after a jump in January.

The growth outlook for domestic demand in the eurozone should have been improving on stronger real wage recovery, but uncertainty among businesses and consumers on the back of the rapidly shifting global economic developments is holding this back. With aggressive tariffs ahead, the question is which engine short-term growth for the eurozone should come from.

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