

Eurozone economy ends 2017 with a bang

The Economic Sentiment Indicator ends 2017 on a high note but the inflation picture still remains muted



The Eurozone economy is going from strength to strength. The European Commission's economic sentiment indicator (ESI) surged to 116 in December from 114.2 in November, which is way above the 114.8 consensus expectation. The Business Climate Indicator rose to 1.66, hitting its highest level since 1985.

With the growth picture looking very strong, calls to end the ECB's expansionary monetary policy will only grow louder

There was a sentiment improvement in all sectors (industry +1.0, services +2.0, retail trade +1.9, construction +1.2 and consumer confidence +0.5). But the country breakdown revealed a strong increase in sentiment in Germany +1.6 and France +2.3.

Amongst the other large euro-area economies, the ESI rose in the Netherlands (+0.7), while it

remained unchanged in Italy (0.0) and slightly decreased in Spain (-0.8). One should also note that the sentiment indicator is now above its long-term average in Greece.

The Eurozone economy is definitely gaining momentum and a GDP growth figure this year at or above 2017's expected 2.4% cannot be dismissed as a fairy tale. However, the inflation story remains more of a mixed bag.

As we saw last week, core inflation still remains too low to get comfortable, and the Economic Sentiment Indicator doesn't shed any more light on this matter. Some pipeline inflation is starting to show as selling price expectations increased strongly in the industry and to a lesser extent in construction. But at the same time selling expectations fell slightly in services and retail sales, while the consumer is also pencilling in fewer price increases over the next 12 months.

With the growth picture looking very strong, the calls to end the ECB's expansionary monetary policy will grow louder.

On Sunday the president of the Bundesbank, Jens Weidmann in an interview with the Spanish daily El Mundo said that the ECB should set an end date for its asset-buying program. That said, a majority within the Government Council will want to avoid the repeated mistake of premature tightening, certainly given the stubbornly subdued inflation dynamics.

We still expect a short lengthening of the asset purchase program until December 2018, to allow further tapering. While net asset purchases will definitely have ended in the first quarter of 2019, a first rate hike might have to wait until next years summer.

Author

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial

Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.