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Eurozone economic sentiment reaches all-time high

Never before has sentiment been so positive among eurozone businesses and consumers. This indicates that the economic rebound is in full swing. Price expectations are still increasing, confirming the view of significant price pressures and elevated inflation for the rest of the year



The increase in sentiment from 117.9 to 119 in July was better than expected and confirms the view of a strong rebound in economic activity. The reopening of economies is boosting service sector activity, and manufacturing continues to perform strongly. The two main risks to the outlook are the increasing impact from supply chain problems in manufacturing and the surge of the Delta variant for services. The ESI did provide some colour on these two risks.

Order books continue to fill rapidly for industry, while the stock of finished products is falling rapidly. Production expectations are falling slightly, which indicates that worries among businesses about whether production can keep up with demand are increasing a little. The outlook remains bright for manufacturing given the order inflow, but production is set to be more spread out as shortages are causing production hiccups.

The Delta variant caused consumer confidence to tick down in July and we also see this uncertainty among service sector businesses. While improvements occurred in recent service sector activity, expectations about the months ahead declined somewhat again, no doubt as concerns over the delayed easing of measures surfaced with new cases of the virus on the rise.

The price outlook also continues to show significant pressures with higher consumer expectations of inflation and selling price expectations increasing in services. For manufacturers, selling price expectations ticked down slightly in July, but remain elevated. This suggests that goods and services inflation are set to rise further over the months ahead, keeping inflation elevated despite lower energy inflation contributions.

Overall, the picture remains bright. Tomorrow we'll see GDP figures come out for 2Q, which are set to be strong as countries have been coming out of lockdown. Today's sentiment figures suggest that 3Q is also off to a strong start.

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