Eurozone: Geared for a strong third quarter

The European's Commission economic sentiment indicator rose more than expected in August, suggesting double-digit GDP growth in the third quarter. However, this growth pace is unlikely to extend into the fourth quarter

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Sentiment better than expected

The European's Commission economic sentiment indicator rose to 87.7 in August from 82.4 in June and that was better than expected.

Amongst the bigger member states, all countries saw higher sentiment figures, with Spain being the notable exception. All sectors, except for construction and the consumer where sentiment was broadly unchanged, saw confidence improving.

Especially the services sector stood out, with a nine-point jump in confidence. The employment expectations indicator picked up in industry, services and the retail sector, probably boosted by swelling order books, suggesting that the recovery has legs. Selling price expectations improved in retail and construction but weakened in services and industry. The latter might be due to the recent strengthening of the euro exchange rate, reducing the pricing power of exporting companies.

The fearful consumer

As we mentioned before, the consumer remains the weak spot in the current recovery, with confidence largely unchanged since June. The recent rise in new Covid-19 infections might have hampered the improvement in confidence. But more importantly, fears of unemployment over the next twelve months remain quite elevated.

Fortunately, several member states have decided to lengthen the temporary unemployment schemes, which limits the drop in disposable income. At the same time, more precautionary savings cannot be excluded.

Indian summer?

The good news is that the growth pace in the third quarter is holding up for now. But after the horrible second-quarter growth figures on the back of lockdowns in most member states, the opening of the economy was unsurprisingly going to result in strong growth in the third quarter, nurturing the hope for a V-shaped recovery. But that is just a mechanical effect. If you go from nearly no activity to some activity, you've got strong growth. The question is what lies beyond.

To be sure, we're not in the camp of those pencilling in a double-dip recession: there is still strong growth momentum.

We're looking at quarter-on-quarter GDP growth of close to 10% for the third quarter. But this is likely to slow down quite rapidly to more moderate growth figures, meaning that the year will likely end with a GDP level that is still about 6% lower than in the fourth quarter of 2019.

A sign that generous monetary and budgetary support will have to be maintained in 2021, especially so if the introduction and the rolling out of a vaccine would take some time.

Author

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com