

Snap | 28 May 2021

Eurozone economic sentiment soars to highest level since January 2018

The eurozone economic rebound is in full swing despite the restrictions as sentiment among businesses and consumers closes in on all-time highs confirming our view of a strong start to the economic recovery already underway in 2Q



Source: Shutterstock

Barring a few months in 2000, December 2017 and January 2018, Eurozone economic sentiment has not been as high as it is now, even if we go all the way back to 1985.

Although downside risks to the eurozone economy remain significant, they have been falling given that the vaccination programmes are picking up and Covid-19 cases are coming down rapidly. This means that the outlook for the eurozone economy is favourable for the second half of the year, and we expect GDP growth to rebound in 2Q and see upside risk to our current 1.4% QoQ growth forecast.

Industrial sentiment, already at an all-time high last month, increased from 10.9 to 11.5. This was fuelled by increasingly positive order book assessments, while production expectations fell on the back of input shortages that delayed production. Still, production expectations remain historically

very strong, which is why our outlook for continued manufacturing strength remains unchanged.

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Services sentiment saw the largest jump where reopenings have boosted the index substantially. The increase from 2.2 to 11.3 brought the index back to pre-pandemic levels as businesses became much more positive about demand and demand expectations for the months ahead.

The survey further confirms rising price pressures as both services and industry businesses are planning to increase selling prices in the months ahead. With input shortages biting, industry is set to pass those higher costs to the consumer, and services are planning to increase prices as sectors reopen.

This has been priced into forecasts, but further disruptions in industry bring upside risk to the inflation outlook.

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