

## Eurozone sentiment improves ahead of ECB, GDP and inflation figures

The ESI reaches the second highest reading ever as sentiment remains very positive despite economic bottlenecks and the resurgence of the Delta variant. Mounting inflation pressures and strong employment expectations do add to hawkish pressures for the European Central Bank this afternoon



For the second month in a row now, the ESI has painted a more positive picture than the PMI did. Sentiment increased from 117.8 to 118.6 and is close to historic highs, while the PMI is levelling off. We believe that the growth path is clearly one of normalisation and think that the level of the PMI is likely to best portray the current environment: one of moderating GDP growth after a reopening boom earlier in the year.

The strong sentiment figures for October mainly reflect a boom in services' confidence with both improving expectations and recent demand. Uncertainty among businesses is fading, which is somewhat curious given the rising Covid cases and debate about new restrictive measures restarting in some of the larger countries. That would clearly be one of the more serious downside risks to the outlook for the service sector, but the survey does paint quite a rosy picture.

Manufacturing saw order books increase again, but production expectations are falling. This clearly reflects supply chain frictions and input shortages, which have been weighing on more and more manufacturing subsectors in recent months. Production in recent months has been assessed more positively though, which could well be reflected in a slightly better than expected GDP figure for the third quarter tomorrow.

For the ECB this afternoon, two observations from the survey seem key: employment expectations continue to increase and selling price expectations are rising. The latter is seen both among services and goods, which means that inflationary pressures are currently broad-based in the economy. The big question for the ECB is how temporary these inflation pressures still are, and the labour market is key for that. With employment expectations still rising, the end of furlough schemes is more likely to have only a modest impact on the labour market. That adds to wage pressures which are currently still weak but are set to recover a bit over the course of next year.

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