Eurozone sentiment jumps in June

As expected, economic sentiment improved in June on the back of the reopening of the economy. But the road to recovery remains long

Vasco da Gama shopping center in Lisbon, Portugal

The Economic Sentiment Indicator rose from 67.5 to 75.7 in June, which was the largest rise ever recorded. While that sounds impressive, we have to keep in mind that a lot of numbers sound impressive these days and that the indicator is still very far below its February reading of 103.4. The swings in sentiment do confirm our expectations on the large movements in GDP through this Covid-19 recession: a big decline in the first and second quarter dominated by the lockdown, followed by a large jump in output as the economy reopens.

Industrial sentiment improved from -27.5 to -21.7 and stands at a higher level than services sentiment, which did experience a larger improvement: from -43.6 to -35.6. Expectations about demand in the months ahead surged more in industry, to levels seen in the months before the crisis started while in services, they remained well below those readings. Order books did not start to recover but did bottom out in June.

Most importantly, employment expectations in both industry and services improved over recent months. The jump provides some hope that the job market will also show signs of life in the months ahead, although current readings still indicate jobs losses over the summer and early autumn. Continued improvements in employment expectations could mean that increases in unemployment may remain more limited than initially thought, but as economic output will remain well below 4Q 2019 levels for some time, it is most likely that unemployment will be increasing for some time to come.

Also interesting to note is that selling price expectations recovered quite quickly in June for both industry and services. As unemployment is expected to rise, this does not seem to indicate that inflation will rebound quickly from here on, but does show that some items could see higher prices in the aftermath of the lockdowns, for which anecdotal evidence already exists.

That output would surge at the end of the lockdowns was almost inevitable, but the large question from here on is: how much lasting damage has been done? That will determine how quickly the economy will be back at pre-lockdown levels. Today's ESI provides some hope as employment and price expectations show signs of life, but the road to recovery remains very long.

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