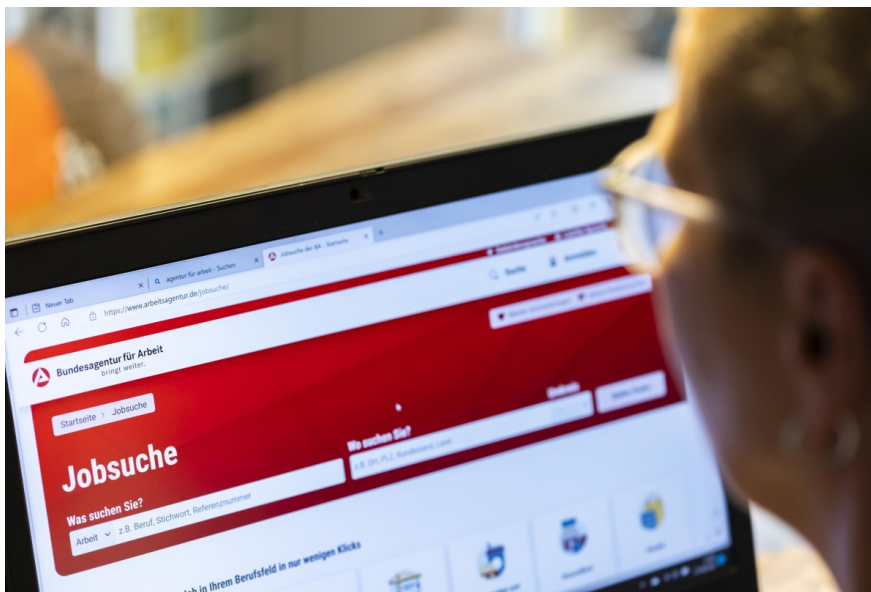


Higher unemployment in eurozone threatens consumption recovery

The eurozone unemployment rate increased in June to 6.5%, jeopardising the desired acceleration in household consumption



Unemployment rate increases in June

The seasonally-adjusted unemployment rate in the eurozone increased to 6.5% in June, from 6.4% in May. The number of unemployed was 41K higher than in May. Structural tightness in the labour market is likely to persist due to the demographics. This doesn't take away the fact that some cyclical variations in unemployment will still be seen. At the current juncture, it seems that we can expect some further increase, as in July's European Commission Survey employment expectations in both manufacturing and services deteriorated. According to the PMI survey, stagnating business activity discouraged firms in the eurozone from hiring additional staff in July, resulting in unchanged employment, ending a six-month sequence of job creation. This means that new entrants into the labour market will have more trouble landing a job.

More savings instead of consumption?

The European Central Bank is banking on household consumption to underpin the recovery amid higher real disposable income. However, if households have less confidence in the strength of the labour market, this might result in higher savings and weaker consumption. In the European

Commission's consumer survey, unemployment expectations have been creeping up since April. So while the current unemployment rate remains historically low, some signs of labour market softening have started to pop up, probably leading to a further increase in unemployment in the coming months. This is yet another reflection of a rather muted economic recovery.

Author

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

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.