Snap | 30 August 2017

Eurozone sentiment rises further ahead of ECB meeting

As the ESI reaches the highest level in a decade, healthy growth and weak inflation problem continue to baffle the ECB

The August survey indicators all point to some modest improvements compared to July, but the main message is that the economy maintains a healthy cruising speed. Economic growth in the Eurozone seems to be stable at around 2% year-on-year for the moment, well above trend growth.

The Economic Sentiment Indicator showed improvements in both services and industry, showing the current economic strength is widespread. Production and employment expectations both improved in the industry sector, but a drop off in employment expectations in services shows there could be some levelling off regarding job market recovery in the months ahead.

The key takeaway for monetary policy is inflation expectations did not show an uptick. The current weak inflation environment is likely to have continued in August as we expect the inflation rate to have ticked up marginally to 1.4% and core inflation to have remained stable at 1.2%. In fact, it is unlikely that inflation will increase much above 1.5% for the rest of the year and the ESI inflation expectations confirm that.

Consumer inflation expectations decreased marginally from 11.7 to 11.6 in August, and industrial selling price expectations were stable but below the March reading. In the service sector, selling price expectations improved marginally, but they are also still below levels seen earlier in the year.

> The difficult situation of healthy growth and weak inflation continues to trouble the ECB ahead of next week's governing council meeting. Although we do expect at least a game plan from the ECB next week and probably a tasking of the relevant committees to investigate tapering options, ongoing weakness in inflation expectations will not make Draghi's life easier.

Author

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.