Eurozone growth to slow as second wave concerns intensify

Economic sentiment in the Eurozone improved in September, but at a slower pace. With new local restrictive measures being taken to contain second waves of the virus, downside risks to the outlook are becoming more significant for the fourth quarter

Source: Shutterstock

The Economic sentiment indicator for the eurozone increased from 86.8 to 90.2 in September, indicating that the economic recovery continues albeit at a slower pace.

This paints a slightly better picture than the PMI - which indicated stagnation in September – but given that the PMIs literal interpretation of the index has been slightly off for extraordinary peak Covid-19 cases months, we think the gradual increase in the ESI and German IFO survey are more accurate in indicating the current direction of the eurozone economy.

Especially interesting is the stark difference between the sentiment indicator and PMI for the service sector. The PMI showed a decline in services, while the improvement in economic sentiment was mainly due to a large improvement in the service sector. Businesses became more upbeat about activity in the last few months, which confirms the expected strong rebound in GDP for 3Q. The expectations for the months ahead are still weak though, as they show a slight decline in September, which could reflect second wave concerns.

Surveys show a similar picture regarding manufacturing, as the ESI also confirms a continued recovery for the sector. Order books continue to recover and stocks of finished products are declining, indicating that the months ahead are likely to see continued growth for the sector.

The first few months after the eurozone economy reopened after strict lockdowns showed a fast rebound in activity. Today's ESI indicates that the eurozone economy is already showing signs of rebound fatigue in September and second wave worries add to expectations of further slowing of economic growth.

More measures are being taken to tackle the virus, which will not necessarily have a strong impact on the 3Q growth figures, but will be very relevant for GDP growth in 4Q.

Author

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com