

Eurozone economy maintains pace in August

No summer lull for Eurozone businesses as the composite PMI improves slightly in August and remains near historic highs.



Continued robust growth with continued weak price pressures is in the making for Q3.

The Eurozone composite PMI increased from 55.7 to 55.8 in August as manufacturing sector growth improved significantly and service sector growth decreased somewhat. Both sectors' indices correspond to a healthy growth pace, but the question is whether this will also translate into an acceleration of industrial production this quarter.

Manufacturing PMIs in the Eurozone have been buoyant for quite some time now, but industrial production has failed to improve from its modest growth trend of recent years. As most indicators point to further recovery of manufacturing activity, we do expect to see some improvements in growth for the months ahead. The backlogs of work in manufacturing increased the fastest in 11 years, for example, an indication that stronger manufacturing output in the coming months is likely.

Even though service sector growth has been somewhat weaker recently, the fundamentals for

continued strength in the second half of 2017 are still there. Consumption is supported by the employment recovery, which continued in August although the pace of hiring slowed somewhat. Still, employment growth indicated by businesses remains near decade highs.

Price pressures continue to be weak, although selling prices did pick up according to businesses. Those selling prices reached a three-month high, but that does not mean that the Goldilocks economy is coming to an end anytime soon. As businesses indicated faster increases in selling prices earlier in the year, this will not convince the ECB that faster price growth is imminent ahead of Draghi's speech in Jackson Hole on Friday. In fact, we think that improvements in inflation to above 1.5% are unlikely for the coming months, so look for a cautious Draghi at the end of the week.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@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 www.ing.com.