

## Eurozone recovery remains firmly on track...for now

Despite the headwinds of supply disruptions, labour market shortages and rising energy prices, eurozone economic sentiment staged a surprise increase in September. However, the coming months might see some softening on the back of higher energy prices



### Upbeat consumer

The Eurozone economic sentiment indicator increased somewhat unexpectedly in September to 117.8 from 117.6 in August. Confidence in industry picked up marginally (+0.2), while construction saw a strong improvement in sentiment (+2.0). For the time being, supply distortions don't seem to be stopping the expansion as the manufacturing sector expects production to pick up in the coming months. On the other hand, confidence fell back in the services sector (-1.7) and retail trade (-3.3). Amongst the largest EU economies, the ESI rose in Spain (+1.7), Germany (+0.8), the Netherlands (+0.6), while it declined both in France (-1.3) and Italy (-0.9).

Consumer confidence picked up strongly this month (+1.3) on the back of improved labour market expectations (unemployment expectations decreased by 5.4 points). These expectations are confirmed by strong hiring intentions as the employment expectations index increased by 0.8 points. However, the extent to which surging energy prices impact consumer sentiment in the

coming months remains to be seen. With energy mostly imported, higher gas and oil prices might have an adverse income effect, hurting domestic consumption.

## Second round effects

Meanwhile, selling price expectations climbed to a new historic high in manufacturing, while it is close to record highs in the other sectors. Also, consumer inflation expectations increased for the ninth month in a row. This trend is likely to worry the hawks in the European Central Bank's Governing Council as price pressures caused by supply disruptions and rising energy prices are now increasingly being passed through to selling prices. The resulting second round effects might keep inflation somewhat higher for longer.

Those who fear that the recovery is about to falter should be reassured by today's figures; the eurozone recovery still has plenty of momentum. Third quarter growth will be strong – we're forecasting 2% quarter-on-quarter, but we still expect a slowdown from the fourth quarter onwards. Even if the supply issues get sorted out in the coming quarters, the fact remains that high energy prices are likely to hurt demand.

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