

## The eurozone's shallow recession is nearing an end

The European Commission's economic sentiment indicator significantly improved in December, although it remained at a subpar level. Less positive was the increase in price expectations across the board, suggesting that the European Central Bank is unlikely to be pushed into early easing



### Manufacturing remains the weakest link

The European Commission's economic sentiment indicator improved to 96.4 in December from 94.0 in November. While the indicator's level is still on the weak side, it is the third consecutive increase.

Industrial confidence (+0.3) slightly improved. While inventories now seem to be coming down, the order book assessment further deteriorated, meaning that the manufacturing sector might still see a few months of subdued activity. No wonder employment expectations softened again.

Confidence improved in both the retail sector (+1.4) and construction (+0.8). At the same time, there was a major increase in services sector sentiment (+2.9). Except for industry, economic sentiment is now back above its long-term average in all major sectors.

Consumer confidence also increased in December, with both a better assessment of the current situation and expectations for the next 12 months. The decline in energy prices and rising wages are certainly contributing to this. In a separate report, it appeared that retail sales fell 0.3% month-on-month in November, in line with expectations. This doesn't necessarily indicate negative consumption growth in the fourth quarter, since households likely spent more on services.

Even though the average level of the sentiment indicator in the fourth quarter was slightly above the third quarter, we still pencil in a small negative growth figure in the last quarter of 2023. But in the first half of 2024, a gradual recovery is likely to unfold, as the inventory correction comes to an end and real disposable incomes increase on the back of lower inflation.

## Price expectations increase across the board

The information on inflation was less positive. In all sectors, selling price expectations increased and, apart from industry, remain significantly above their long-term average. Consumer inflation expectations also increased, after having declined in the three months before.

This is the first batch of important data in the run-up to the January ECB meeting. The bad news is that a lasting disinflation trend cannot be taken for granted yet. At the same time, the improving economic situation does not require an early interest rate cut. Data still seems geared towards a wait-and-see position at least until the second quarter.

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