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European Business Cycle Indicators

Price developments from the perspective of business managers

1st Quarter 2024

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European Business Cycle Indicators

1st Quarter 2024

Special topic

Price developments from the perspective of business managers

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OVERVIEW

Developments in survey indicators over the first quarter of 2024

- After signs of recovery at the end of 2023, the EU and euro-area (EA) **Economic Sentiment Indicators** remained broadly stable over the first quarter of 2024. In March 2024, the indicators were 0.3 points above (EU) and 0.2 points below (EA) their December 2023 values. Both indicators remained below their long-term average of 100, at 96.2 (EU) / 96.3 (EA) points respectively.

- Continuing the flat trend of the last quarter of 2023, the EU/EA **Employment Expectations Indicator** remained broadly stable over the first quarter of 2024. In March, the indicator stood 0.5 (EU)/0.6 (EA) points below its December 2023 reading and slightly above its long-term average.

- **Confidence** worsened in services and construction over the first quarter of 2024, while it stayed virtually unchanged in industry, retail trade and edged up among consumers.

- **Economic sentiment improved in four of the largest six EU economies**, namely France (+5.0), Poland (+3.0), the Netherlands (+2.8) and Italy (+1.7). In Spain the indicator merely edged upwards (+0.8), while in Germany it decreased by 2 points from December to March. The level of confidence has risen above the long-term average in France, Italy, Spain, and Poland. In the Netherlands, the indicator remained slightly short of its long-term average, while in Germany, sentiment has fallen well below its long-term average.

- The EU/EA **Economic Uncertainty Indicator** decreased throughout the first quarter, with its March reading 2.0 (EU) / 1.9 (EA) points below its December 2023 print. From a sectoral perspective, levels of perceived uncertainty decreased in all four business sectors (i.e., industry, services, retail trade and construction) and among consumers.

- In January, **capacity utilisation** in industry decreased by 0.5 (EU) / 0.4 (EA) percentage points compared to October and stayed below its long-term average. Capacity utilisation in services decreased by 0.6 (EU)/0.4 (EA) pps., but remained above its long-term average.

- In January, in the EU, the share of industry managers indicating **insufficient demand** as a factor limiting their production gained further prominence. The percentage of managers pointing to **shortages of material and/or equipment** as a factor limiting production decreased further from the record level of early 2022. The share of managers indicating **shortage of labour force** as a factor limiting production remained broadly stable, remaining relatively high.

- **Consumers' quantitative perceptions of price developments** over the past 12 months eased for the third quarter in a row. Their **quantitative price expectations** for the next 12 months edged down as well.

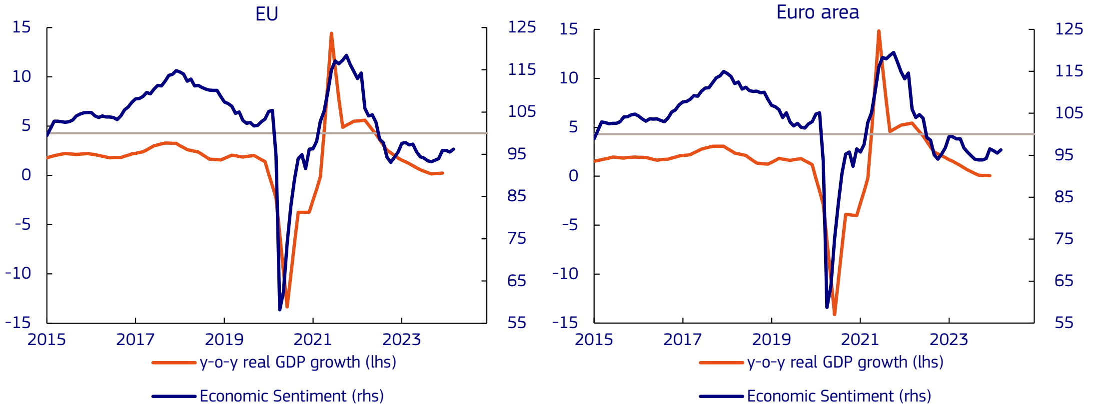
Special topic: Price developments from the perspective of business managers

Following the fast decline of inflation from the record levels recorded towards the end of 2022, the "last mile" of the disinflationary process towards target looks set to slow down, and may even face some challenges. This Special Topic analyses the results of the European Commission's monthly business surveys regarding managers' selling price expectations in industry, retail trade and services. Recent easing in selling price expectations by retailers and service providers suggests that, in the coming months, pressure on consumer prices should ease for both goods and services, though when focusing on specific consumer services, signals are mixed. At the same time, price pressures may have edged up in recent months in the manufacture of consumer goods, but remain overall weak.

1. RECENT DEVELOPMENTS IN SURVEY INDICATORS IN EU AND EA

After signs of recovery at the end of 2023, the EU and euro-area (EA) **Economic Sentiment Indicators (ESI)** remained broadly stable over the first quarter of 2024 (see Graph 1.1). In March 2024, the indicators were 0.3 points above (EU) and 0.2 points below (EA) their December 2023 values. Both indicators remained below their long-term average of 100, at 96.2 (EU) / 96.3 (EA) points respectively.

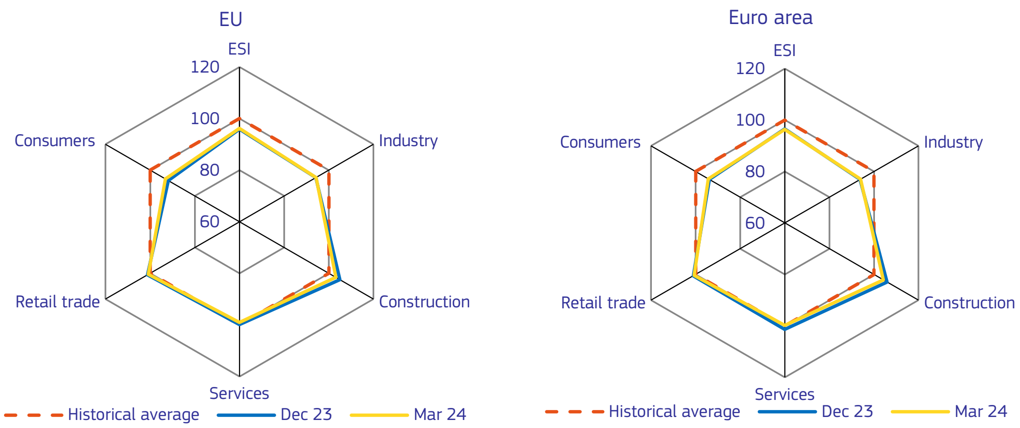
Graph 1.1: **Economic Sentiment Indicator**



(1) The horizontal line (rhs) marks the long-term average of the survey indicators. Confidence indicators are expressed in balances of opinion and hard data in y-o-y changes. If necessary, monthly frequency is obtained by linear interpolation of quarterly data.
Source: European Commission

From a sectoral perspective, EU confidence worsened in services and construction over the first quarter of 2024, while it stayed virtually unchanged in industry, retail trade and edged up among consumers (see Graph 1.2). Developments in the EA were broadly in line with those in the EU. The level of EU/EA confidence in March was significantly above long-term average only in construction, while it remained low by historic standards in industry and among consumers. Retail trade and services confidence was roughly in line with average readings.

Graph 1.2: **Radar Charts**



(1) A development away from the centre reflects an improvement of a given indicator. The ESI is computed with the following sector weights: industry 40%, services 30%, consumers 20%, construction 5%, retail trade 5%. Series are normalised to a mean of 100 and a standard deviation of 10. Historical averages are generally calculated from 2000q1. For more information on the radar charts see the Special Topic in the 2016q1 EBCI.
Source: European Commission

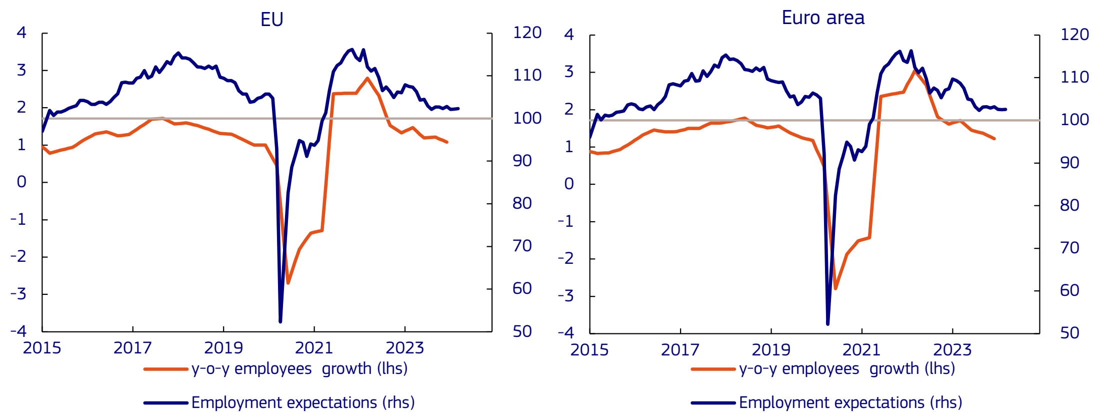
In the first quarter, economic sentiment improved in four of the largest six EU economies, namely France (+5.0), Poland (+3.0), the Netherlands (+2.8) and Italy (+1.7). In Spain the indicator merely edged upwards

(+0.8), while in Germany it decreased by 2 points from December to March. The level of confidence has risen above the long-term average in France, Italy, Spain, and Poland. In the Netherlands, the indicator remained slightly short of its long-term average, while in Germany, sentiment has fallen well below its long-term average.

Contrary to the ESI, the HCOB Flash Eurozone Composite PMI Output Index [1] improved by 2.7 points compared to its December reading, to 50.3 points, just above the critical 50-points threshold separating spells of positive and negative growth. Contrary to the ESI, PMI does not include consumer, construction, and retail trade data, and is based on a different set of questions. The indicators can therefore diverge in the short term.

Continuing the flat trend of the last quarter of 2023, the EU/EA **Employment Expectations Indicator (EEI)** remained broadly stable over the first quarter of 2024 (see Graph 1.3). In March, the indicator stood 0.5 (EU)/0.6 (EA) points below its December 2023 reading and slightly above its long-term average. Employment expectations worsened in construction and services, while they stayed broadly flat in industry and increased marginally in retail trade.

Graph 1.3: **Employment expectations indicator**



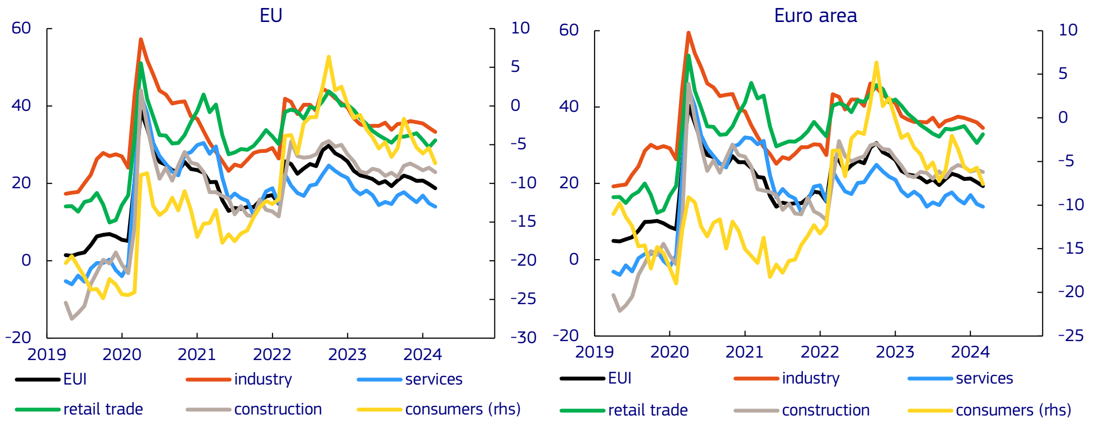
Source: European Commission

The EU/EA **Economic Uncertainty Indicator (EUI)** **[2]** decreased throughout the first quarter, with its March reading 2.0 (EU) / 1.9 (EA) points below its December 2023 print. From a sectoral perspective, levels of perceived uncertainty decreased in all four business sectors (i.e., industry, services, retail trade and construction) and among consumers (see Graph 1.4).

(1) Contradictory signals from the EA ESI and the eurozone PMI can also occur due to differences in their geographic coverage. For a systematic comparison of the two indicators, see the special topic in the 2017-Q2 EBCI.

(2) See the special topic of the 2021-Q3 EBCI for background, and section 3.6 of the BCS User Guide for methodological details.

Graph 1.4: **Uncertainty**



Source: European Commission

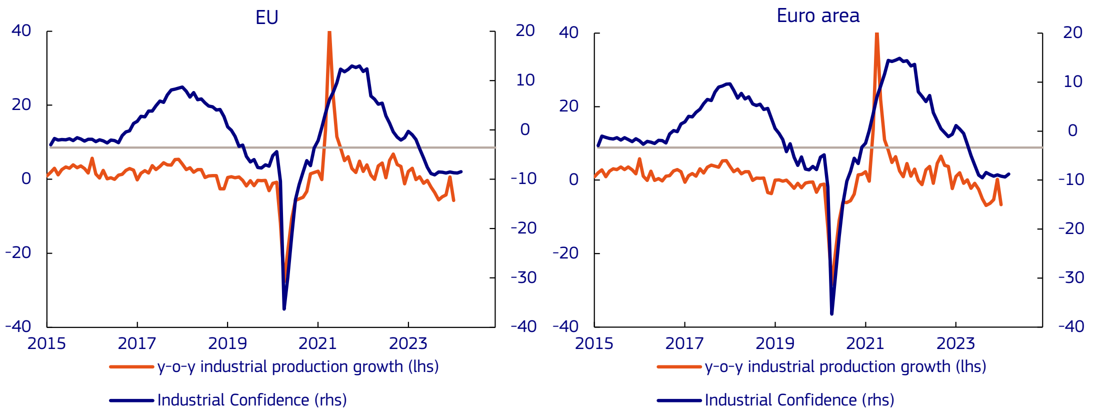
Sector developments

Industry confidence stayed broadly flat throughout the first quarter, with its March reading 0.1 points (both EU and EA) up compared to December 2023. Confidence in both regions remained low by historic standards (see Graph 1.5).

Zooming into the components of industrial confidence, managers' **production expectations** deteriorated over the quarter. At the same time, fewer managers considered the **stocks of finished products** as too high/above normal, indicating higher demand. Managers' assessments of their **order books** remained broadly stable at around their December level, halting the downward trend that was in place since March 2022.

Of the components not included in the confidence indicator, both managers' appraisals of changes in production over the past 3 months and their assessments of the current export order books improved.

Graph 1.5: **Industry Confidence indicator**



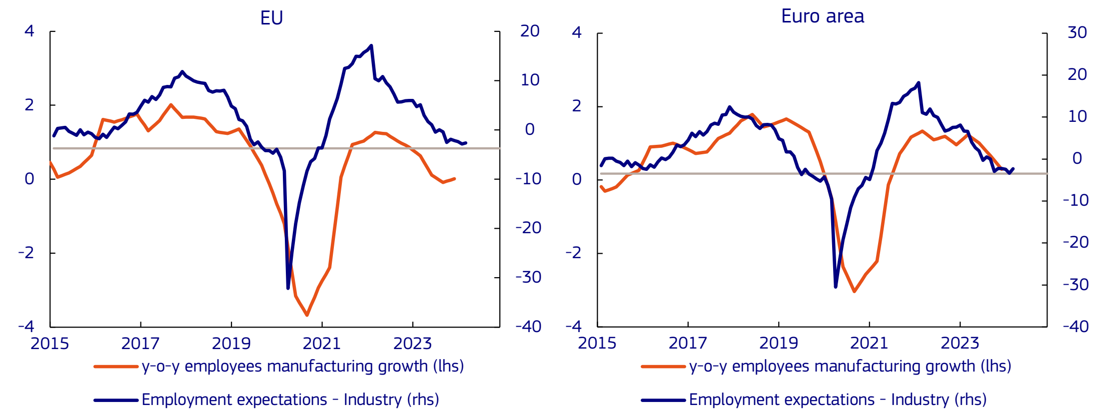
Source: European Commission

Industry managers' **employment expectations** (see Graph 1.6) remained broadly stable over the first quarter (-0.4 in the EU and -0.1 in the EA). At the same time, their **selling price expectations** picked up slightly over the quarter (+1.1 in the EU, +2.0 in the EA), remaining however 2.3 (EU) and 2.2 (EA) points below their respective historical means.

Industry confidence increased in four of the six largest EU economies, namely France (+5.8), Italy (+2.2), Poland (+1.6) and the Netherlands (+1.3), while it remained broadly stable in Spain (+0.8) and decreased in

Germany (-1.8). Except for France and Spain, where confidence is above historical average, industry confidence is weak by historical standards, particularly in Germany.

Graph 1.6: **Employment expectations in Industry**

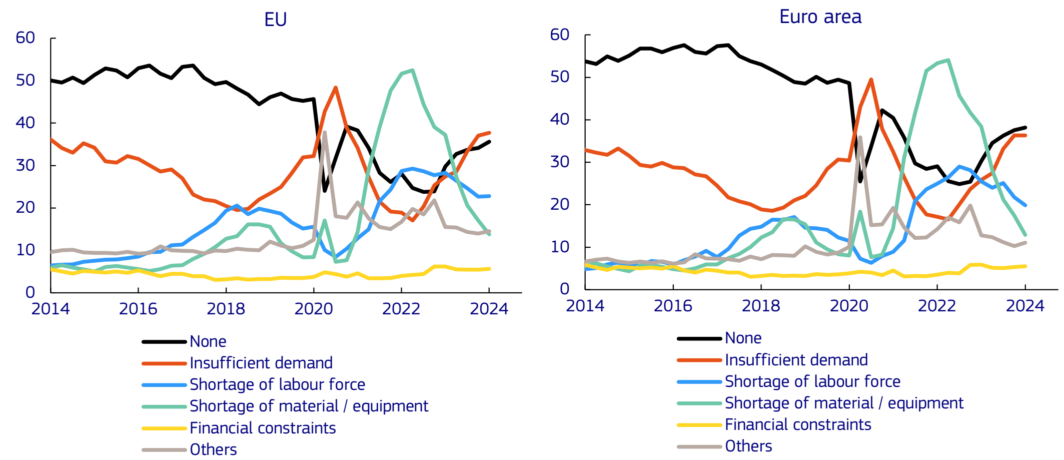


Source: European Commission

According to the quarterly manufacturing survey (carried out in January), **capacity utilisation** continued its broad downward trend observed since spring/summer 2022, decreasing by 0.5 (EU) / 0.4 (EA) percentage points compared to October 2023. At 79.1% (EU) / 79.2% (EA), the indicator is below its long-term average of 80.6% (EU) / 80.7% (EA).

The share of industry managers indicating insufficient demand as a **factor limiting their production** gained further prominence in January in the EU (see Graph 1.7). It increased for the seventh quarter in a row (+0.7 percentage points (pps.) compared to October 2023, to 37.7%), while remaining broadly stable at 36.3% in the EA. Meanwhile, the percentage of managers pointing to shortages of material and/or equipment as a factor limiting production decreased further from the record level of early 2022 (EU: -3.3 pps. compared to October 2023 to 13.8%, EA: -4.6 pps. to 12.9%), almost back to historical averages. The share of managers indicating shortage of labour force as a factor limiting production remained broadly stable in the EU (+0.1 pps. to 22.8%), while decreasing in the EA (-1.9 pps. to 19.9%). The shares remain elevated by historical standards. The prevalence of financial constraints stayed broadly unchanged (+0.1 pps. in both EU and EA) at comparatively low levels (EU: 5.6%, EA: 5.5%).

Graph 1.7: **Industry – Factors limiting production (in %)**

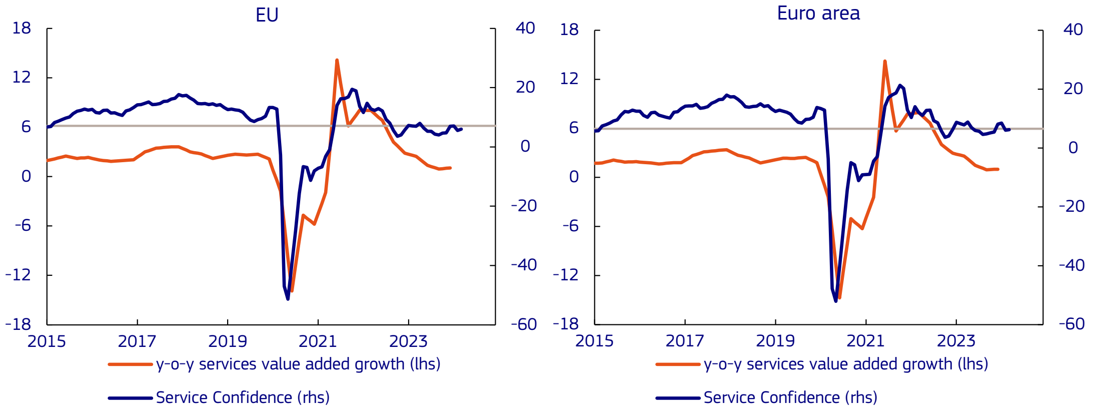


Source: European Commission

Due to a significant decrease in February, EU **services confidence** finished the first quarter 1.0 (EU) / 1.8 (EA) points down compared to December. The indicator was roughly in line with the long-term average readings in both regions (see Graph 1.8).

Looking into the components of services confidence, in the EU, the decrease registered over the quarter reflects a worsening in managers' **demand expectations** in March compared to December 2023, while their assessments of **past demand** and the **past business situation** stayed broadly unchanged. In the EA, all three components worsened over the quarter.

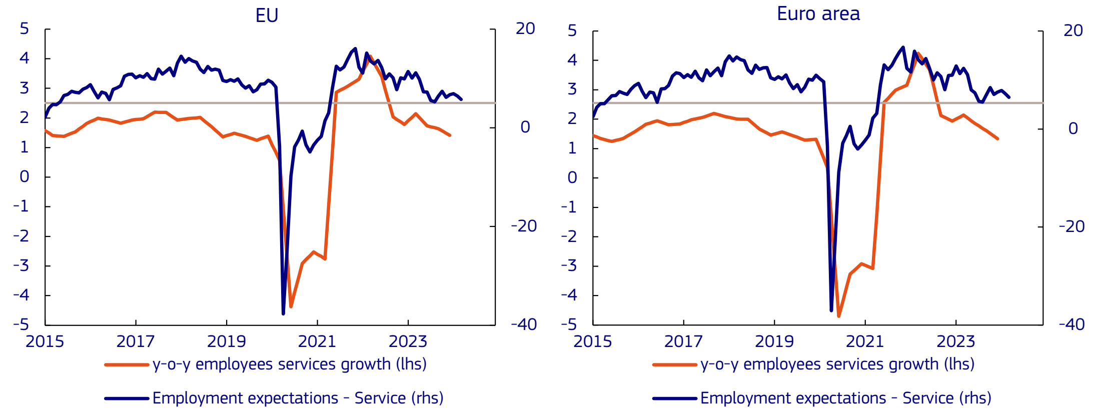
Graph 1.8: **Services Confidence indicator**



Source: European Commission

Compared to their December 2023 level, **employment expectations in services** decreased by 1 point in both the EU and EA (see Graph 1.9). While remaining at exceptionally high levels, managers' **selling price expectations** decreased markedly, by 3.7 points, in both areas.

Graph 1.9: **Employment expectations in services**



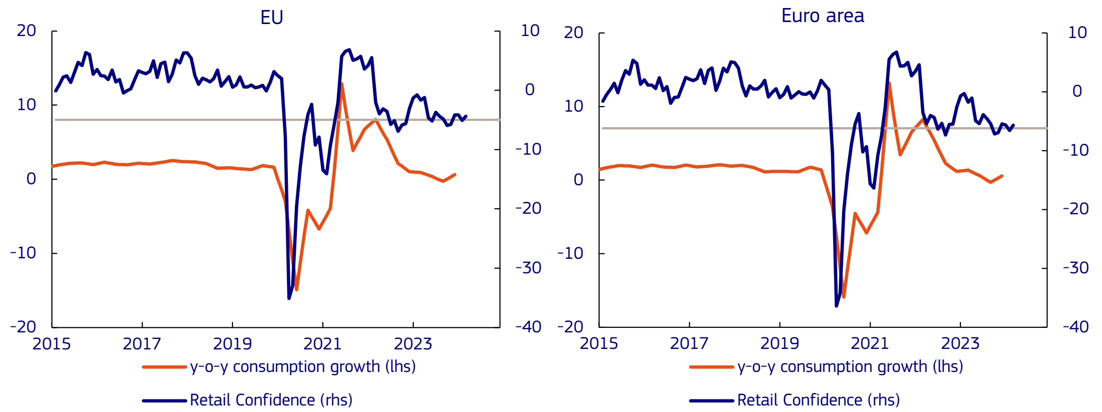
Source: European Commission

Among the six largest EU economies, services confidence worsened sharply in Germany (-4.7) and, less so, in Italy (-1.4), while it improved in Spain, Poland (both +1.9), France (+1.5) and the Netherlands (+1.0). Confidence levels exceed long-term averages in Italy, Spain, and the Netherlands, while registering well below in Germany. In France and Poland, services confidence is at or very close to average levels.

In January compared to October 2023, **capacity utilisation in services** decreased in both the EU (-0.6 pps) and EA (-0.4 pps). At 89.7% in both regions, capacity utilisation remained above its long-term average of around 89%.

Retail trade confidence continued to follow a broad sideways trend. Compared to December, the indicator completed the first quarter almost unchanged (-0.3 points in both the EU and the EA), at a level roughly corresponding to its long-term average (see Graph 1.10).

Graph 1.10: **Retail Trade Confidence indicator**



Source: European Commission

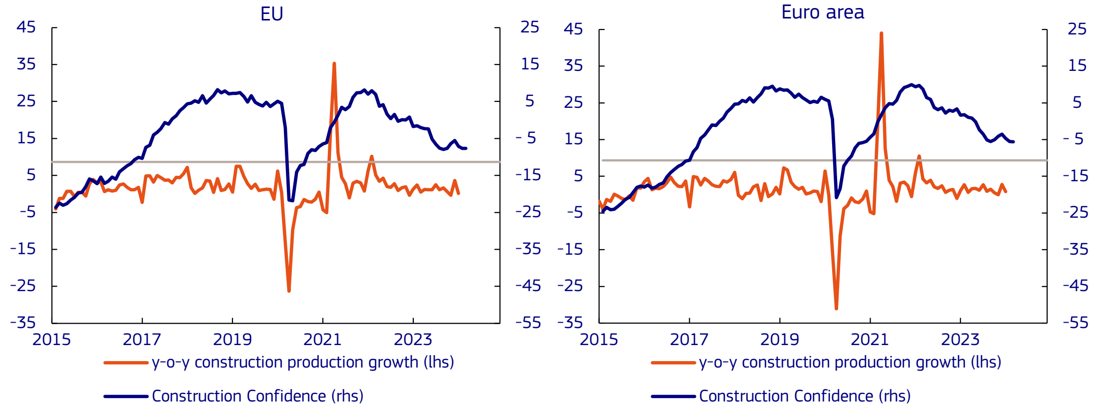
In both areas, retailers' assessments of the indicator's three components (i.e., the **past** and **future business situation** and the **volume of stocks)** remained broadly stable in March compared to December 2023.

At the level of the six largest EU economies, retailers' confidence weakened only in Germany (-0.9), while it improved in Spain (+4.4), the Netherlands (+2.9), France (+1.8) and Italy (+1.0) and stayed broadly flat in Poland (+0.3).

Construction confidence declined over the first quarter of 2024 (EU: -2.2, EA: -2.1 compared to December), offsetting the similar gains booked in the previous quarter, but staying comfortably above its long-term average (see Graph 1.1.11).

In both the EU and the EA, builders declared more downbeat **employment expectations** and appraisals of **order books**.

Graph 1.11: **Construction Confidence indicator**



Source: European Commission

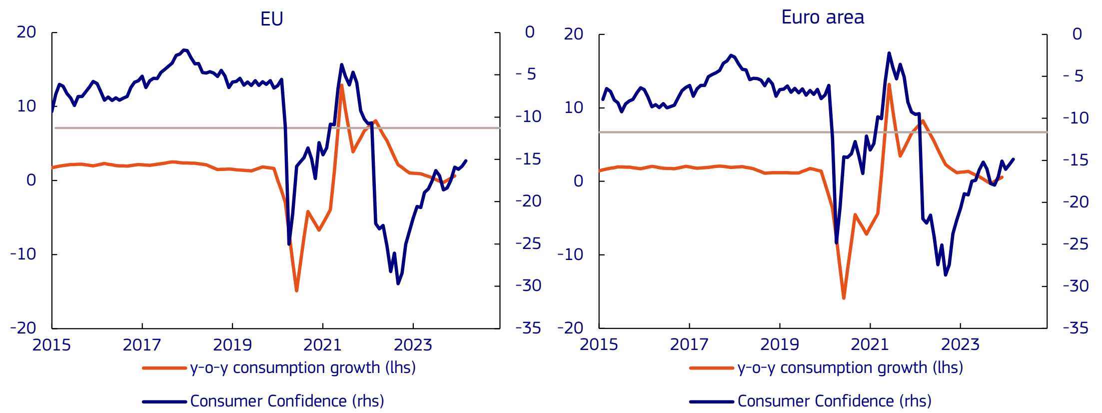
Insufficient demand was the most prevalent **factor limiting building activity**, cited by 32.8% (EU) / 33.0% (EA) of construction managers in March (+2.3 (EU) / +2.4 (EA) pps. compared to December). It was followed by **shortage of labour** which remained a wide-spread concern (EU: 27.5%, EA: 24.8%), but lower compared to 3 months ago (-1.0 (EU) / -1.7 (EA) pps.). The share of builders identifying **material and/or equipment** as factors limiting production decreased markedly, dropping by 8.0 (EU) / 8.1 (EA) pps. to 7.1% (EU) / 6.1% (EA). The percentage of managers reporting **financial constraints** as limiting factors remained low (-0.6 (EU) / -0.3 (EA) compared to December) at 8.7% (EU) / 8.5% (EA).

Among the largest EU economies, construction confidence worsened strongly in Spain (-5.9) ([3]), Italy (-4.4) and, to a lesser extent, in Germany (-2.7), while it improved in Poland (+2.7) and remained broadly stable in France (+0.4) and the Netherlands (-0.6).

EU/EA **consumer confidence** edged up, gaining a mere 0.7 (EU)/0.2 (EA) points compared to December, and remaining below long-term average (see Graph 1.12).

Consumers' more benign assessments of their households **past financial situation**, as well as more upbeat expectations regarding their **future financial situation** were largely offset by more pessimistic view about their **country's general economic** situation. Consumers' **intentions to make major purchases** remained broadly stable.

Graph 1.12: **Consumer Confidence indicator**



Source: European Commission

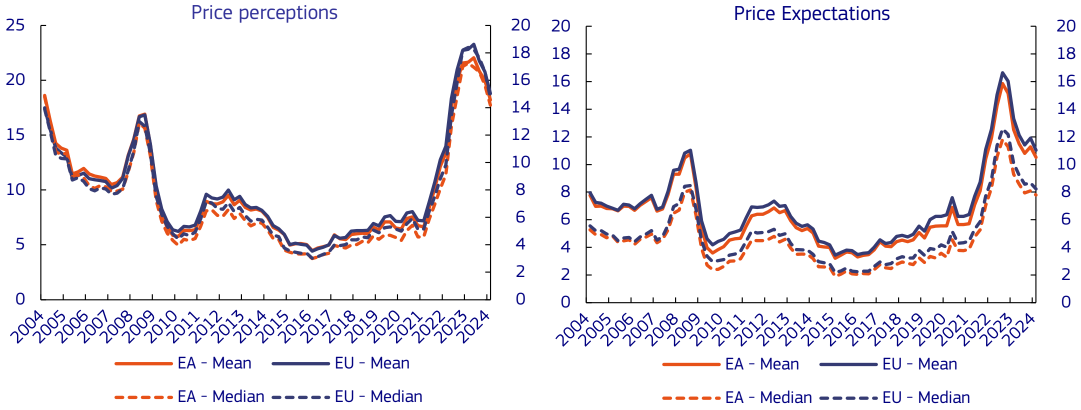
Consumer confidence improved in three of the six largest EU economies, most so in the Poland (+4.9) and, to a lesser extent, in Spain (+2.5) and the Netherlands (+1.2). In Germany (+0.6), France (+0.2) and Italy (-0.5), the indicator remained broadly unchanged.

In the EU and the EA, **consumers' quarterly quantitative perceptions of price developments** (change over the past 12 months, in %) eased for the third quarter in a row, both in terms of their arithmetic mean and their median (which is less sensitive to the presence of extreme values). In spite of the renewed decline, price perceptions remained exceptionally high (see Graph 1.13). ([4]) **Quantitative price expectations** (change over the next 12 months, in %), edged down as well. The results at total level were mirrored across almost all income, education and age groups, as well as among both men and women.

The detailed results among the different socio-economic breakdowns can be downloaded from the [European Commission's website](#).

([3]) The Spanish construction confidence indicator has a comparatively high month-to-month volatility.
([4]) For more information on the quantitative inflation perceptions and expectations, see the special topic in the EBCI 2019Q1.

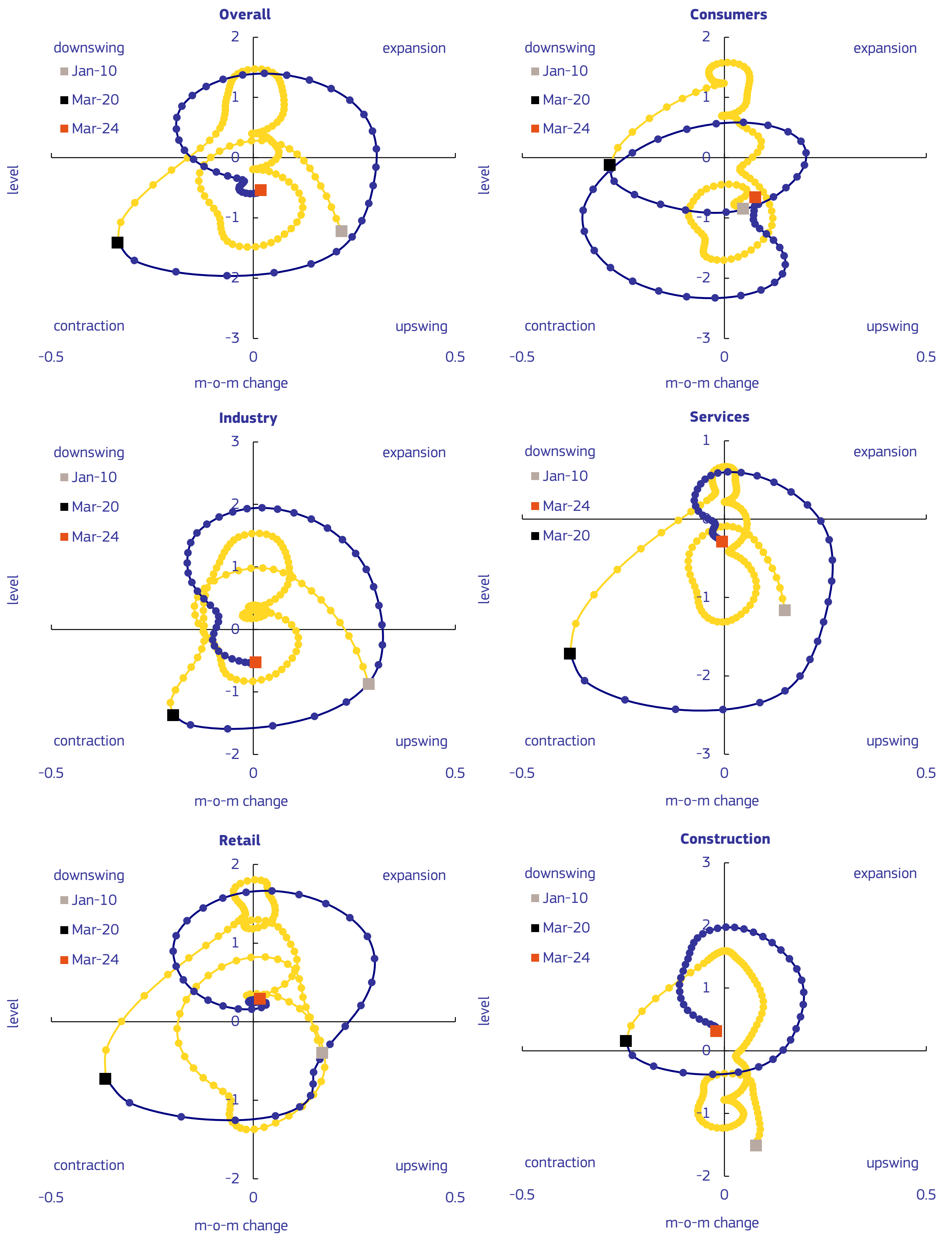
Graph 1.13: **Euro area and EU quantitative consumer price perceptions and expectations**



Source: European Commission

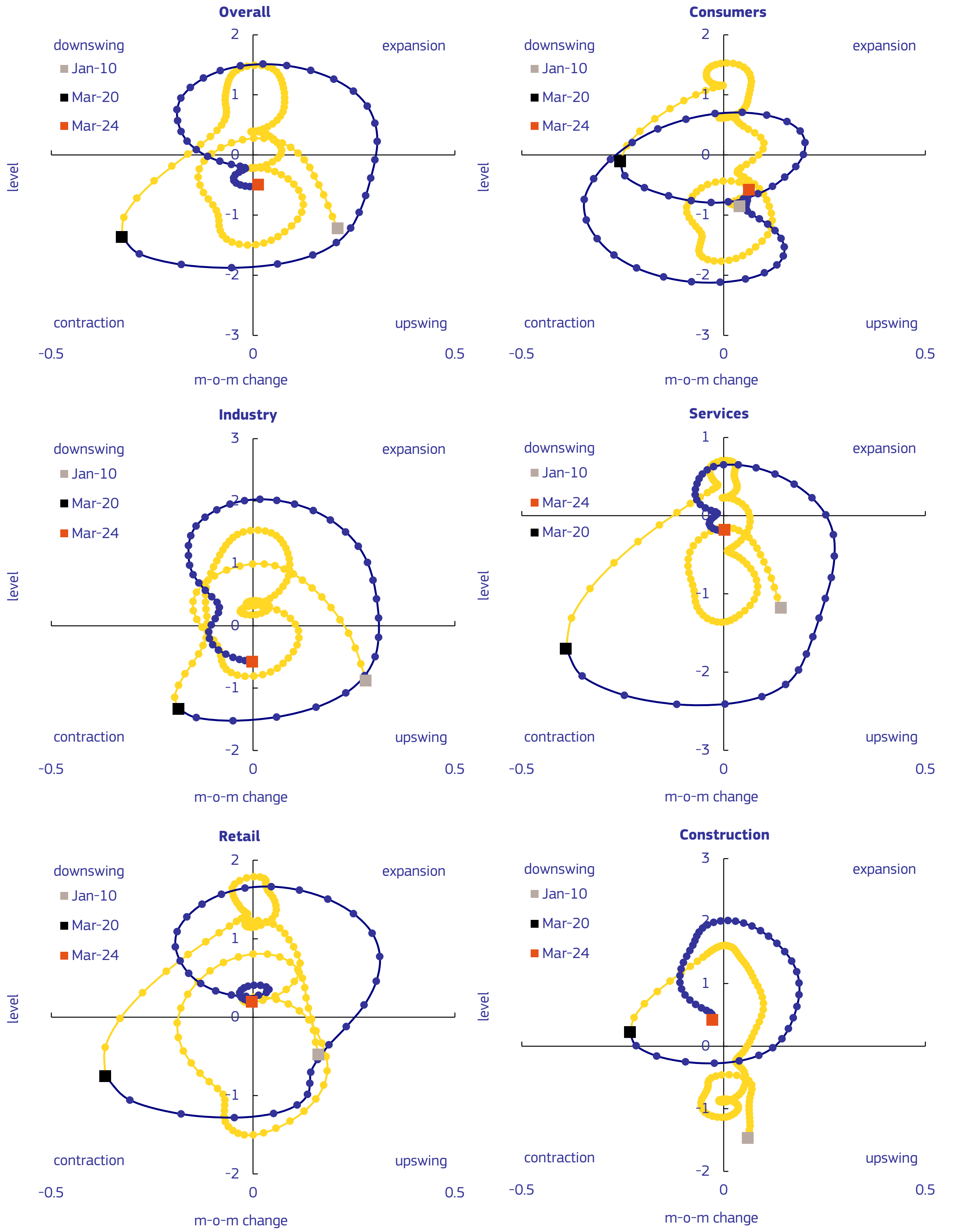
Stable economic sentiment in 2024-Q1, as captured by the ESI, also shows in the **climate tracers** for the EU and EA (see Annex for details). While very close to the border with the contraction quadrant, both moved to the upswing area (see Graphs 1.14 and 1.15). The developments in the sectoral EU/EA confidence indicators reverberated in the sectoral climate tracers: broadly stable/ slightly lower confidence moved the industry and services tracers closer towards the intersection between the contraction and upswing quadrants. The consumer tracer remained in the upswing area pointing to the expansion quadrant, while the construction tracer stayed in the downswing area, but moved closer to the expansion quadrant. The retail trade tracers remained virtually unchanged on the intersection between downswing and expansion.

Graph 1.14: **Economic climate tracers across sectors - EU**



Source: European Commission

Graph 1.15: **Economic climate tracers across sectors – Euro area**



Source: European Commission

2. RECENT DEVELOPMENTS IN SURVEY INDICATORS IN SELECTED MEMBER STATES

Germany

Despite the recent upturn in March, the German ESI ended the first quarter 2.0 points lower than in December. At 89.8 points, the indicator is well below its long-term average of 100 (see Graph 2.1). Accordingly, the German climate tracer stayed in the contraction quadrant, but moved slightly closer to its intersection with the upswing area (see Graph 2.2).

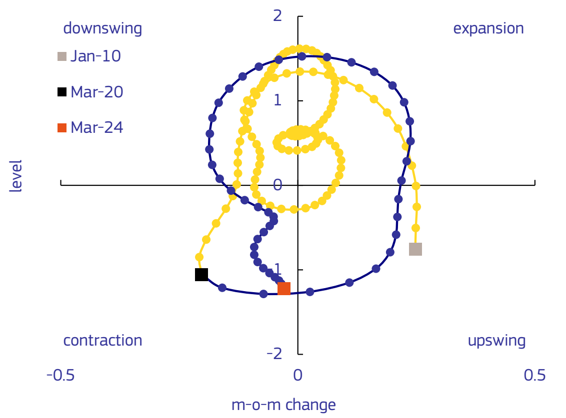
The Employment Expectations Indicator (EEI) went in lockstep with the ESI, falling in January and February before picking up again in March, losing 1.0 point over the quarter. The difference with the ESI is that its level in March (97.9 points) was only barely below its long-term average. The slight dip in the indicator in the first quarter was due to more cautious employment plans among construction and services managers, which were only partially offset by less gloomy plans in industry. Employment expectations remained broadly unchanged in retail trade.

Graph 2.1: **Economic Sentiment indicator for Germany**

Source: European Commission

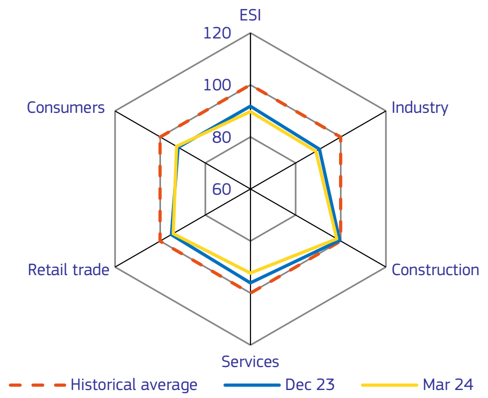
As shown in the radar chart (see Graph 2.3), confidence slipped in all surveyed business sectors and more particularly in services, while it remained broadly unchanged among consumers. The level of confidence in construction is now also below long-term average, bringing confidence levels below historical averages in all surveyed sectors.

Graph 2.2: **Climate Tracer for Germany**



Source: European Commission

Graph 2.3: **Radar chart for Germany**



Source: European Commission

France

After four quarters of volatile sideways movement, the **French** ESI improved by 5.0 points in March compared to December. Reaching 100.7 points, it narrowly exceeding the indicator's long-term average of 100 (see Graph 2.4). The French climate tracer moved to the upswing quadrant, towards the expansion area (see Graph 2.5).

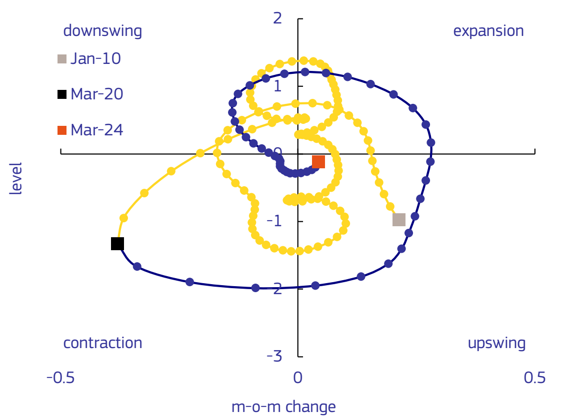
By contrast, the Employment Expectations Indicator (EEI) slipped (-2.2 points compared to December) owing to more muted employment plans among industry and services managers, while expectations remained broadly stable in retail trade and construction.

As evidenced by the radar chart (see Graph 2.6), confidence firmed markedly in industry, and to a lesser extent also in services and retail trade, while remaining broadly flat in construction and among consumers. The level of confidence is now at or above historical average in services and in industry, while still falling short in retail trade, construction and among consumers.

Graph 2.4: **Economic Sentiment indicator for France**

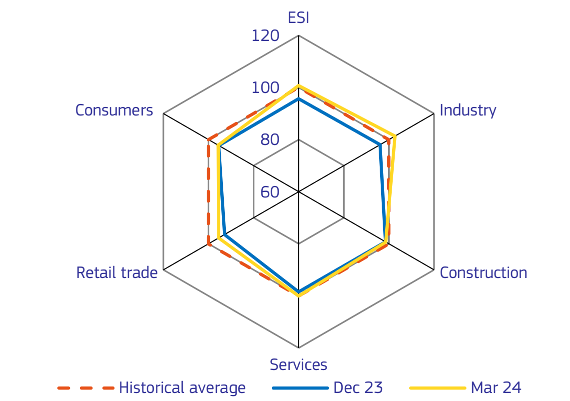
Source: European Commission

Graph 2.5: **Climate Tracer for France**



Source: European Commission

Graph 2.6: **Radar chart for France**



Source: European Commission

Italy

Despite the downturn in February, the **Italian** ESI completed the first quarter 1.7 points up compared to December and, at 100.9 points, is now just above its long-term average of 100 (see Graph 2.7). The Italian climate tracer moved to the neutral intersection between the four possible states of the business cycle (see Graph 2.8).

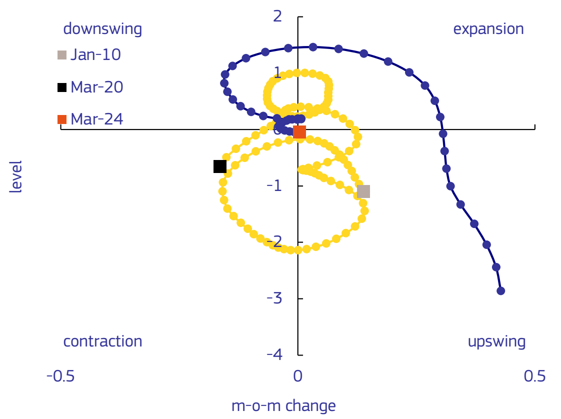
Graph 2.7: **Economic Sentiment Indicator for Italy**

Source: European Commission

Due to a decline in February, the Italian EEI decreased by 1.0 point over the quarter, but, at 106.4 points, remained comfortably above its long-term average of 100. The downward correction was due to less optimistic employment plans among construction, services and industry managers. Retail trade managers were more upbeat about future employment.

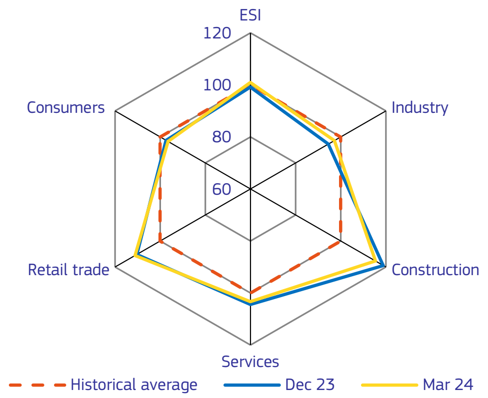
As shown in the Italian radar chart (see Graph 2.9), confidence picked up in industry and retail trade, while it dropped markedly in construction and, to a lesser extent, in services. Consumer confidence remained broadly unchanged. Confidence levels remained high by historical standards in construction, retail trade and services, while still falling short of their long-term averages in industry and among consumers.

Graph 2.8: **Climate Tracer for Italy**



(1) Due to a missing value for April 2020, the climate tracer for Italy is interrupted between March and May 2020.
Source: European Commission

Graph 2.9: **Radar chart for Italy**



Source: European Commission

Spain

The **Spanish** ESI finished the first quarter 0.8 points above its December level, at 102.0 points, thus discernibly above its long-term average of 100 (see Graph 2.10). The Spanish climate tracer moved into the expansion quadrant (see Graph 2.11).

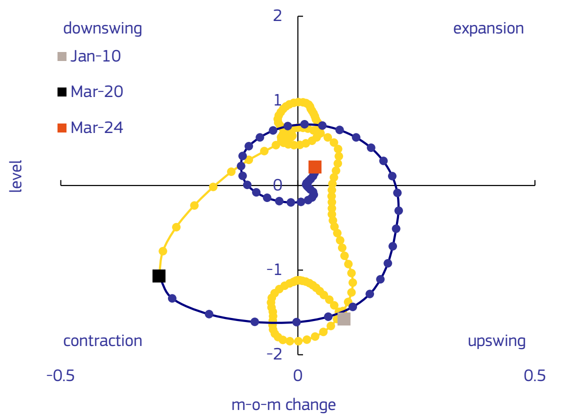
The Spanish EEI also increased marginally (+0.8) to a level (108.1 points) well in excess of its long-term average, as more upbeat expectations in services and retail trade were only partially offset by more cautious employment plans in industry and construction.

As shown in the radar chart (see Graph 2.12), confidence improved in retail trade, services, and among consumers, while recording a significant drop in construction. Industry confidence remained broadly stable. Confidence now exceeds long-term averages in all surveyed business sectors, while remaining slightly below it among consumers.

Graph 2.10: **Economic Sentiment Indicator for Spain**

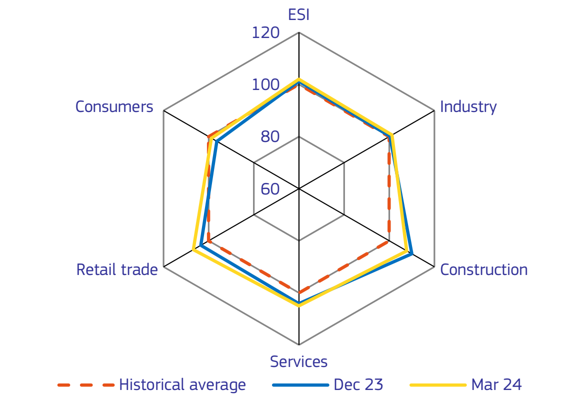
Source: European Commission

Graph 2.11: **Climate Tracer for Spain**



Source: European Commission

Graph 2.12: **Radar chart for Spain**



Source: European Commission

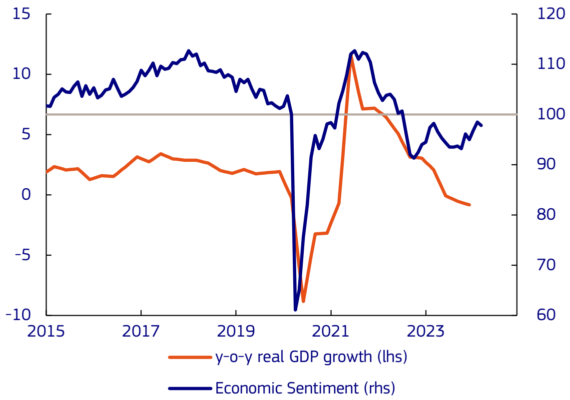
The Netherlands

Compared to December, the ESI for the **Netherlands** improved by 2.8 points over the first quarter, but, at 97.8 points, remained slightly short of its long-term average (see Graph 2.13). The Dutch climate tracer moved out of the contraction territory to the upswing quadrant (see Graph 2.14).

The EEI for the Netherlands remained broadly stable (+0.5) at 104.4 points, well in excess of its long-term average. Employment plans improved in retail trade, while they remained virtually stable in services and weakened in industry and construction.

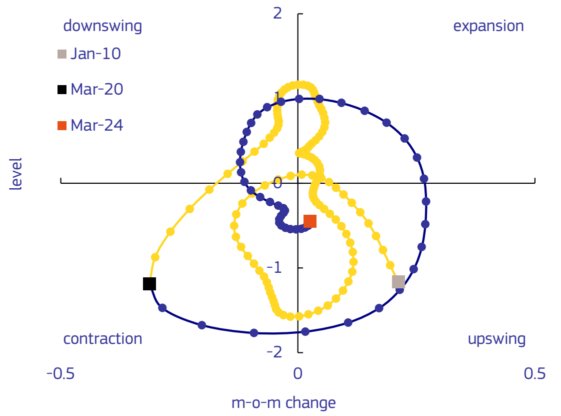
As shown in the radar chart (see Graph 2.15), confidence improved among consumers and in all surveyed business sectors except for the construction sector, where confidence remained broadly unchanged. Compared to historical standards, confidence remained elevated in construction. Confidence slightly exceeded its long-term average in services, while remaining lower in industry, retail trade and among consumers.

Graph 2.13: **Economic Sentiment Indicator for the Netherlands**



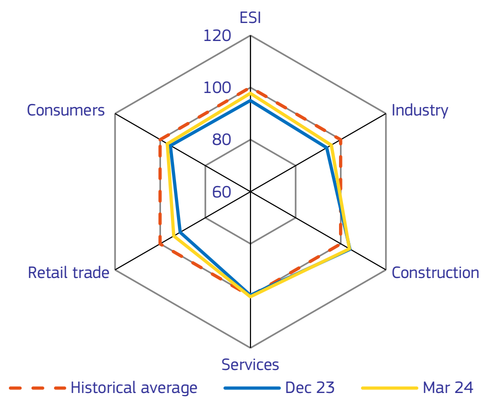
Source: European Commission

Graph 2.14: **Climate Tracer for the Netherlands**



Source: European Commission

Graph 2.15: **Radar chart for the Netherlands**



Source: European Commission

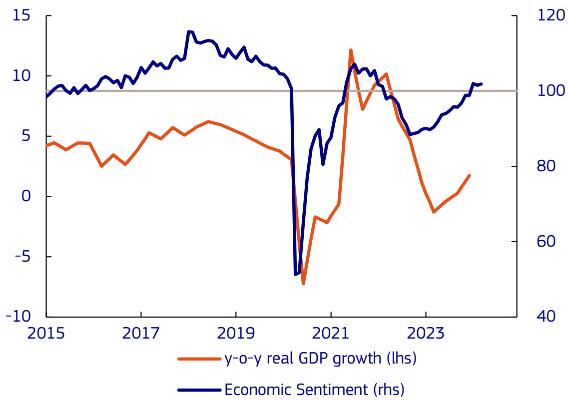
Poland

In the first quarter of 2024, the ESI for **Poland** continued the upward trend it had embarked upon a year ago, gaining 3.0 points compared to December. At 101.8, the indicator exceeded its long-term average of 100 (see Graph 2.16). The Polish climate tracer moved to the intersection between upswing and expansion territory (see Graph 2.17).

The Polish EEI followed a similar path as the ESI, ending the first quarter of 2024 2.9 points above its December level. At 102.1 points, the indicator also exceeded its long-term average of 100. Employment plans brightened markedly in services, while remaining broadly unchanged in the other sectors.

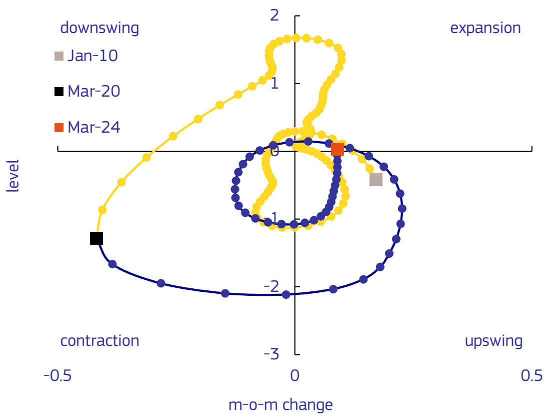
As shown in the radar chart (see Graph 2.18), confidence improved significantly among consumers and in all business sectors except for retail trade, where confidence remained virtually unchanged. It further exceeded historical averages among consumers, and in construction and retail trade, while falling short of them in industry and services.

Graph 2.16: **Economic Sentiment Indicator for Poland**



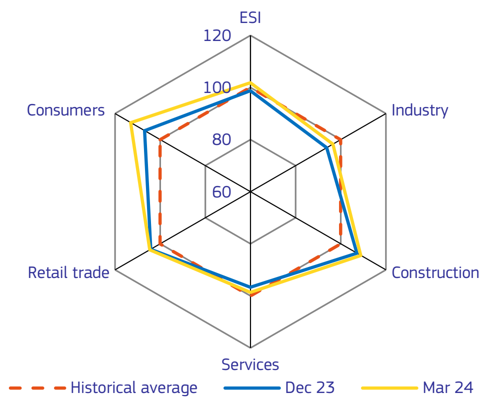
Source: European Commission

Graph 2.17: **Climate Tracer for Poland**



Source: European Commission

Graph 2.18: **Radar chart for Poland**

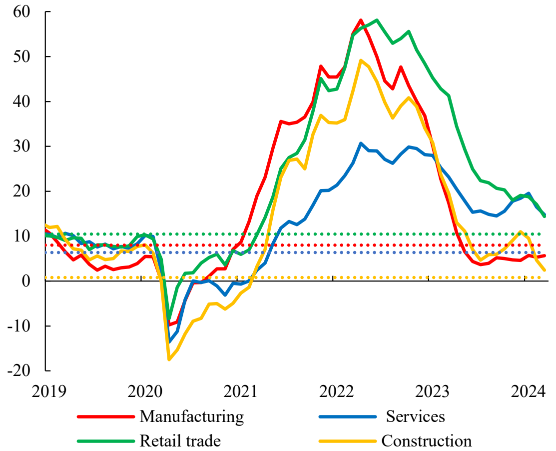


Source: European Commission

3. SPECIAL TOPIC: PRICE DEVELOPMENTS FROM THE PERSPECTIVE OF BUSINESS MANAGERS

Disinflation in the EU has proceeded fast. Reversal of the energy shock, unwinding of pandemic disruptions, decisive monetary policy action and, more recently, weaker growth momentum helped reduce inflation in the EU from a peak of 11.5% in October 2022 to below 3% in February 2024. However, while in the first quarter of 2024 inflation turned out lower than expected in previous European Economic forecasts, selling price expectations reported by business managers in the Commission surveys stabilised and even picked up in some sectors, following their steep decline which started in Autumn 2022. (5) This Special Topic looks at the results from the European Commission's monthly surveys on managers' selling price expectations and the Purchasing Managers' Index (PMI) surveys on output prices (6) to assess the short-term outlook for inflationary pressures in the EU.

Graph 3.1: **Survey prices (% balances, seasonally adjusted) – EU**



Note: The dotted lines are the respective long-term averages (since January 2000 for industry and construction, January 2002 for retail trade and April 2003 for services).
Source: European Commission.

Developments in managers' selling price expectations.

Graph 3.1 provides an overview of the evolution of selling price expectations – expressed as balances (7) - reported by managers in industry, services, construction and retail trade over the past five years. In all four sectors, the share of managers expecting their output prices to increase rose steeply in the aftermath of the pandemic crisis. After peaking at levels well above long term average, the shares declined just as steeply. Selling price expectations in industry peaked first and declined steeply until June 2023, to just below their long-term average, and stabilised thereafter. In retail trade, retrenchment in selling price expectations started later, in November 2022, and continued until the last available observation, in March 2024. However, a still relatively high share of retailers expects the prices of their products to increase. Selling price expectations in construction broadly followed the profile seen in industry until mid-2023, when they started increasing again sharply, before resuming their downward trend in January 2024. Finally, in the services sector, selling price expectations increased more gradually than in the other sectors, and after they peaked, in April 2022, they remained on a high plateau until early 2023. Thereafter, selling price expectations decreased gradually until September, increased again until January 2024, and declined again in the last two months, though remaining above their long-term average. The more muted trajectory of output prices in this sector, compared to the other sectors, likely reflects its higher share of labour costs in price formation.

Overall, the fact that a relatively high share of managers in the retail, construction and services sectors still reports the intention to charge higher prices for their output in the coming months, and that the declining trend in these expectations has been stalling or even reversed in recent months, raises questions about the future course of the disinflation process.

Like the producer price indices, selling price expectations reported by managers in the Commission surveys measure price changes from the point of view of producers/service providers/sellers and serve as

(5) The question on selling price expectations asked in all business sectors (i.e., industry, services, retail trade and construction) reads "How do you expect your selling prices to change over the next 3 months? They will increase, remain unchanged or decrease".

(6) PMI monthly output prices ask purchasing executives in the manufacturing and services industries to provide information on recent movements in prices charged, indicating whether these prices have gone up, down or remained the same as compared with the previous month. The responses are converted into diffusion indices in which the figure of 50 indicates an unchanged price level and results above (below) 50 signal increasing (decreasing) prices.

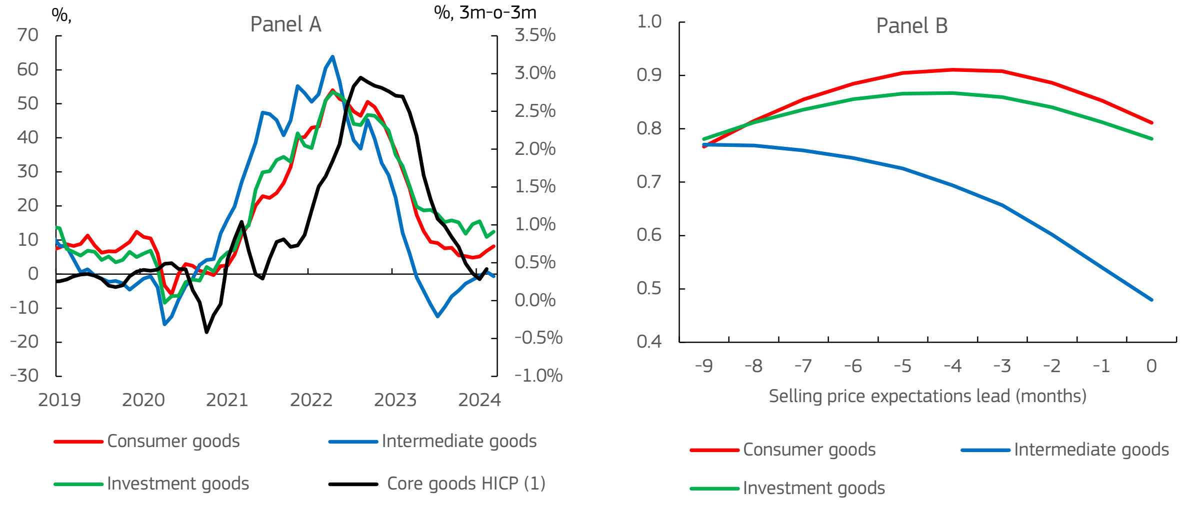
(7) Balances are constructed as the difference between the percentages of respondents giving positive and negative replies.

early indicators of pipeline inflationary pressures in the economy. Not all the goods produced and services provided by firms enter directly into the consumer price basket. Namely, the output of building activities mainly relates to investment goods, with little direct correspondence to items in the HICP basket ([8]). Similarly, within industry, the distance between goods produced and consumers is shortest in the main industrial group (MIG) producing consumer goods. ([9]) Therefore, the remainder of this analysis focuses on product groupings and sub-sectors that are more directly geared towards consumers. It tries to map the relationship between firms' pricing intentions with the corresponding HICP sub-components until March 2024, the latest month for which detailed inflation data are available.

Until mid-2022, survey price expectations indicators have been highly correlated with year-on-year HICP inflation (see 2023 Q1 EBCI Special Topic). However, the profile of annual HICP inflation over the past two years has been affected by exceptionally large and volatile base effects related to the major shocks that have pushed inflation down (COVID) and up (energy and food commodity prices) well beyond historical range. For this reason, in this analysis the predictive power of the surveys is assessed against the *momentum* of price changes, measured as the 3-month-on-3-month percentage change of the seasonally adjusted HICP series, rather than annual HICP inflation. Furthermore, price momentum better reflects the price developments that managers report in the surveys each month, which indeed are about expectations over the 3 months following the survey. An increasing trend in price momentum would reflect mounting price pressures that feed into the conventional year-on-year inflation measure.

Selling price expectations for consumer goods

Graph 3.2: **Price momentum for goods (1) vs. Selling Price Expectations by main Industrial Groupings, EU monthly developments (Panel A) and correlation coefficients (Panel B)**



(1) Price momentum defined as 3m-o-3m % change on the seasonally adjusted series. Goods include non-energy industrial goods and processed food. Sample period for the calculation of correlation coefficients: January 2002 – February 2024.
Source: European Commission.

Survey data on **selling price expectations of manufacturers of consumer goods** (see Graph 3.2) provide valuable forward indications for core goods inflation. The combined price momentum for the HICP components of 'non-energy industrial goods' and 'processed food' co-moves well with the selling price expectations of manufacturers of consumer goods. The correlation is strongest when the relevant price momentum is lagged by three to five months.

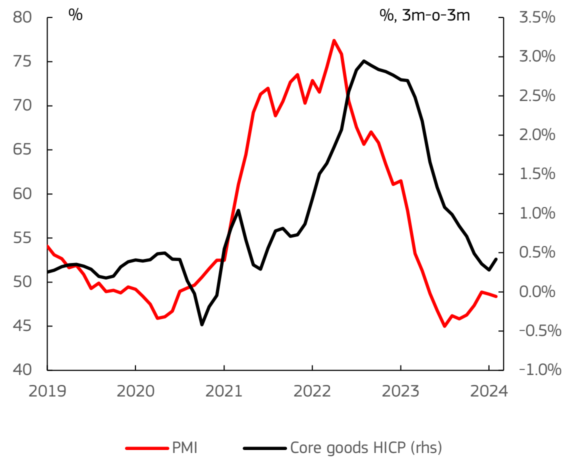
([8]) The HICP basket includes the cost of actual rents and of maintenance and repair of the dwelling - with an average total weight of 6.5% (in 2024) - but not the "imputed rent for housing".

([9]) Within the available industry breakdown of activities by Main Industrial Groupings (MIGs), the correlations between selling price expectations and dynamics of producer prices over the past two years are strong. Correlation is highest when coincident or with producer prices one month ahead.

Selling price expectations among managers in the consumer goods industrial grouping declined sharply between May 2022 and September 2023, with an uptick in the aftermath of the Ukraine war. In Autumn 2023, however, they bottomed out, and even increased slightly in February and March 2024, possibly reflecting the upward push from output prices for intermediate goods. Still, despite some modest rebound, price momentum in the core goods category in recent months has remained very weak, close to a 3-year-low, and does not seem to herald a change to the disinflation in respective annual rates.

Output prices for manufactured goods reported in the PMI surveys provide a similar picture. Generally, the correlations between the PMI output prices in manufacturing and the 3-month-on-3-month changes in the core goods HICP are also high and leading (see Graph 3.3). The latest PMI developments support the message conveyed by the BCS selling price expectations, suggesting a potential halt in the downward trend of price momentum of HICP core goods inflation.

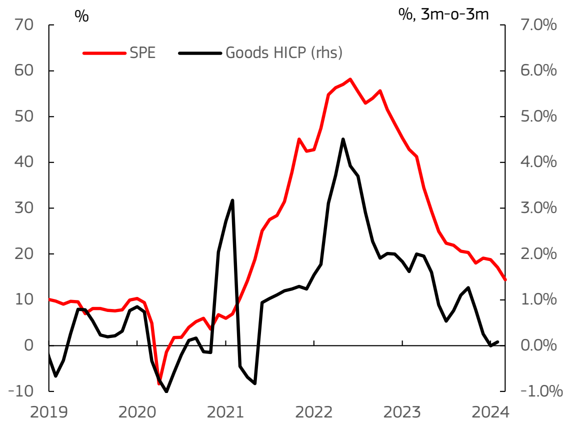
Graph 3.3: **Price momentum (1) in core goods (HICP) vs. PMI output prices in manufacturing, EU, SA**



(1) Price momentum defined as 3m-o-3m % change on the seasonally adjusted series. Goods include non-energy industrial goods and processed food.
Source: European Commission and S&P Global Market Intelligence.

Moving to the observation of **selling price expectations in retail trade**, they move in good sync with the prices of the corresponding HICP basket (non-energy industrial goods and food, beverages, tobacco, and fuel). The correlations reach a level of 0.72 when the selling price expectations by retailers are coincident/one month ahead.

Graph 3.4: **Price momentum goods (1) vs. Selling Price Expectations in Retail trade, EU**



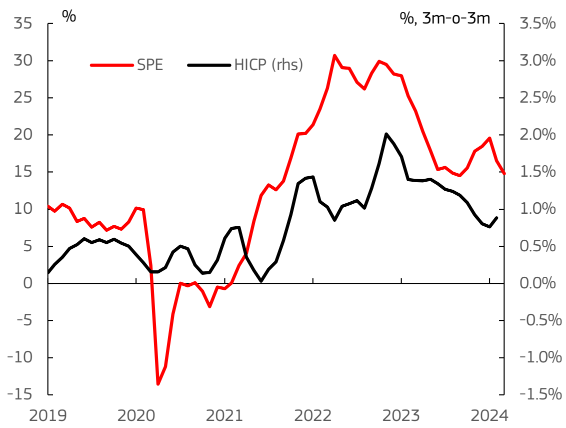
(1) Price momentum defined as 3m-o-3m % change on the seasonally adjusted series. Goods include non-energy industrial goods, food, beverages, tobacco and fuel.
Source: European Commission.

The downward trend in selling price expectations by retailers that began in November 2022 was interrupted by a slight uptick in December 2023 (see Graph 3.4). However, in February and March, they returned onto a declining path.

Selling price expectations for services

For the services sector, which provides services to both consumers and corporations, survey data does not offer a breakdown by user that allows mapping selling price expectations to the relevant core inflation items. At the total services level, correlation between selling price expectations and price momentum for services is lower than for industrial consumer goods, but still high (see graph 3.5), with BCS selling price expectations leading by some months (correlation is highest, at almost 0.77, when selling price expectations are five months ahead).

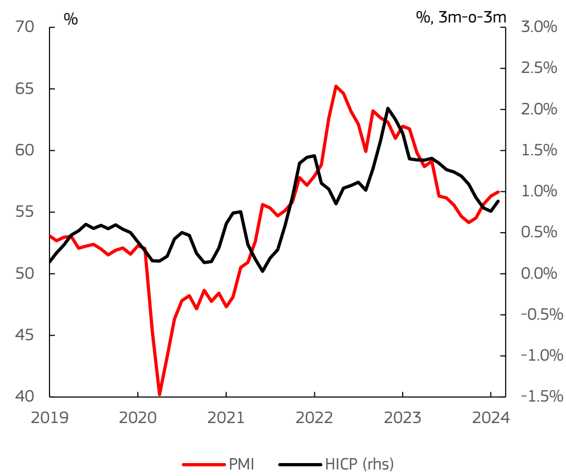
Graph 3.5: **Price momentum (1) HICP, total services vs. BCS Selling Price Expectations (total services), EU, seasonally adjusted**



(1) Price momentum defined as 3m-o-3m % change on the seasonally adjusted series.
Source: European Commission.

Selling price expectations among service providers decreased in February and March, reversing a trend of increases that began in mid-2023. Considering the leading properties of the survey data, price pressures in the sector may endure in the forthcoming months but look set to eventually ease again, possibly by the summer.

Graph 3.6: **Price momentum (1) HICP, total services vs. PMI output prices in Services, EU, SA**

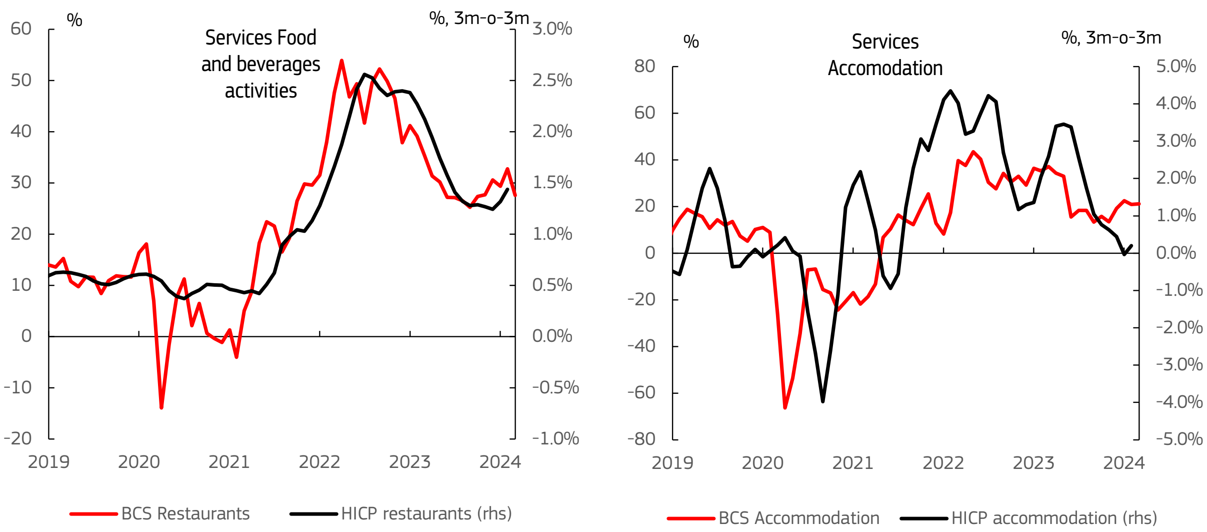


(1) Price momentum defined as 3m-o-3m % change on the seasonally adjusted series.
Source: European Commission and S&P Global Market Intelligence.

The picture depicted by survey data is however mixed. Contrary to the message conveyed by the BCS selling price expectations, the latest PMIs for output prices in the services sector (see Graph 3.6) suggest continued price pressures in services.

The picture is mixed also when focusing on specific services activities, clearly geared towards final consumers. For food services (like restaurants, cafés), correlation between selling price expectations and price momentum for the relevant items in the HICP basket is very strong and highest when leading by 3 months (0.93). While price momentum was still picking up in February, selling price expectations eased, after a period of increases (see Graph 3.7). This suggests that HICP inflation in this sub-sector may ease in the coming months. At the same time, price pressures for accommodation services have been easing since August 2023, whereas selling price expectations have remained broadly stable since September 2023 and even increased in December and January (see Graph 3.6). While correlation between the two metrics for accommodation services is relatively weak, the latest developments in selling price expectations suggest that the decline in inflation in these services may come to an end and even revert in the coming months.

Graph 3.7: **Price momentum (1) (HICP, selected service activities) vs. BCS Selling Price Expectations (selected service activities), EU, seasonally adjusted**

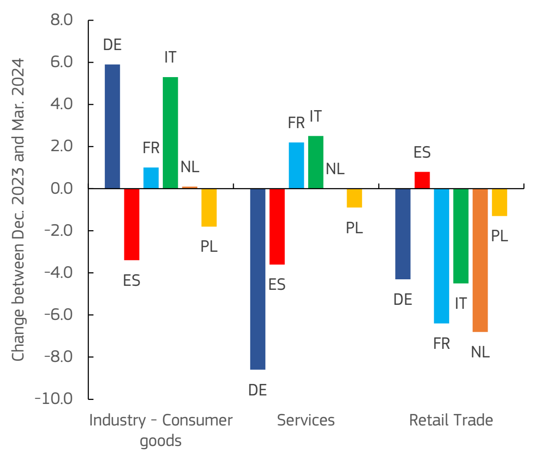


(1) Price momentum defined as 3m-o-3m % change on the seasonally adjusted series.
Source: European Commission.

Developments across EU Member States

The declining share of managers expecting an increase in their firms' output prices since December 2023 is a common feature across countries. In the manufacture of consumer goods, managers' selling price expectations remained broadly stable in most EU Member States, except for a few countries, including some large Member States such as Germany, Italy, and France (see Graph 3.8). In services, managers' selling price expectations remained broadly stable or decreased in the large majority of Member States. Among the largest EU Member States (see Graph 3.8), managers in the services sector markedly revised their expectations downwards in Germany and Spain, while they revised their expectations upwards in Italy and France. Finally, in most countries – and in nearly all of the largest Member States – retailers either revised their expectations downwards or left them unchanged.

Graph 3.8: **Managers' selling price expectations in the large Member States - March 2024 vs December 2023**



Source: European Commission.

Conclusions

Following the fast decline of inflation from the record levels recorded towards the end of 2022, the "last mile" of the disinflationary process looks set to proceed at slower pace, and may even face some challenges. This Special Topic analyses the results of the European Commission's monthly business surveys regarding managers' selling price expectations in industry, retail trade and services. The analysis relies on the leading properties displayed by the survey indicators for assessing the short-term outlook for inflation, measured as the 3-month-on-3-month percentage change of the seasonally adjusted HICP series.

The recent easing in selling price expectations by retailers and service providers suggests that, in the coming months, pressure on consumer prices should ease further for both goods and services. However, when focusing on specific consumer services, signals are mixed – with food services (like restaurants, cafés) showing more scope for easing price pressures than accommodation services.

At the same time, price pressures may have edged up in recent months in the manufacture of consumer goods, where selling price expectations, which had stabilised at just above long-term average, have begun to rise again since the start of the year. Still, despite some modest rebound, price momentum in the core goods category in recent months has remained very weak, close to a 3-year-low, and does not seem to herald a change to the disinflation in respective annual rates.

Across Member States, managers' selling price expectations decreased or remained unchanged in most Member States across all three sectors. In consumer-goods manufacturing, however, selling price expectations increased in some large MS, namely in Germany, Italy and France.

ANNEX

Reference series

Confidence indicators	Reference series from Eurostat (volume/year-on-year growth rates)
Total economy (ESI)	GDP, seasonally- and calendar-adjusted
Industry	Industrial production, working day-adjusted
Services	Gross value added for the private services sector, seasonally- and calendar-adjusted
Consumption	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Retail	Household and NPISH final consumption expenditure, seasonally- and calendar-adjusted
Building	Production index for building and civil engineering, trend-cycle component

Economic Sentiment Indicator

The economic sentiment indicator (ESI) is a weighted average of the balances of replies to selected questions addressed to firms and consumers in five sectors covered by the EU Business and Consumer Surveys Programme. The sectors covered are industry (weight 40 %), services (30 %), consumers (20 %), retail (5 %) and construction (5 %).

Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. EU and euro-area aggregates are calculated on the basis of the national results and seasonally adjusted. The ESI is scaled to a long-term mean of 100 and a standard deviation of 10. Thus, values above 100 indicate above-average economic sentiment and vice versa. Further details on the construction of the ESI can be found here.

Long time series (ESI and confidence indices) are available here.

Economic Climate Tracer

The economic climate tracer is a two-stage procedure. The first stage consists of building economic climate indicators, based on principal component analyses of balance series (s.a.) from five surveys. The input series are as follows: industry: five of the monthly survey questions (employment and selling-price expectations are excluded); services: all five monthly questions except prices; consumers: nine questions (price-related questions and the question about the current financial situation are excluded); retail: all five monthly questions; building: all four monthly questions. The economic climate indicator (ECI) is a weighted average of the five sector climate indicators. The sector weights are equal to those underlying the Economic Sentiment Indicator (ESI, see above).

In the second stage, all climate indicators are smoothed using the HP filter in order to eliminate short-term fluctuations of a period of less than 18 months. The smoothed series are then normalised (zero mean and unit standard deviation). The resulting series are plotted against their first differences. The four quadrants of the graph, corresponding to the four business cycle phases, are crossed in an anti-clockwise movement and can be described as: above average and increasing (top right, ‘expansion’), above average but decreasing (top left, ‘downswing’), below average and decreasing (bottom left, ‘contraction’) and below average but increasing (bottom right, ‘upswing’). Cyclical peaks are positioned in the top centre of the graph and troughs in the bottom centre.

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