

Eurozone economy starts the year on a strong footing

The European Commission's economic sentiment indicator increased in January, which bodes well for first-quarter growth. Inflationary expectations eased, but remain above their long-term average. There is no need for the ECB to move, though the weakening dollar is likely to be monitored closely by the doves in the Governing Council



The cyclical upturn in manufacturing continues

Following a subdued December, the European Commission's economic sentiment indicator increased to 98.2 in January from 97 previously. Among the big member states, France saw the most spectacular improvement, with its sentiment indicator rising sharply to 100.4 from 94.6 in December. This uptick is likely due to a significant reduction in political uncertainty after the 2026 Budget got the green light.

Confidence improved across all eurozone sectors except construction, where sentiment held steady. Notably, the manufacturing sector continues to recover, with production expectations surpassing their long-term average despite ongoing weakness in export orders. Additionally, inventory levels are now at their lowest point in three years, and employment expectations strengthened in every sector. Collectively, these developments indicate an encouraging outlook for

economic growth in the months ahead.

Price expectations moderate

Price expectations declined across all sectors, yet remain above historical averages. Consumer price expectations also moderated but continue to exceed long-term norms. Current data supports the ECB's decision to maintain stable interest rates; there is no evident need for additional stimulus, nor do inflation trends suggest immediate changes to monetary policy.

However, the recent depreciation of the US dollar will be carefully observed. According to an alternative scenario presented by ECB staff in December, assuming a gradual depreciation of the dollar to 1.27 against the euro, eurozone inflation could reach 1.6% in 2027 and 1.7% in 2028. Such projections may encourage more vocal advocacy for further easing among the dovish Governing Council members.

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