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Has the eurozone economy started a quiet revival?

The small drop in the economic sentiment indicator for the eurozone is at odds with the PMI and suggests relatively weak economic activity in March. We therefore remain cautious about GDP growth for the first quarter. Dropping selling price expectations confirm a view of moderating inflation for the months ahead

Today's figures provide no justification for giving the all-clear in the eurozone's fight against inflation

The economy is undoubtedly in a volatile phase at the moment, illustrated by confusing recent survey data about the first quarter. The PMI (which jumped from 52 to 54.1 in March) has been a lot more upbeat than the economic sentiment indicator, which fell from 99.7 to 99.3 this month. Both surveys share a concern about manufacturing production, but the European Commission survey seems more cautious about how services are performing.

The manufacturing survey shows slightly improving performance of new orders, but at a low level. Similarly, inventories remain rather high. The production trend previously observed dropped in March, but remained above levels seen in the second half of last year. Overall, it looks like industry has profited from easing supply chain strains, which has helped reduce backlogs of work. With weak orders, it makes sense that production expectations are falling again.

For services, we see a decline in the development of the business situation. Demand saw a small drop, but overall it looks like the recovery in demand seen in December and January has now ended. Businesses in services are getting more upbeat about the outlook, but for now the survey suggests moderate activity in the sector. In retail, we see that high inventory levels add to a drop in sentiment. The sales indicator remained at high levels in March but ticked down slightly compared to February.

Selling price expectations dropped across the board in March. Industry and construction price expectations are falling rapidly and could soon reach levels seen prior to the Covid-19 pandemic. For retail and services, we see that so far the drop is smaller and a large percentage of businesses still intend to raise prices, but the trend has been down for a few months now. Does anyone dare to predict a soft landing at this point? We'll believe it when we see it, but recent survey data at least do point in that direction with slowing inflation expectations and economic activity picking up a bit – although at weak levels.

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