

Eurozone: sentiment takes nosedive but there's a silver lining

The impact of the large drop in sentiment on GDP could be limited as service sector sentiment improved, indicating still limited spillover effects from the manufacturing sector at the end of 3Q



Source: Shutterstock

The most important takeaway from the ESI – down from 103.1 to 101.7 in September – is that the spillover from weak manufacturing to services remains muted, which is at odds with the message from the PMI earlier this week. This signals that the problem remains somewhat isolated to manufacturing for now, although the service sector will ultimately feel the repercussions if this lasts much longer.

Industrial sentiment was dismal in September, dropping from -5.8 to -8.8. This was because of a deterioration on all fronts: recent production, current order books, and production expectations all declined. This provides a clear indication that an end to the industrial slump is not yet in sight.

Service sector sentiment improved from 9.2 to 9.5 in September though. This was a small recovery from a larger August drop but it indicates some stabilisation in the sector, which is needed for continued GDP growth given the contraction in manufacturing. Most encouraging underlying indicators were related to the labour market. More optimistic assessments about recent hiring and

future employment needs provide some hope that labour market strength can keep domestic demand afloat.

The message from short-term indicators continues to be worrying. GDP growth in 3Q will come in very muted and the question is whether spillover effects will worsen in the fourth quarter when Brexit risk and tariffs on Europe potentially come to the fore. Monetary leading indicators do signal improvements mid-2020, which is of course very conditional on geopolitical risks. Hold on to your hats, we are in for a couple of exciting quarters.

Author

Bert Colijn

Senior Economist, Eurozone

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.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

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