

## Eurozone economic sentiment surprises on the upside in August

The better than expected Economic Sentiment Indicator confirms that activity in August has maintained a subdued growth pace, defying further slowdown concerns. Still, downside risks seem to be getting bigger rather than smaller



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Just like the PMI, the Economic Sentiment Indicator recorded a surprise increase in August, from 102.7 to 103.1. While this is a marginal improvement and by no means suggests a growth recovery, it at least shows that the eurozone is not moving closer to a recession in these rather uncertain economic times.

Eurozone industry saw sentiment recover a little as the deep decline in production that the industry observed in July reversed in August. The decline was mainly limited to Germany and some surrounding economies and this quick bounce back suggests that this was a one-off. Mind you, the indicator for Germany is still at -5.5, well below the June reading of 0.7 but much better than July's -21.9.

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Small improvements were recorded, with new orders and export orders both improving slightly and expectations about the future also cautiously ticked up. The question is what that says about the months ahead for the industry, though as downside risks are largely related to geopolitics and hard to predict for the moment. With a deadline on Brexit coming up, the heating trade war between the US and China and possible car tariffs still hanging over the eurozone economy, concerns about continued industrial weakness could become bigger before they retreat.

The service sector outlook became somewhat less positive in August, raising concerns about whether domestic demand is not getting impacted by the continued weakness in global industry. The decline from 10.6 to 9.3 nevertheless corresponds with decent growth in the sector, but slowing hiring expectations could cause a vicious circle as service sector demand is relatively dependent on improving employment.

With selling price expectations more or less steady this month compared to the last, the ECB has not received many indications of an improving core inflation outlook.

The modest gain in the headline ESI suggests some stabilisation, but with downside risks aplenty, it does not provide much reason to become more hawkish ahead of the big September decision on stimulus.

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