

## Eurozone: Vaccination vs Delta

The holiday season is likely to spread the Delta variant more widely across the eurozone, though a rapidly advancing vaccination campaign will limit the fallout. With consumers eager to open their wallets, companies can more easily pass on higher input prices. The European Central Bank remains dovish, but the PEPP programme is unlikely to be extended



Source: Shutterstock

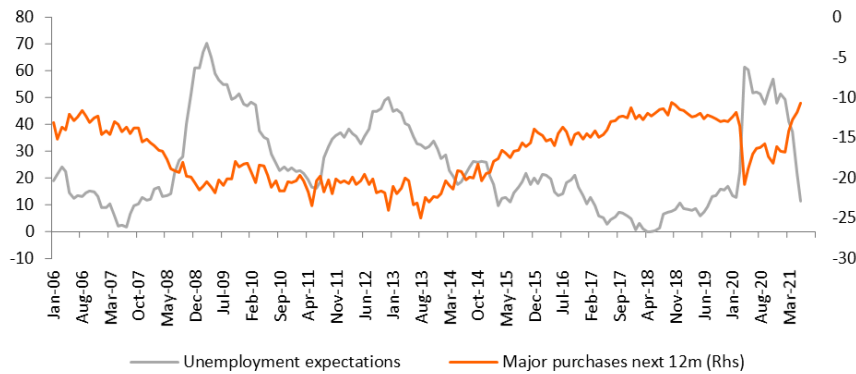
### Consumers prepare for a spending spree

Eurozone sentiment indicators are surging as freedom from the pandemic looks to be within reach. But let's not forget that the Delta variant is now gaining ground in continental Europe, with increased travelling likely to accelerate the spread. In terms of the growth outlook, however, we don't expect this to make a big dent, as the majority of the population will probably be fully vaccinated by the end of summer, limiting the negative fallout from increased infections.

While the second quarter started on a weak footing, growth clearly picked up throughout the period. The European Commission's economic sentiment indicator hit a 21-year high in June, with confidence now way above the long-term average in all sectors. The fear of second-round increases in unemployment is now rapidly fading away and we are starting to see, albeit still

anecdotally, a lack of skilled labour in certain sectors. No wonder that consumer intentions to make major purchases over the next 12 months are close to the highest level in 20 years. So we're still comfortable with our 4.5% growth forecast for this year and 4.0% for 2022.

## Fading unemployment fear boosts spending plans

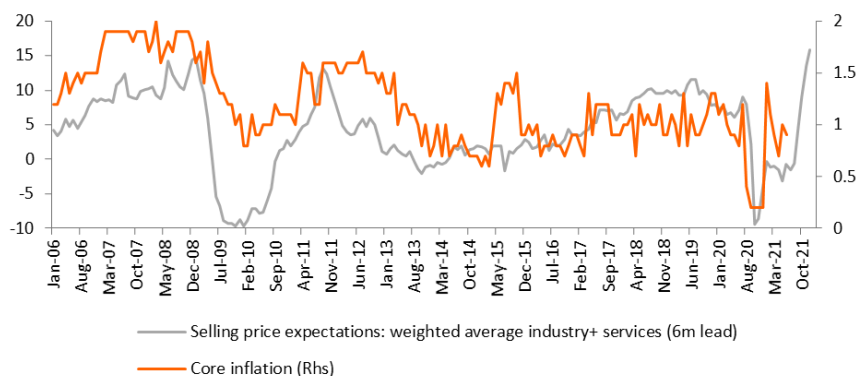


Source: Refinitiv Datastream

## Companies are passing through higher costs

Inflation came in at 1.9% in June, though underlying inflation seems to be stuck at 0.9%. But goods inflation jumped from 0.4% in April to 1.2% in June, which reflects producers pricing through higher input costs to the consumer. And this is not going to end any time soon. The PMI survey reported in June that average input prices are rising at a rate exceeded only once over the 23-year survey history. While this was already seen in the manufacturing sector in the last few months, the survey also showed the steepest increase in service sector costs since July 2008. Meanwhile, the ECB remains pretty sanguine, with staff inflation forecasts of only 1.5% for 2021 and 1.4% for 2022. While we don't see inflation remaining above 2% either, we think the ECB is now definitely on the low side of potential outcomes.

## Selling prices are expected to increase



Source: Refinitiv Datastream

## Dovish ECB

The ECB surprised in its June meeting by actually maintaining its intention to buy bonds at a significantly higher pace. But the hawks didn't wait long to question this decision with Bundesbank

President Jens Weidman pleading for a tapering of asset purchases (which will have to happen anyway, if the envelope is not increased). It will be hard to find a convincing argument to extend the Pandemic Emergency Purchase Programme beyond March 2022, though we still expect a slight increase in the Asset Purchase Programme to make the exit from PEPP a little smoother.

## Author

### Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).