

Eurozone economic sentiment surges to highest level since 2007

Economic sentiment was strong in September, increasing to 113. The Eurozone economy continues to surprise on the upside in September and GDP growth could well breach 2% in 2017.



About a month out from the already infamous ECB October meeting, the Eurozone economy is looking stronger than it has in a long time. As Draghi is about to announce his plans for QE in 2018, the economy is far from an argument to keep QE going at the current pace. The ESI confirmed this, as industrial sentiment improved from 5 to 6.6 and services sentiment increased modestly from 15.1 to 15.3. Consumer confidence even reached its highest level since 2001 this month.

The main issue remains inflation itself. Pipeline inflation pressures are building as wage growth ticked up in Q2. The job market recovery is slowly but surely working its way through to wage pressures, meaning that the Eurozone Phillips curve is not to be buried just yet. In this release of the ESI, hiring expectations picked up cautiously, indicating that the solid job market recovery is likely to continue at a solid pace at least until the end of the year.

Most importantly, selling price expectations surged in both manufacturing and services, beating the high readings of earlier this year. This indicates that improvements in core inflation could be

sooner than expected. That should leave the ECB confident to taper. Still, it has to be said that current ECB staff projections for inflation in 2019 are still well below target, which means that tapering does not yet mean tightening. With surveys this buoyant, that is a difficult message for the ECB to convey.

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