

## Eurozone sentiment ticked up in August

French Olympic optimism blurs the picture on the eurozone economy. Overall, the second half of the year is set to be one of sluggish growth and still elevated inflation



The Economic Sentiment Indicator was mainly boosted by the French data, which immediately suggests that optimism around the Olympics boosted sentiment, similar to the PMI. Oddly, it's not the services sector, but the French manufacturers which saw a marked boost in sentiment, up from -9.4 to -3.8. Production expectations have gone through the roof in France, while recent production actually disappointed. There is also a decline in hiring and selling price expectations, which doesn't match the jump in sentiment. We therefore don't want to overinterpret the French jump here.

Overall, eurozone manufacturing order books remain weak, recent production did not improve and inventories remain high. This is consistent with a sluggish environment which does not signal an expected turnaround in the short-run.

The service sector saw a small improvement in sentiment, driven by France, Italy and Spain. The small improvement was broad-based as recent demand improved and businesses became more optimistic about the future. Employment and selling price expectations both ticked up a bit in the service sector.

In general, the ESI seems in line with continued sluggish economic growth in the third quarter for the eurozone. Selling price expectations for goods and services are not showing big moves right now, indicating that core inflation is settling just above 2.5% for the second half of the year.

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