

Eurozone economic sentiment rises to second highest on record

Sentiment jumped to 117.9 in June, indicating relief and optimism on the reopening of economies. We have clearly entered the 'rebound phase' of the recovery, which should see fast GDP growth over the summer months



Only in May 2000, at the height of the dotcom boom, did we see more positive economic sentiment than now - since records began in 1985, that is. The reopening of economies is causing a synchronised boost to both production and optimism about the months ahead among industry, services and consumers.

Despite hiccups in production, industry confidence reached an all-time high this month. New orders have been coming in at a record pace in June, while stocks of finished products have never been lower. This bodes well for production expectations in the months ahead with supply chain problems seemingly being the main limitation on growth for now. Services confidence jumped back to the best reading since 2018 as businesses reopen on the easing of Covid restrictions.

The strong return of demand in an economy still facing restrictions is pushing price expectations up both at the business and consumer end. Selling price expectations among businesses

have surged in recent months and June showed no signs of abating. The same holds true for consumers, who are also expecting inflation to accelerate. This confirms our expectations of stronger goods and services inflation over the coming months with energy inflation fading somewhat. That should leave inflation elevated at levels around 2%.

All in all, the reopening of services has given a big boost to the eurozone economy in the second quarter. The mood among consumers and businesses is exuberant, which translates to better expectations for consumption and investment. The question is what could hold back a strong recovery, and for the moment the biggest risks seem to be supply related. Another risk is that the Delta variant could delay the easing of restrictions or even put them back on the table. In the absence of that, a strong economic recovery over the summer months seems imminent.

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