The eurozone’s economic recovery sputters in April

The European Commission's economic sentiment indicator unexpectedly declined in April on the back of a still struggling manufacturing sector. Selling price expectations softened in most sectors, suggesting that a June rate cut is still on the cards

A false start to the second quarter

The European Commission’s economic sentiment indicator fell to 95.6 in April from 96.2 in March. Industrial confidence (-1.6) fell back significantly. Inventories slightly increased and the order book assessment strongly deteriorated, meaning that the manufacturing sector might still see a few months of subdued activity. No wonder employment expectations softened again. Even if the increased tensions in the Middle East had a negative impact on the assessment, the overall situation in manufacturing remains rather downbeat. Capacity utilisation (78.9%) fell to the lowest level since 2020.

Confidence also dropped in the retail sector (-0.8), construction (-0.4) and services (-0.4). That said, capacity utilisation in the services sector increased to 90.2% from 89.9% in the first quarter. This is clearly above the long-term average (89%). The employment expectations index for all sectors weakened to 101.8, albeit still above the long-term average of 100.

Consumer confidence increased in April to -14.7 from -14.9 in March, the third consecutive increase. Both the assessment of the financial situation over the past 12 months and expectations for the next 12 months climbed higher. The decline in inflation and rising nominal wages are certainly contributing to this. However, the labour market seems to be losing some vigour, as employment expectations increased.

While the first quarter likely saw subdued GDP growth after two quarters of GDP contraction, the second quarter started on a softer footing. We still see a gradual recovery unfolding, as the inventory correction will likely come to an end around the summer months and real disposable income increases on the back of lower inflation, fueling household consumption.

Selling price expectations moderate

The data on inflation was much better. In all sectors, apart from construction, selling price expectations decreased. However, as this indicator is still above its long-term average for all sectors, except industry, it is still too soon to claim that the inflation battle has been won.

Today's data shows that the eurozone's economic recovery remains a stop-and-go affair, at least for the time being. As we believe that the subdued recovery is likely to continue, the speed of the disinflation process will be the defining factor for monetary policy. While a June rate cut has been advocated so strongly and today's data didn't include any nasty inflation surprises, it seems all but sure to happen. But with US interest rates unlikely to be cut anytime soon and selling price expectations in the eurozone still mostly above their long-term average, the European Central Bank's monetary easing will likely proceed at a snail's pace.

Author

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com