Weak euro zone data point to cracks in recovery as inflation lingers

The euro zone's economic recovery is tentative and fragile, several indicators suggested on Monday, adding to signs that even if a recession may have been avoided, no upturn is in sight.

Surging energy prices and borrowing costs have weighed on business morale, investment spending and consumer confidence in the bloc for months - and, notwithstanding a dip in January, inflation remains stubbornly high while more interest rate hikes are on the horizon.

Some economic readings have been better than feared, particularly through the winter, but Monday's retail trade data, a key sentiment indicator, and construction figures tempered any nascent optimism.

Euro zone retail sales, a good proxy for consumer demand, rebounded much less than expected in January, challenging other data, including PMI surveys, which pointed to a steady recovery.

Retail sales rose 0.3% on the month, below the 1% rise forecast by economists, and were down 2.3% year on year.

That suggests "a weak start to the year for the consumer amid stubbornly high prices," ING economist Bert Colijn said. "While surveys about the first quarter have been relatively upbeat so far, these sales data don't give much evidence that a rebound has started."

Data last week showed that inflation in Germany, France and Spain - three of the bloc's top four economies - unexpectedly rose in February.

STAGNATION PHASE AT BEST?

Adding to the downbeat news, Sentix's index, a key indicator of investor morale, fell unexpectedly in March for the first time since October, dragged down by a decline in expectations.

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+357 25 752 420 +357 25 752 450 info@ausprime.eu
Spyrou Kyprianou 41 Avenue, Steratzias Court 2, 1st floor, Flat 103, 4003, Mesa Geitonia, Limassol