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# European Business Cycle Indicators

Selling price expectations and core inflation  
– insights from the Commission’s business  
surveys

**1<sup>st</sup> Quarter 2023**

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## European Business Cycle Indicators

1<sup>st</sup> Quarter 2023

### Special topic

- Selling price expectations and core inflation – insights from the Commission’s business surveys

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## OVERVIEW

### Recent developments in survey indicators

- After a solid increase in January, broadly flat readings in February and March halted the recovery of the EU and euro-area (EA) **Economic Sentiment Indicator (ESI)**. Over the quarter, the indicator booked a net increase of 1.8 (EU) / 2.3 (EA) points compared to December and is virtually back to its long-term average in the EA (at 99.3 points), while still somewhat below it in the EU (at 97.4 points).
- The EU/EA **Employment Expectations Indicator (EEI)** improved in January and stayed flat thereafter. The indicator's level in March was 1.5 (EU) / 1.7 (EA) points higher than in December last year and significantly above long-term average.
- **Confidence** stayed virtually unchanged in industry and EU services (EA services confidence improved), while it eased in construction and firmed in retail trade. Consumer confidence increased strongly from an exceptionally low starting point.
- **Sentiment improved in five of the six largest EU economies** since December (the Netherlands (+4.2), Italy (+3.8), France (+3.7), Germany (+2.5), Spain (+0.9)), while it stayed virtually unchanged in Poland (+0.2). Confidence was high in Italy, regular in Spain and somewhat weak in the remaining countries, in particular Poland.
- The EU/EA **Economic Uncertainty Indicator (EUI)** continued receding from its peak in autumn of last year, thanks to lower uncertainty in all business sectors. In March, the indicator was 4.8 (EU) / 5.0 (EA) points below its December reading.
- In January, **capacity utilisation** in industry stayed broadly stable (EU) / decreased (EA) compared to October. At ca. 81%, the indicator stayed slightly above its long-term average. Capacity utilisation in services decreased, but remained above average.
- The share of industry managers pointing to a **shortage of material and/or equipment** as a factor limiting production decreased further in the EU (-2.5 percentage points compared to December) and the EA (-2.1), but remained at elevated levels (37.2% in the EU, 39.4% in the EA). The percentage of managers indicating **labour shortages** as a limiting factor edged up in the EU (+0.7), while it edged down in the EA (-0.5). At 28.2% (EU) / 25.9% (EA), the shares remain exceptionally high.
- Consumers' quantitative **price perceptions** over the past 12 months increased only slightly, but reached a new all-time high, while **price expectations** for the next 12 months saw a significant decline after their first tentative decrease in 2022-Q4.

### Special topic: Selling price expectations and core inflation – insights from the Commission's business surveys

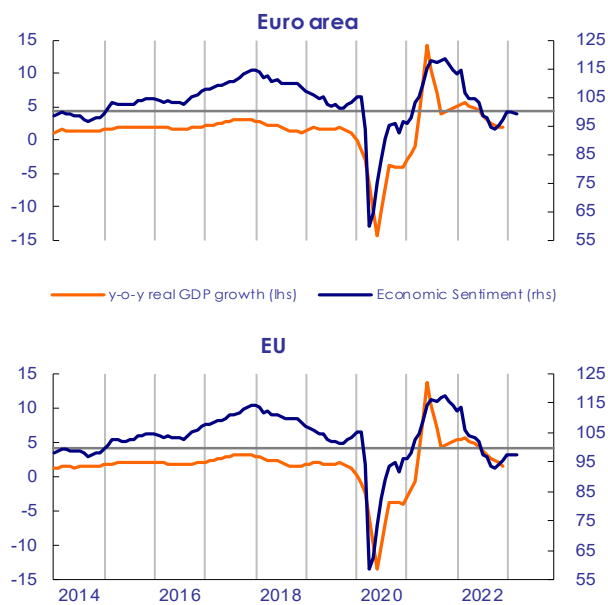
The special topic analyses the results of the European Commission's monthly business surveys regarding managers' selling price expectations in industry, services, and retail trade. Overall, survey results up to March 2023 show an easing in selling price expectations in the sectors producing goods and offering services destined to consumers. This suggests that, in the coming months, pressure on consumer prices should ease for the corresponding core items of the consumption basket. Inflation moderation should also materialise soon in the service sector. Across Member States, the decrease in selling price expectations is widespread. In industry and retail trade, almost all countries have recorded a decrease in selling price expectations over the last year. By contrast, in services, the decline in selling price expectations in the EU still masks some heterogeneity across countries.

# 1. RECENT DEVELOPMENTS IN SURVEY INDICATORS

## 1.1. EU and euro area

After a solid increase in January, broadly flat readings in February and March halted the recovery of the EU and euro-area **Economic Sentiment Indicator (ESI)** which had started in November last year (see Graph 1.1.1). Thanks to January’s increase, the indicator booked a net increase of 1.8 (EU) / 2.3 (EA) points compared to December and is virtually back to its long-term average of 100 in the euro area (at 99.3 points), while still somewhat below it in the EU (at 97.4 points).

Graph 1.1.1: Economic Sentiment Indicator

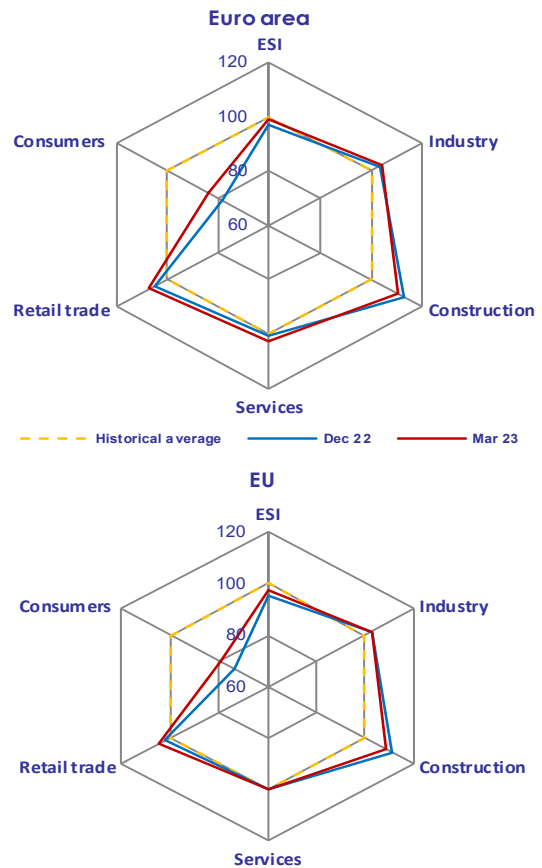


Note: The horizontal line (rhs) marks the long-term average of the survey indicators. Confidence indicators are expressed in balances of opinion and hard data in y-o-y changes. If necessary, monthly frequency is obtained by linear interpolation of quarterly data.

From a sectoral perspective, EU confidence (see lower panel of Graph 1.1.2) stayed virtually unchanged over the first quarter in industry and services, while it eased in construction and firmed in retail trade. Consumer confidence stood out with a comparatively strong increase from an exceptionally low starting point. Developments in the EA were broadly in line

with those in the EU, the only exception being a noticeable improvement in services confidence.

Graph 1.1.2: Radar Charts



Note: 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.

The level of confidence exceeded long-term averages in industry, retail trade and, particularly, construction, while it remained exceptionally low among consumers. In services, confidence was at an average level in the EU, while above average in the EA.

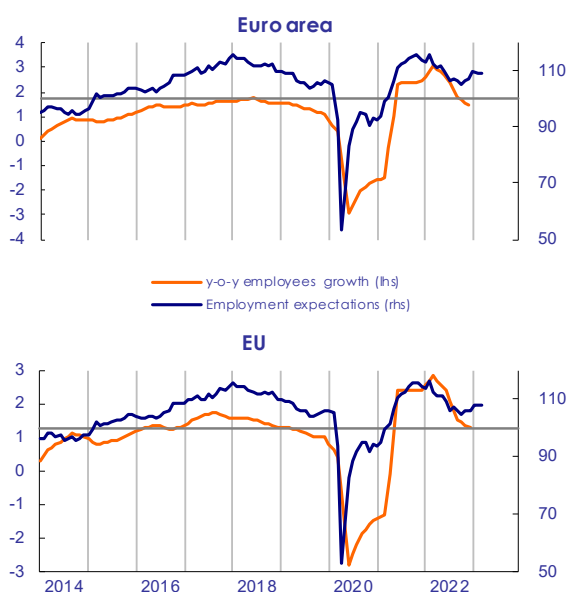
Economic sentiment improved in five of the six largest EU economies since December, namely in the Netherlands (+4.2), Italy (+3.8), France (+3.7), Germany (+2.5) and, to a lesser extent, in Spain (+0.9). Sentiment in Poland stayed virtually unchanged (+0.2). Compared to the



indicators' long-term averages, confidence was high in Italy, regular in Spain and somewhat weak in the remaining countries, in particular Poland.

The signal of a halting recovery emanating from the ESI is at odds with the evolution of Standard & Poor's Eurozone Composite PMI<sup>1</sup>, which continued rising throughout the entire first quarter. Gaining 4.4 points compared to December last year, the PMI leapfrogged the threshold of 50.0 points beyond which it hints at economic growth.

Graph 1.1.3: Employment expectations indicator

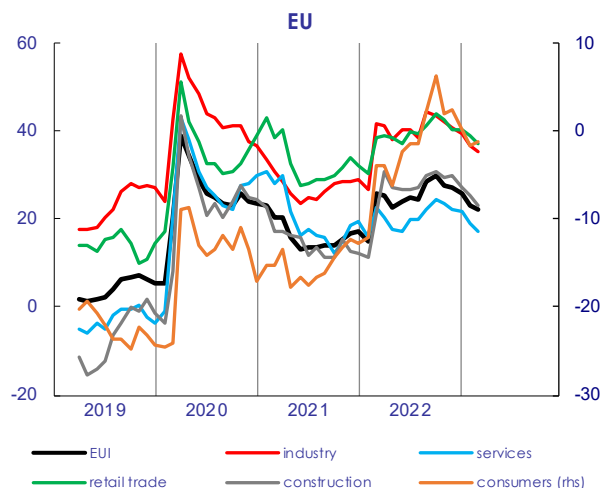


The EU/EA **Employment Expectations Indicator (EEI)** followed the same path as the ESI, improving in January and staying flat thereafter. The indicator's level in March was 1.5 (EU) / 1.7 (EA) points higher than in December last year and, deviating from the ESI, significantly above long-term average. Employment expectations improved in services and, particularly, retail trade, while they stayed virtually unchanged in industry and clouded over in construction.

<sup>1</sup> Contradictory signals from the EA ESI and the eurozone PMI can occur due to differences in their geographic and/or sectoral coverage, as well as the survey questions used for their construction. For a systematic comparison of the two indicators, see the special topic in the [2017-Q2 EBCI](#).

The EU/EA **Economic Uncertainty Indicator (EUI)**<sup>2</sup> continued receding from its peak in autumn of last year, thanks to lower uncertainty perceptions in all surveyed business sectors. In March, the indicator was 4.8 (EU) / 5.0 (EA) points below its December reading (see Graph 1.1.4).

Graph 1.1.4: Uncertainty

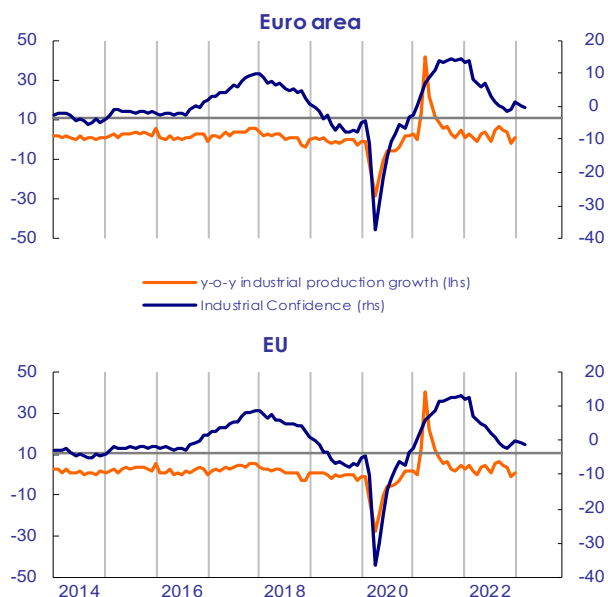


## Sector developments

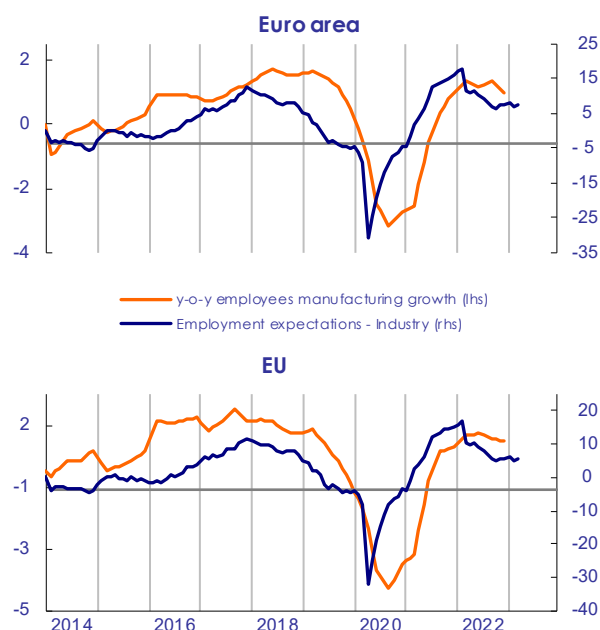
After an increase in January, **industry confidence** eased slightly in February and March. Compared to December last year, the indicator's readings in March were virtually unchanged (+0.1 points in the EU, +0.5 points in the EA), hinting at some stabilisation after the heavy losses incurred in the aftermath of the outbreak of war in Ukraine in February 2022. As shown in Graph 1.1.5., industry confidence stayed above its long-term average in both the EU and the EA.

<sup>2</sup> See the special topic of the [2021-Q3 EBCI](#) for background, and section 3.6 of the [BCS User Guide](#) for methodological details.

Graph 1.1.5: Industry Confidence indicator



Graph 1.1.6: Employment expectations in Industry



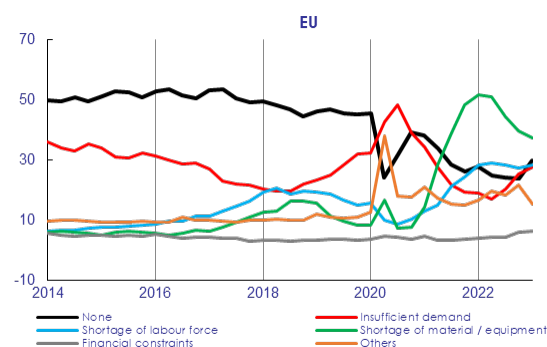
Zooming into the components of industrial confidence, the flat results reflect virtually unchanged **production expectations**, as well as a deterioration of managers' assessments of their **order books**, which was outweighed by accounts of less abundant **stocks**. The latter hint at improving sales in recent months. Of the components not included in the confidence indicator, managers' appraisals of **past production** and of the current **export order books** improved.

Industry managers' **employment expectations** (see Graph 1.1.6) remained broadly stable compared to December (-0.2 in both the EU and the EA). Meanwhile, their **selling price expectations** continued the sharp decline observed since May last year, ending the first quarter 18.2 (EU) / 18.4 (EA) points below their level in December. Nevertheless, selling price expectations in industry remain clearly above long-term average.

Among the six largest EU economies, industry confidence improved sharply in France (+4.7) and, to a lesser extent, in Italy (+2.5), Poland (+2.0) and Spain (+1.5). Confidence in the Netherlands stayed virtually unchanged (+0.6), while it got more downbeat in Germany (-3.1). With the exception of Poland, the level of industry confidence in March was above long-term averages.

According to the quarterly manufacturing survey (carried out in January), **capacity utilisation** in the EU stayed broadly stable compared to October last year (-0.2 percentage points), while it decreased in the EA (-0.5 percentage points). At 81.1% (EU) / 80.9% (EA), the indicator remained just a whisker above its long-term average of 80.6% (EU) / 80.7% (EA).

Graph 1.1.7: Industry – Factors limiting production (in %)

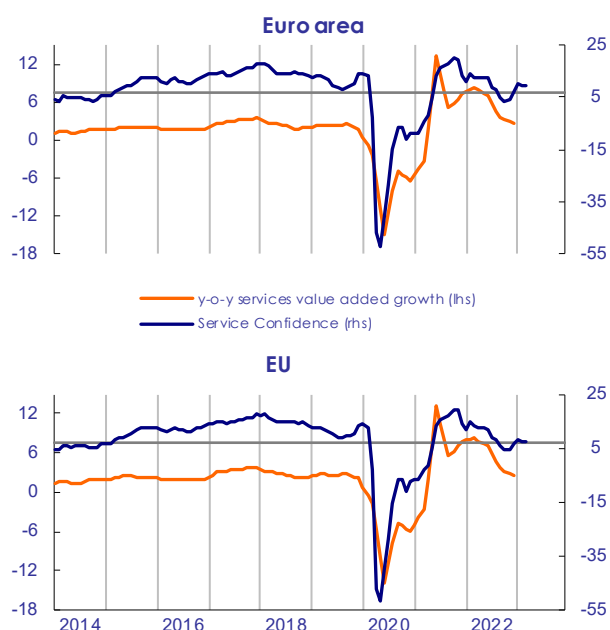


The share of industry managers pointing to a shortage of material and/or equipment as a **factor limiting production** decreased further from the record-high levels of early 2022 in both the EU (-2.5 percentage points compared to October) and the EA (-2.1 percentage points). At 37.2% (EU) / 39.4% (EA), the shares remained at elevated levels though (see Graph 1.1.7). The percentage of managers indicating "shortages of labour force" as a factor limiting production edged up in the EU (+0.7 points)

after two quarters of declining readings, while it edged down for the second quarter in a row in the EA (-0.5 points). At 28.2% (EU) / 25.9% (EA), the shares suggest that labour shortage remains exceptionally high.

The share of managers indicating financial constraints as a factor limiting their production saw another (slight) increase in January (+0.1 in the EU, +0.2 in the EA) after its sharp rise in October last year. At 6.2% (EU) / 5.9% (EA), perceived financial constraints remain limited.

**Graph 1.1.8: Services Confidence indicator**



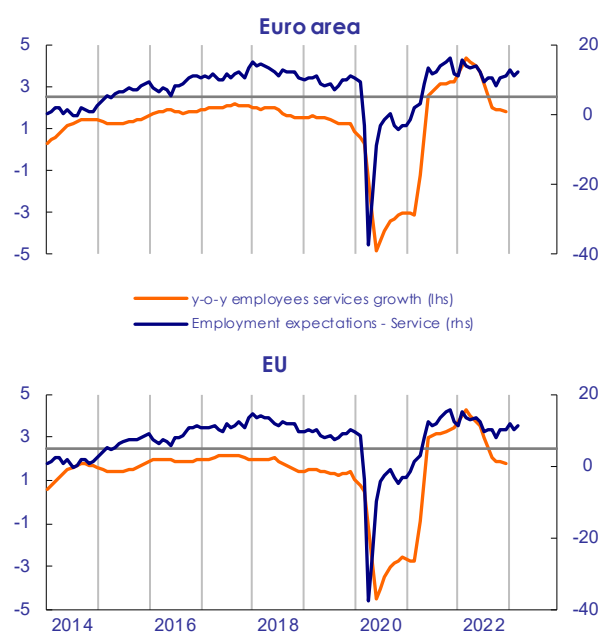
**Services confidence** started the year with sizeable increases in January, which were however partly reversed in the further course of the quarter. Compared to December, the EU indicator finished the quarter 0.6 points up, while in the EA it gained 1.9 points thanks to a more pronounced improvement in January. Confidence is at (EU) or slightly above (EA) long-term average (see Graph 1.1.8).

Looking into the components of services confidence, managers' assessment of **past demand** and their **demand expectations** improved, particularly in the EA, while views on the **past business situation** deteriorated (EU) / stayed flat (EA).

**Employment expectations in services** saw a sawed in the first months of the year, finishing the quarter 1.1 (EU) / 1.3 (EA) points above their December level (see Graph 1.1.9). Managers' **selling price expectations**

descended sharply in February and March. Their readings at the end of the first quarter were 4.3 (EU) / 3.4 (EA) points down compared to December, at a level last seen at the beginning of 2022. Nevertheless, selling price expectations in services remain clearly above long-term average.

**Graph 1.1.9: Employment expectations in services**

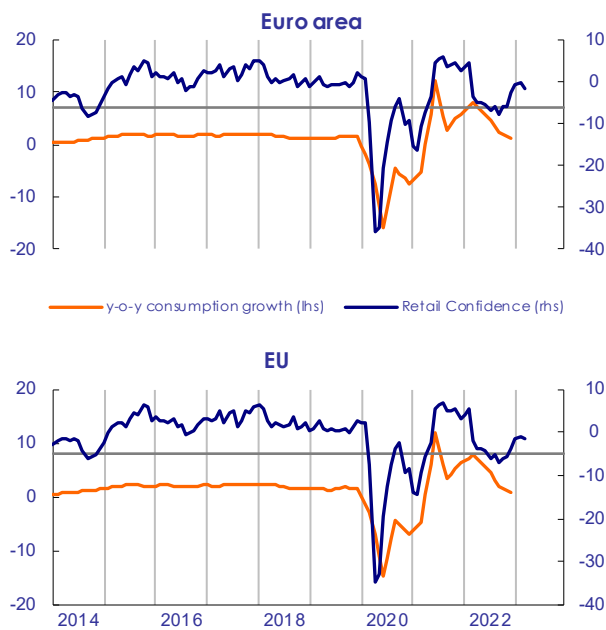


Among the six largest EU economies, services confidence brightened in Germany (+5.9), Spain (+4.0) and, to a lesser extent, Italy (+2.0), while it stayed broadly unchanged in the Netherlands (+0.6) and Poland (-0.5). Confidence in France deteriorated (-2.0).

In January compared to October 2022, **capacity utilisation in services** decreased in both the EU (-0.4 percentage points) and the euro area (-0.5) to 90.4% and 90.2%, respectively. In both areas, however, the rate remained above its long-term average of 89.0% (EU) and 88.8% (EA).

Thanks to improvements in the first two months of 2023, **retail trade confidence** saw a net improvement over the first quarter of the year (+2.1 points in the EU and +1.3 points in the EA). Despite a weakening in March, confidence finished the quarter significantly above long-term average (see Graph 1.1.10).

Graph 1.1.10: Retail Trade Confidence indicator



The improvement resulted from managers' much more benign assessments of the **past and expected business situation**, which were partially offset by a growing **volume of stocks**.

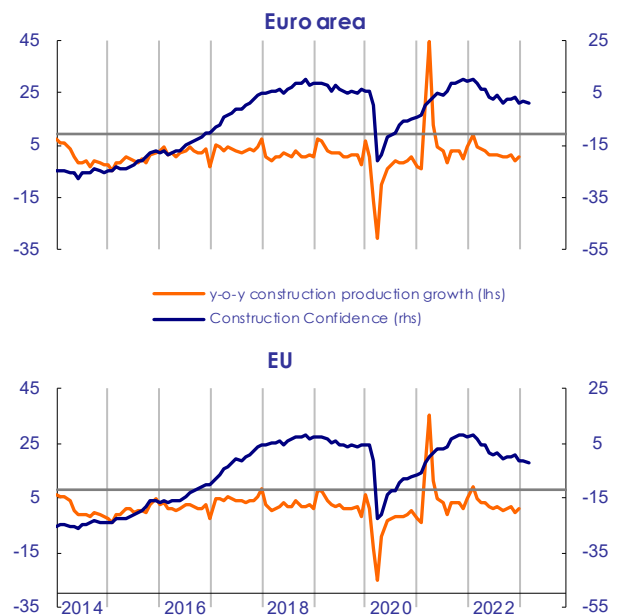
At the level of the six largest EU economies, confidence improved sharply in Spain (+5.5), Italy (+4.5) and, to a lesser extent, the Netherlands (+2.9), Poland (+2.0) and Germany (+1.9). French confidence eased (-2.5).

**Construction confidence** weakened over the first quarter (-2.7 in the EU, -2.5 in the EA), but stayed much above its long-term average (see Graph 1.1.11).

In both the EU and the EA, managers' **employment** expectations, as well as their appraisals of **order books** got more downbeat. In the case of order books, the latest decline continues a downward trend which persists already since March last year.

The share of construction managers pointing to a **shortage of labour as a factor limiting production** continued the downward trend prevailing since September last year in both the EU (-2.1 percentage points to 30.0%) and the EA (-1.8 percentage points to 27.6%), but stayed exceptionally high when compared to historical averages. Scarcities also eased further in respect of the availability of **material and/or equipment**. The share of managers identifying them as factors limiting production came down by 4.5 (EU) / 4.1 (EA) percentage points to 17.9 (EU) / 15.7 (EA) %. Remaining at a historically high level, the indicator is now half-way between its level at the onset of the COVID-19 pandemic in March 2021 and the all-time high marked in spring 2022.

Graph 1.1.11: Construction Confidence indicator



Among the largest EU economies, construction confidence declined most in Spain (-11.4)<sup>3</sup>, followed by the Netherlands (-6.7), France (-3.7), Germany (-1.5) and Italy (-0.9). Confidence in Poland edged up (+0.9).

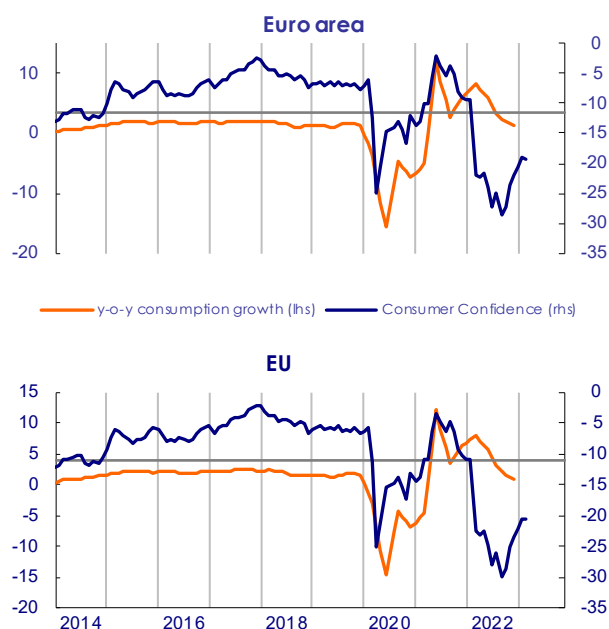
**Consumer confidence** continued its rebound from the all-time low reached in September 2022, registering significant increases in January/February, which were followed by a

<sup>3</sup> The Spanish construction confidence indicator has a comparatively high month-to-month volatility.

flat reading in March. Compared to December, EU/EA consumer confidence was 2.8 points higher at the end of the first quarter, but still far away from its long-term average (see Graph 1.1.12).

Stronger confidence was thanks to more benign assessments of all components entering the indicator, i.e. **households' future and past financial situation**, their **intentions to make major purchases** and expectations for the **country's general economic situation**. The sharpest improvements were registered in respect of households' future financial situation and the country's expected general economic situation.

Graph 1.1.12: Consumer Confidence indicator



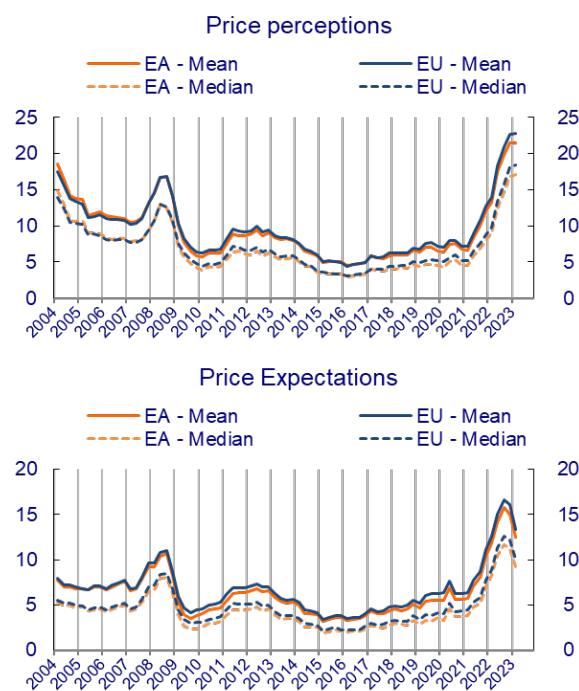
Consumer confidence rallied in the Netherlands (+7.3) and Germany (+4.9), while it recorded more moderate increases in Italy (+2.0). Confidence stayed (broadly) unchanged in Spain (+0.6), Poland (+0.2) and France (+0.0).

In the EU and the EA, **consumers' quantitative price perceptions** (change over past 12 months, in %) moderated the steep ascent observed since 2021-Q2, both in terms of their mean and their median, which is less sensitive to the presence of extreme values. While price perceptions increased only slightly over the first quarter, the March reading was, nevertheless, the highest ever recorded. **Quantitative price expectations** (change over the next 12 months, in %) saw a significant

decline after the first tentative decrease in 2022-Q4, both in their mean and median. Still, the price expectations remained at extremely high levels by historical standards (see Graph 1.1.13).<sup>4</sup> The results at total level were mirrored in virtually 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](#).

Graph 1.1.13: Euro area and EU quantitative consumer price perceptions and expectations



**Financial services confidence** (not included in the ESI) recorded improvements in January and February, followed by a moderate decrease in March. While the bulk of the responses to the survey were collected prior to the recent tensions in segments of the US banking sector and the rescue of Credit Suisse, a deeper analysis of incoming business survey data did not provide any indications of a significant impact of the events in March. In total, the indicator finished the first quarter 7.6 (EU) / 6.2 (EA) points above its December level.

<sup>4</sup> For more information on the quantitative inflation perceptions and expectations, see the special topic in the [EBCI 2019Q1](#).

Confidence in both regions is close to its long-term average (see Graph 1.1.14).

The increase in confidence reflected improvements in all components of the indicator, i.e. managers’ **demand expectations**, as well as their views on **past demand** and the **past business situation**.

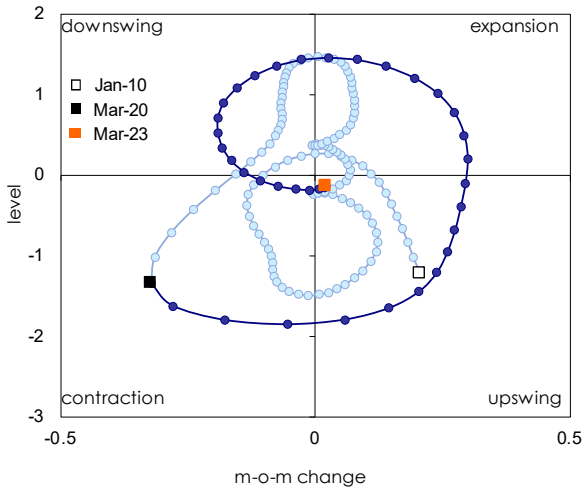
Graph 1.1.14: Financial Services Confidence indicator



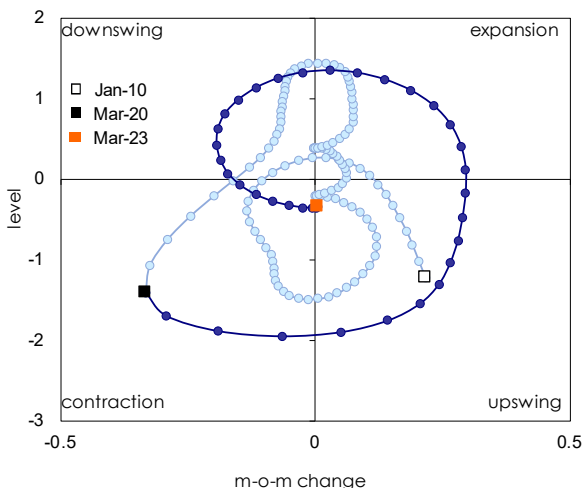
The improvement of economic sentiment in 2023-Q1, as captured by the ESI, also showed in the EU/EA **climate tracers** (see Annex for details). Both inched from a position on the right fringe of the contraction into the leftmost part of the upswing quadrant (see Graphs 1.1.15 and 1.1.16).

The developments in the sectoral EU/EA confidence indicators reverberated in the sectoral climate tracers (see Graph 1.1.17), both in terms of their intensity (only mild changes), as well as the direction of change: the industry tracers moved slightly closer to, the services tracers a little deeper into the expansion quadrant (EA) or onto its left frontier (EU). The retail trade tracers advanced further into the expansion, the consumer tracers into the upswing area. The construction tracers, by contrast, sank a bit lower into downswing area.

Graph 1.1.15: Euro area Climate Tracer

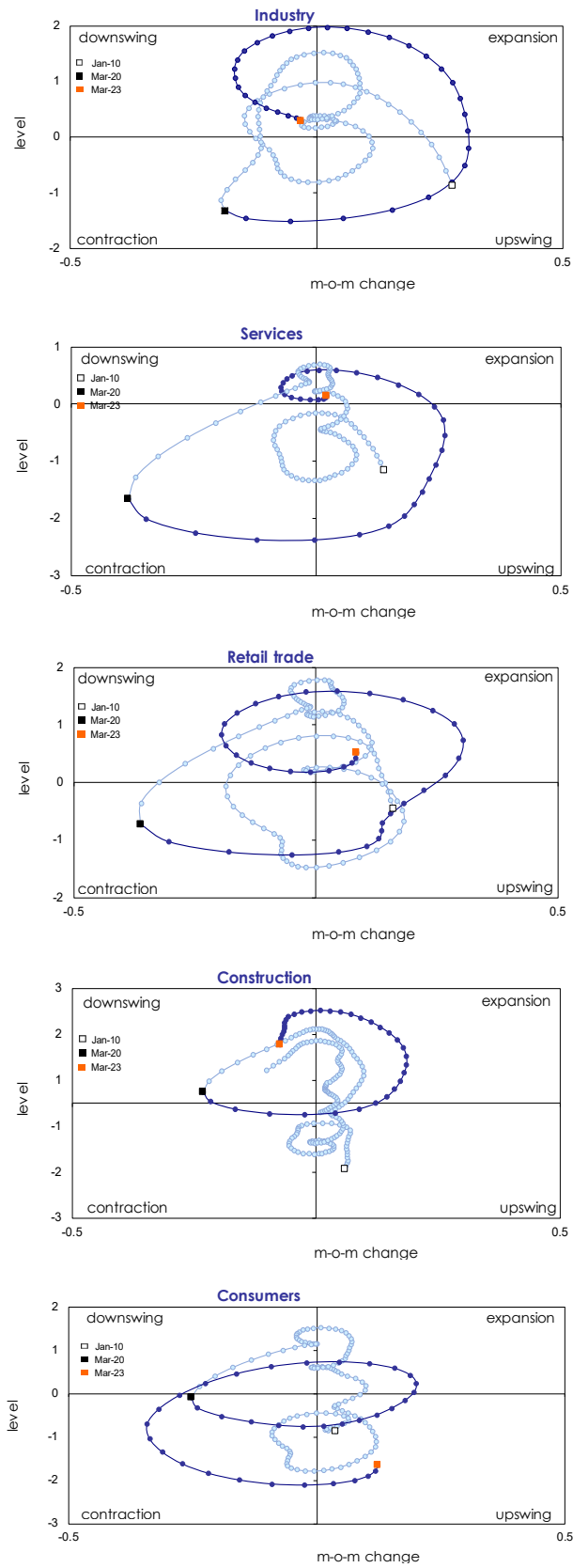


Graph 1.1.16: EU Climate Tracer

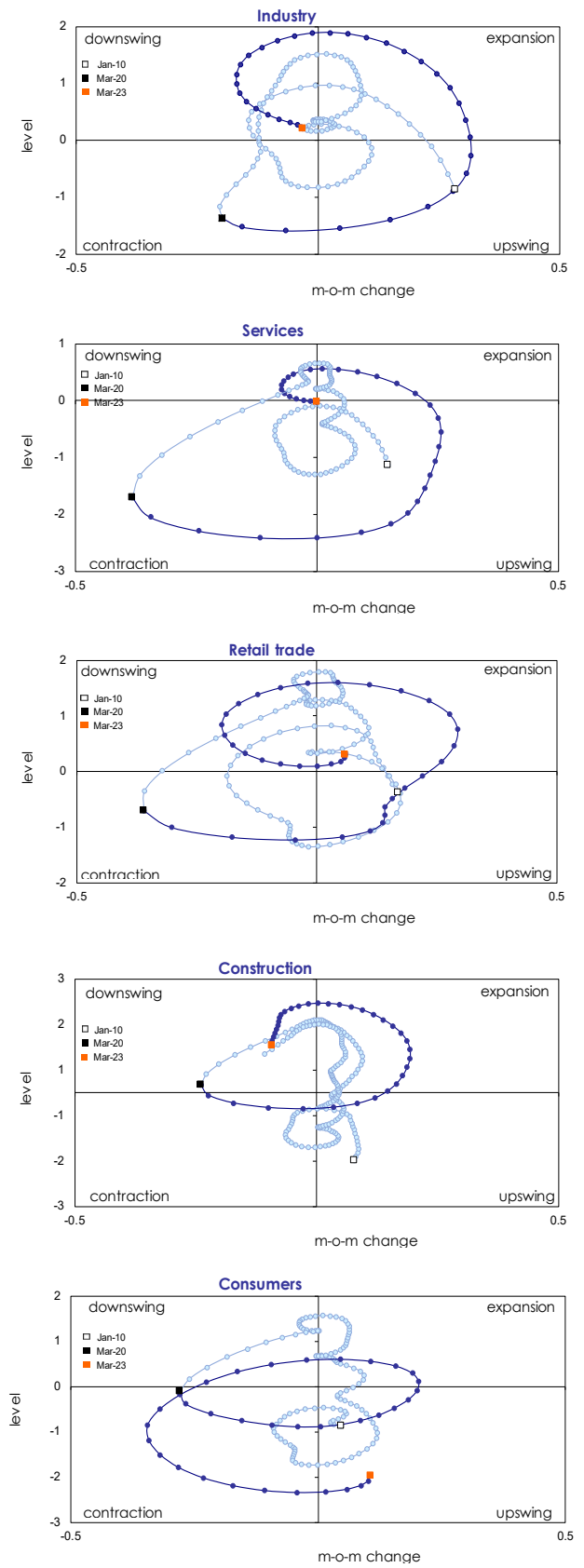


Graph 1.1.17: Economic climate tracers across sectors

Euro area



EU

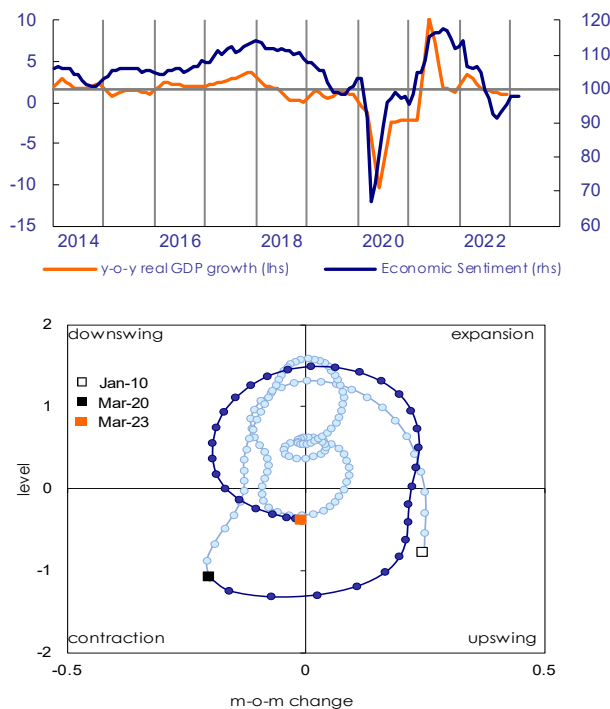


## 1.2. Selected Member States

After a solid increase in January, flat readings in February and March halted the recovery of the German ESI which had started in November last year (see Graph 1.2.1). The indicator gained 2.5 points on the quarter but, at 97.9 points, falls still short of its long-term average of 100. The German climate tracer moved from a position firmly in the contraction quadrant towards its intersection with the upswing area.

The Employment Expectations Indicator (EEI) improved slightly over the quarter (+1.4 points compared to December last year), thanks to more optimistic employment plans in services, construction and, particularly, retail trade, which were partially offset by less buoyant plans in industry. The EEI remained above its long-term average.

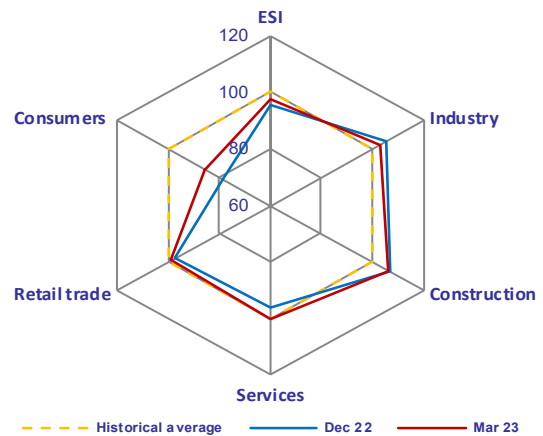
**Graph 1.2.1: Economic Sentiment Indicator and Climate Tracer for Germany**



As shown in the radar chart (see Graph 1.2.2), confidence improved markedly among German consumers and, to a lesser extent, in services and retail trade. Confidence in industry, by contrast, took a hit and there was a mild deterioration in construction sentiment. The level of confidence was broadly in line with historical averages in services and retail trade,

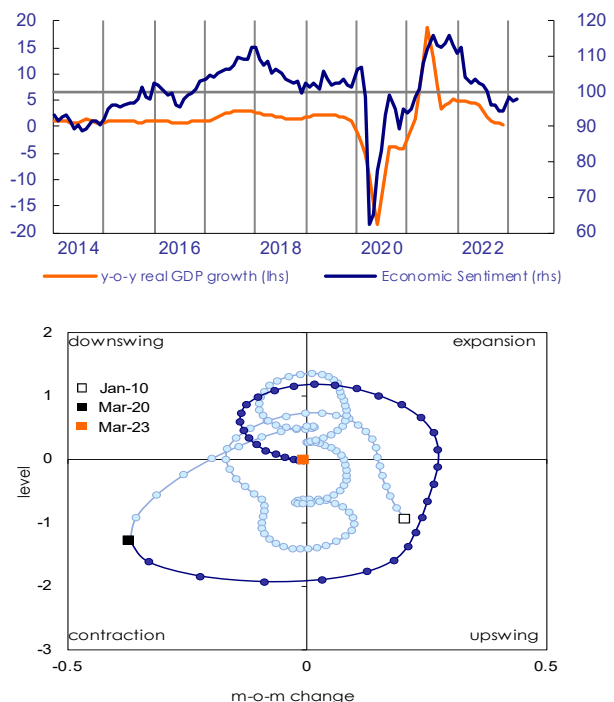
while buoyant in industry and construction. Consumer mood, by contrast, remained exceptionally downbeat.

**Graph 1.2.2: Radar Chart for Germany**



The **French** ESI improved by 3.7 points compared to December, thanks to a marked increase in January. At 98.0 points, the indicator remained slightly below its long-term average though. The French climate tracer moved from the downswing quadrant onto its intersection with the expansion area (see Graph 1.2.3).

**Graph 1.2.3: Economic Sentiment Indicator and Climate Tracer for France**



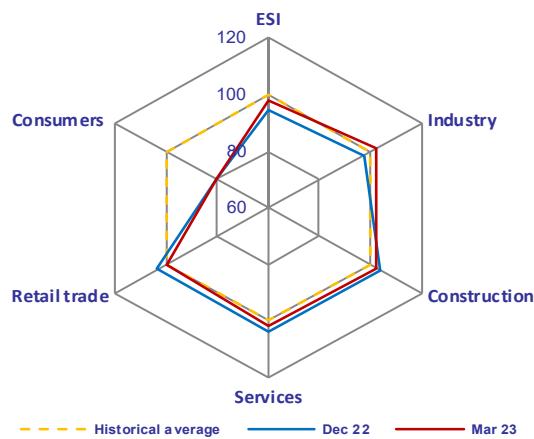
The Employment Expectations Indicator (EEI) improved mildly (+1.1 points compared to



December), due to improved employment plans among industry and retail trade managers, which were only partially offset by more downbeat plans in construction. Employment plans in services stayed virtually flat.

As evidenced by the radar chart (see Graph 1.2.4), industry confidence brightened significantly, while sentiment in all other business sectors saw some deterioration. Consumers' mood stayed stable, at exceptionally low levels. Among businesses, sentiment was above historical averages, with the exception of retail trade, where the March reading corresponded to its long-term average.

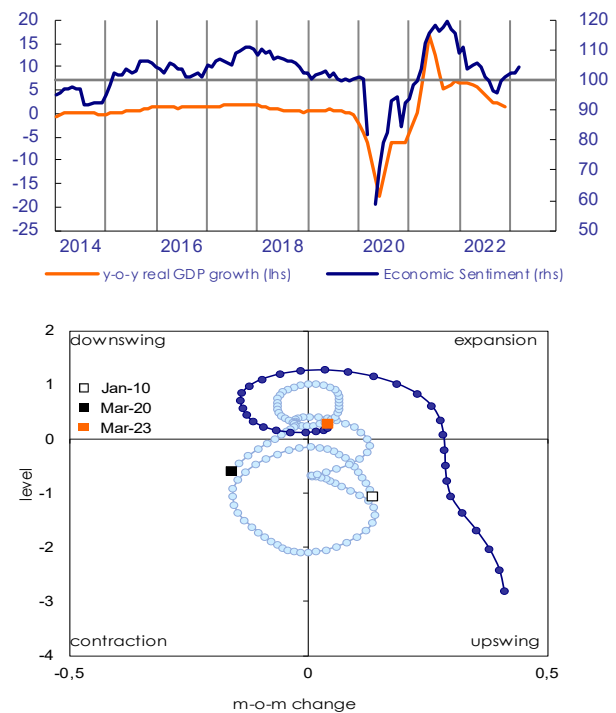
Graph 1.2.4: Radar Chart for France



The **Italian** ESI continued the recovery embarked upon in November last year. Gaining 3.8 points compared to December, the indicator settled firmly above its long-term average (at a level of 104.6 points). The Italian climate tracer moved from the intersection between downswing and expansion into the expansion quadrant (see Graph 1.2.5).

Contrary to the ESI, the Italian EEI stayed flat throughout the first quarter, reflecting brighter employment plans in industry and construction being offset by less optimistic ones in retail trade. Employment expectations in services stayed virtually unchanged.

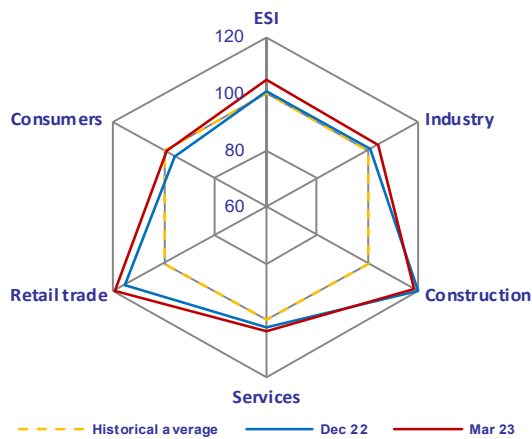
Graph 1.2.5: Economic Sentiment Indicator and Climate Tracer for Italy<sup>5</sup>



As shown in the Italian radar chart (see Graph 1.2.6), confidence improved among consumers, as well as in all surveyed business sectors, with the exception of construction, which posted a mild decline. Confidence was generally above long-term averages and, in the case of construction and retail trade, exceptionally high. By contrast to most of its peers in the EU, consumer mood in Italy was at an average level by historic standards.

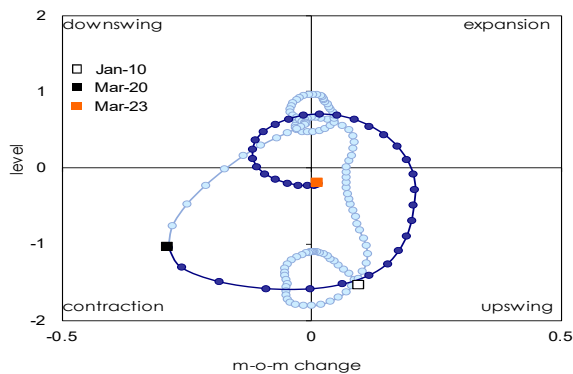
<sup>5</sup> Due to a missing value for April 2020, the climate tracer for Italy is interrupted between March and May 2020.

Graph 1.2.6: Radar Chart for Italy



The **Spanish** ESI finished the first quarter of the year slightly above its level at the end of last quarter (+0.9 points compared to December). The level of the indicator in March corresponded to its long-term average (see Graph 1.2.7). The Spanish climate tracer moved from the intersection between contraction and upswing into the upswing quadrant (see Graph 1.2.7).

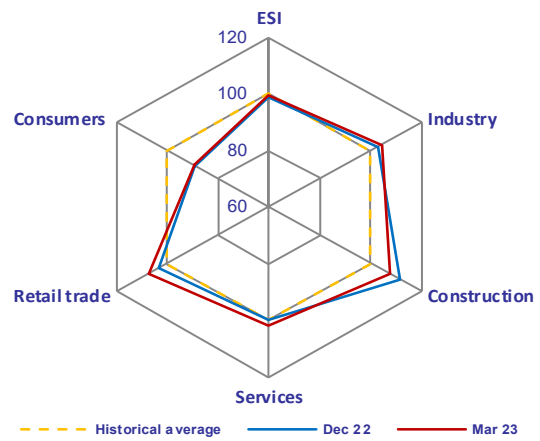
Graph 1.2.7: Economic Sentiment Indicator and Climate Tracer for Spain



The Spanish EEI improved mildly (+1.4 points compared to December), as more optimistic employment plans in industry, retail trade and, particularly, services, were partially offset by much more cautious plans among construction managers.

As shown in the radar chart (see Graph 1.2.8), confidence improved in industry, services and retail trade, while it clouded over in construction. Consumer confidence stayed virtually unchanged at exceptionally low levels. By contrast, business confidence exceeded historical averages.

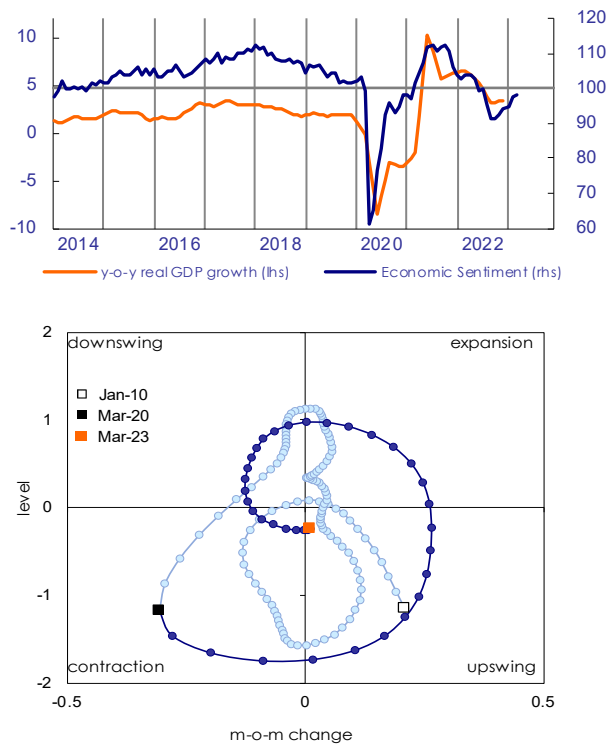
Graph 1.2.8: Radar Chart for Spain



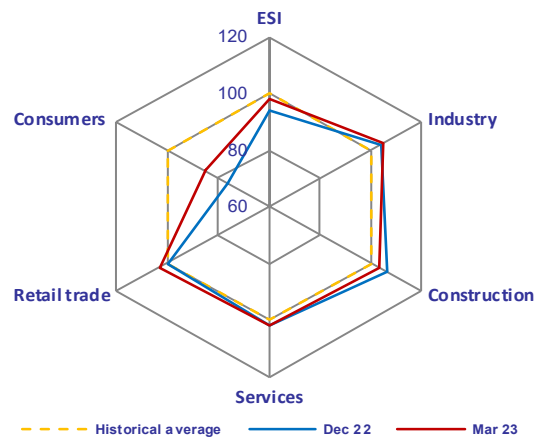
The ESI for the **Netherlands** continued the recovery it started in November last year, improving by 4.2 points compared to December. At 98.3 points, the ESI is almost back to its long-term average of 100.

The climate tracer for the Dutch economy moved from the contraction quadrant into the leftmost part of the upswing area (see Graph 1.2.9).

**Graph 1.2.9: Economic Sentiment Indicator and Climate Tracer for the Netherlands**

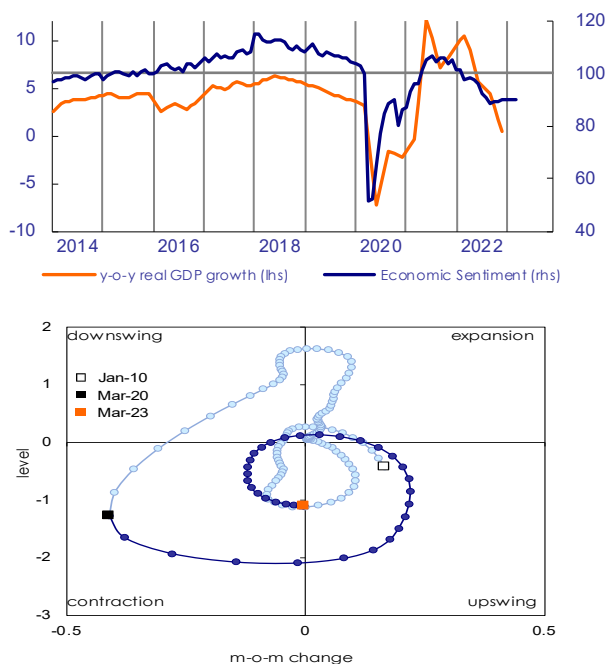


**Graph 1.2.10: Radar Chart for the Netherlands**



The ESI for **Poland** completed the second quarter of broadly flat developments (+0.2 points compared to December). At 90.3 points, the indicator remained well below its long-term average. The Polish climate tracer remained on the intersection of the contraction and the upswing quadrant (see Graph 1.2.11).

**Graph 1.2.11: Economic Sentiment Indicator and Climate Tracer for Poland**



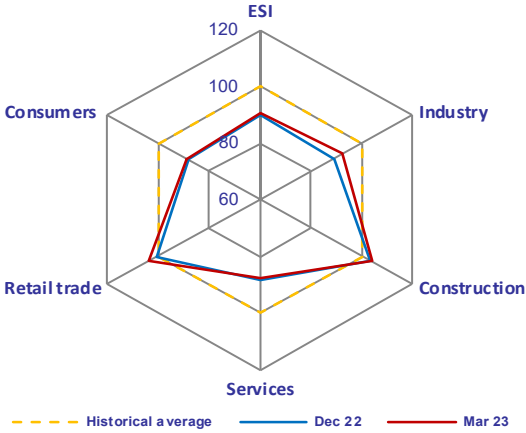
The ESI for the Netherlands completed the second quarter of broadly flat developments (+0.3 points compared to December), as significantly improved employment plans in retail trade were offset by more cautious plans in industry and construction. Employment expectations in services stayed stable.

As shown in the radar chart (see Graph 1.2.10), consumer confidence continued its powerful recovery, but remained exceptionally low. Among the surveyed business sectors, confidence improved only in retail trade, while it eased in construction and stayed virtually unchanged in industry/services. The level of confidence in the business sectors exceeded long-term averages.

The Polish EEI registered solid increases and finished the first quarter 3.5 points above its December level. The improvement reflected more optimistic employment plans in all business sectors and, particularly, retail trade.

As shown in the radar chart (see Graph 1.2.12), confidence firmed in industry and retail trade, while it stayed broadly unchanged in services, construction and among consumers. Barring retail trade and construction, sentiment was generally far below historical averages.

**Graph 1.2.12: Radar Chart for Poland**

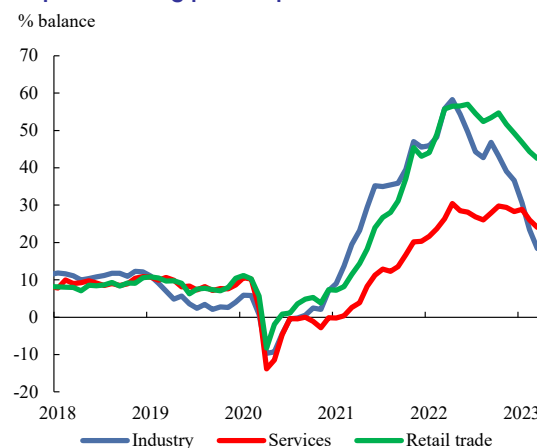


## 2. SELLING PRICE EXPECTATIONS AND CORE INFLATION – INSIGHTS FROM THE COMMISSION’S BUSINESS SURVEYS

A key issue shaping the outlook for the EU economy concerns the dynamics of core inflation.<sup>6</sup> Namely, to what extent will recent declines in energy and food commodity prices pass through to retail prices, at what speed, and will countervailing forces – mainly from wages and possibly mark ups – result in more entrenched inflationary pressures? Information on managers’ pricing intentions for their firms’ output can help answer these questions.

This Special Topic analyses the results of the European Commission’s monthly business surveys until March 2023 regarding managers’ selling price expectations<sup>(7)</sup>. As the surveys do not cover energy utilities nor agriculture,<sup>(8)</sup> they appear particularly well-suited to provide leading indications for core inflation and some of its sub-components.

Graph 2.1: Selling price expectations in the EU



**Selling price expectations are decreasing across business sectors.** Graph 2.1 provides an overview of developments in selling price expectations in industry, services, and retail trade over the past five years. Expectations in the construction sector are not shown, as the output of building activities mainly relates to investment goods, with no direct correspondence to any core inflation item. Selling price expectations in industry and retail trade peaked in April 2022 and, while remaining at a high level especially in retail trade, have since been declining. In the services sector, selling price expectations also peaked in April 2022, remained broadly stable up to January 2023 and decreased in the last two months. On balance, expectations remain well above long term average in all three sectors – meaning that an unusually high share of managers keep reporting their intention to charge higher prices for their output in the near future.<sup>(9)</sup> Overall, this suggests that core inflation could be about to peak, but is set to remain high, with continued pressures especially on retail trade and services.

<sup>6</sup> Core inflation is defined as the annual change in the consumer prices of goods and services, excluding the usually more volatile components of unprocessed food and energy.

<sup>7</sup> The question on selling price expectations, asked in all business surveys (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".

<sup>8</sup> The industry survey includes sector 19 'Manufacture of coke and refined petroleum products', which however is not included in any of the three Main Industrial Groupings (MIGs) analysed in this Special Topic. The retail trade survey includes sector 47.3 'Retail sale of automotive fuel', which however can be excluded in the sector-specific breakdown.

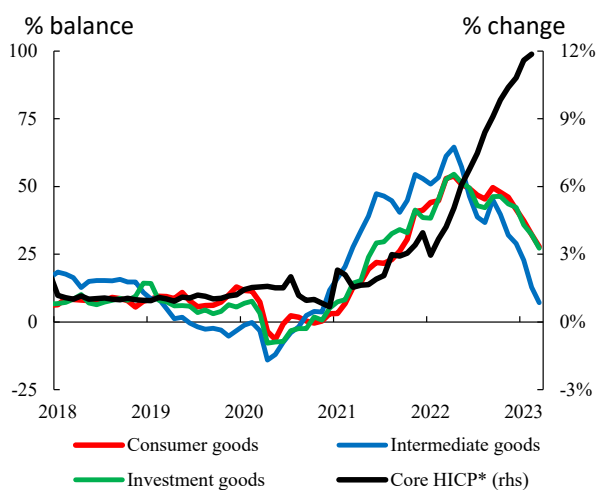
<sup>9</sup> Percentage balances are the difference between the shares of positive and negative answers.

The remainder of this analysis focuses on product groupings and sub-sectors that are geared towards consumers, and tries to map the relationship between their firms' pricing intentions with the corresponding HICP sub-components up until February 2023, the latest month for which detailed EU inflation data are available.

## Disaggregation of sectoral developments

Within industry, the available breakdown of activities by Main Industrial Groupings (MIG) allows to single out consumer goods. Graph 2.2 shows that the observed dynamics of selling price expectations for the manufacturing sector as a whole are broad-based across the three Groupings. They all peaked in April 2022 and moved down thereafter, with only an uptick in September. However, the magnitude of the swings differs, with intermediate goods (such as chemicals, basic metals, and electrical equipment, affected by supply side bottlenecks) displaying the steepest increase in 2021 and the fastest decline after reaching the peak. Selling price expectations in this group are now below their long-term average.

Graph 2.2: Main Industrial Groupings and 'Non-energy industrial goods and Processed food' HICP, EU

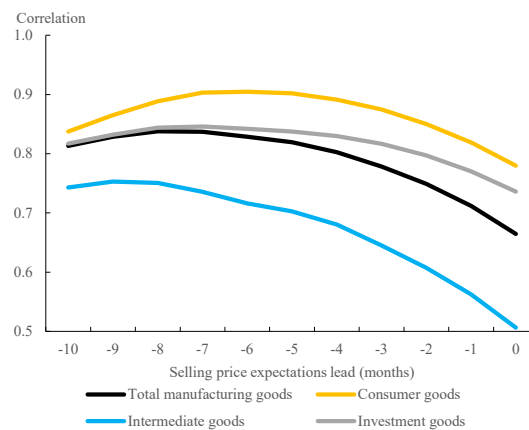


Note: \*see footnote (10)

**Selling price expectations of manufacturers of consumer goods provide forward indications for HICP inflation for 'non-energy industrial goods and processed food'.** Manufacturers' pricing intentions for consumer goods, typically comprising the components non-energy industrial goods and processed food of the Harmonised Index of Consumer Prices (HICP), appear to provide reliable forward indications for

developments in inflation for these components (see Graph 2.3).<sup>(10)</sup> The correlation between HICP inflation for the aggregate 'non-energy industrial goods and processed food' and selling price expectations is highest for the manufacture of consumer goods. At 0.78 for a contemporaneous relationship, the correlation between the two variables is highest when the relevant HICP inflation aggregate is lagged by six to seven months. Developments in selling price expectations thus appear to be a good leading indicator for consumer goods inflation. While EU HICP inflation for consumer goods had not yet decreased in February, Eurostat's flash estimate for euro-area HICP inflation for consumer goods in March 2023 – eleven months after selling price expectations peaked – shows a small decline. The longer time lapse for the decline to occur may be due to the size of the energy price shock last year and the difficulty to predict the time it takes for an energy price shock to run its course. In addition, historically HICP inflation for consumer goods follows managers' selling price expectations with more delay when the latter decrease than when they increase.

Graph 2.3: Selling price expectations versus 'non-energy industrial goods and processed food' HICP inflation – correlations (over Jan. 2001 - Feb. 2022)

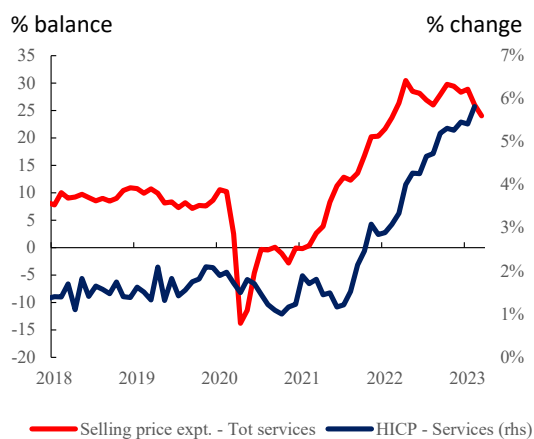


**Selling price expectations for services co-move quite well with HICP inflation for services.** For the service sector, which comprises services for both consumers and corporations, survey data does not offer a breakdown by sub-sector or type

<sup>10</sup> 'Non-energy industrial goods and Processed food' HICP is calculated as the weighted average of the two aggregates 'Non-energy industrial goods' and 'Processed food including alcohol and tobacco' as published by Eurostat.

of activity that can be directly mapped to selected core inflation components. Graph 4 shows that selling price expectations for services as a whole nevertheless co-move quite well with services' inflation<sup>(11)</sup>. Correlation is lower than for industrial consumer goods but still high, with BCS selling price expectations leading by some months (correlation is highest, at almost 0.7, when selling price expectations are five months ahead). The fact that services selling price expectations decreased in the last two months, after a period of broad stability at a high level since April 2022, suggests that services inflation should also start to decrease soon. The delayed turnaround compared to industry may be related to managers' expectations of higher wages, given the greater role played by labour costs in this labour-intensive sector.

**Graph 2.4: Selling price and HICP in services, EU**

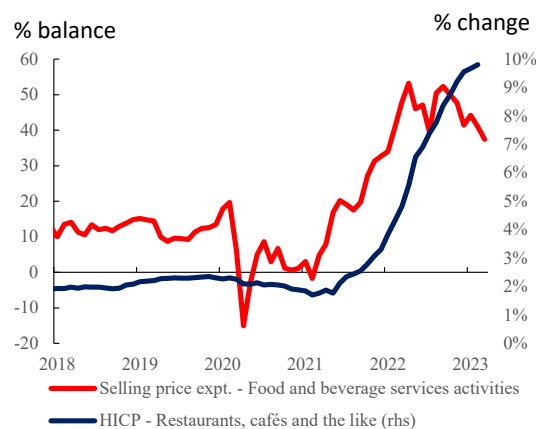


**Focusing on specific services activities, clearly geared towards final consumers, the picture is mixed.** In food services (like restaurants, cafés), for instance, selling price expectations remained broadly stable from April 2022 to January 2023, but have decreased in the last two months. In the meantime, HICP inflation for the corresponding activities increased strongly up to December 2022 and stabilised in January and February (see Graph 2.5a). This suggests that HICP inflation in this sub-sector may start to ease in the coming months. At the same time, inflation for accommodation services, while remaining at a very high level, moderated visibly between July

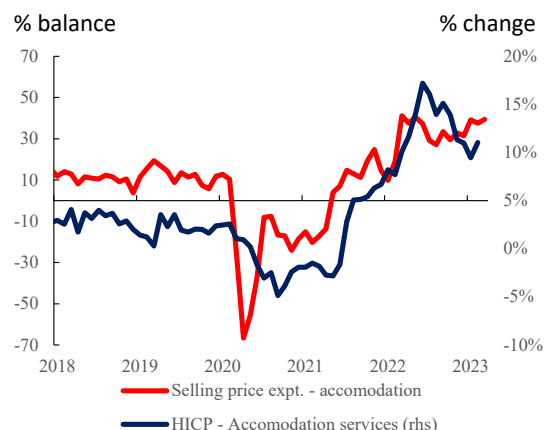
<sup>11</sup> HICP for services is defined as the year-on-year percentage change in the EU HICP special aggregate 'Services (overall index excluding goods)' as published by Eurostat.

2022 and January 2023 before picking up again in February 2023. After dropping in summer 2022, selling price expectations remained broadly stable up to the end of 2022 and have picked up during the first quarter of 2023 (see Graph 2.5b). This suggests that the decline in inflation in these services may have come to a (temporary) standstill.<sup>(12)</sup>

**Graphs 2.5: Selling price expectations and HICP for selected services, EU**  
**a: Food and beverage services**



**b: Accommodation services**

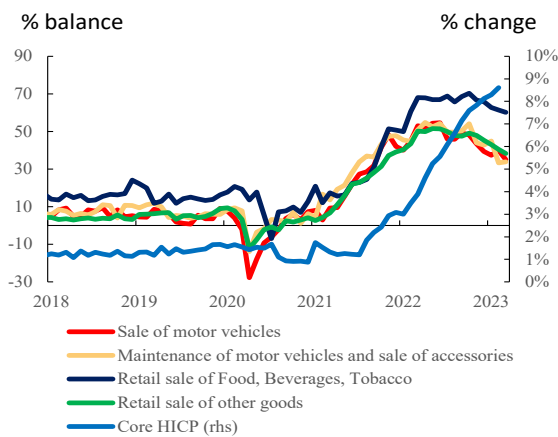


**In retail trade, BCS selling price expectations are on a downward trend across all non-energy sub-sectors (see Graph 2.6a).** As the BCS series largely anticipate HICP core inflation

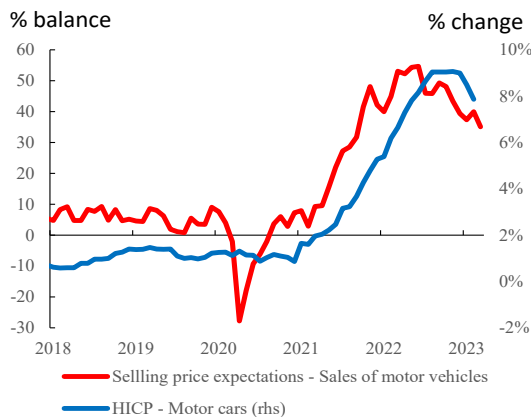
<sup>12</sup> The correlation between selling price expectations in food and beverage service activities and the corresponding HICP series is highest (0.9) when BCS data are six months ahead. In accommodation, correlation with its corresponding HICP series is highest (0.7) when BCS data are three months ahead.

dynamics <sup>(13)</sup>, their downward trend should soon be reflected in a slow-down of core inflation in the coming months. Zooming into specific sub-sectors (see Graph 6b), the HICP for the automotive sector has declined over the past two months as anticipated by managers' selling price expectations, which have been on a downward trend since July 2022.

**Graphs 2.6: Selling price expectations and HICP for selected retail trades, EU**  
**a: Retail trade sub-sectors**



**b: Motor vehicles sales**

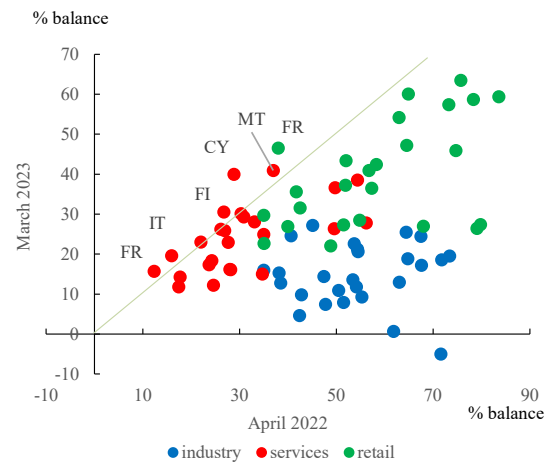


## Developments across EU Member States

**The decrease in selling price expectations since April 2022 is widespread across countries** (Graph 2.7). In industry and retail trade, all countries (except for FR in retail trade) have

recorded a decrease in selling price expectations. By contrast, in services, the recent decline in selling price expectations in the EU aggregate masks some heterogeneity across countries. While expectations have decreased in most of the Member States, they remained broadly stable in BE, ES, NL, SI and SK, and have kept increasing in five, notably in CY.

**Graph 2.7: EU Member States selling price expectations – April 2022 versus March 2023**



*Note: Dots below the 45°-line depict a decrease in selling price expectations*

## Conclusions

This Special Topic analyses the results of the European Commission's monthly business surveys regarding managers' selling price expectations in industry, services, and retail trade. Overall, survey results up to March 2023 show an easing in selling price expectations in the sectors producing goods and offering services destined to consumers. This suggests that, in the coming months, pressure on consumer prices should ease for the corresponding core items of the consumption basket. Inflation moderation should also materialise soon in the service sector.

Across Member States, the decrease in selling price expectations is widespread. In industry and retail trade, almost all countries have recorded a decrease in selling price expectations over the last year. By contrast, in services, the decline in selling price expectations in the EU still masks some heterogeneity across countries.

<sup>13</sup> The correlation between retail trade sub-sectors and core inflation is around 0.8 and highest when BCS data are six months ahead. For motor vehicle sales, correlation with its corresponding HICP component is highest when BCS data are two months ahead.



## 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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