

Eurozone survey indicates weak economy with fading inflation pressures

The economic sentiment indicator increased slightly in November from 92.7 to 93.7, mainly due to a consumer rebound. The overall picture continues to show a mild recession, but also more signs of slowly fading inflation pressures



The service sector saw the indicator for recent demand deteriorate further in November

The eurozone economy continues to show clear signs of recession. While consumers became slightly more upbeat – but still at depressed levels – in November, industry and services still showed signs of contracting activity.

Industry sentiment decreased from -1.2 to -2 in November, the lowest reading since January last year. Businesses reported a sharp decline in recent production trends as new orders continue to drop. Production expectations slightly improved, perhaps as supply chain problems are easing. Nevertheless, with orders still in decline, it is hard to predict a swift turnaround in production.

The service sector also saw the indicator for recent demand deteriorate further in November, although modestly. The retail sector noticed a slight improvement in recent demand and overall

we see that the service sector has become slightly more upbeat about the months ahead.

Overall, it looks like the current environment is one that is in line with a mild recession occurring. We often hear from the European Central Bank (ECB) that a mild recession is not enough to bring inflation down sustainably, but it is important to take this together with the easing supply side problems that the economy has faced recently.

Signs of a changing inflation picture are slowly becoming more apparent. Energy prices have moderated somewhat, which is helping headline inflation readings for November stay on the low side. But easing supply-side pressures, lower wholesale energy prices, weakening demand and higher volumes of stock are also causing businesses to become somewhat less keen to increase prices, according to this survey. In industry and retail, in particular, we clearly see a lower number of businesses that are keen to increase selling prices in November.

While these are only the first signs that inflation is set to moderate, they are very important to the ECB. We think the ECB will opt for a 50bp rate hike in December as the recession is becoming more apparent and inflationary pressures are cautiously easing.

Author

Bert Colijn

Senior Economist, Eurozone

bert.colijn@ing.com

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