

Eurozone sentiment dips but remains in line with third quarter strength

Economic sentiment remains in line with muted growth for the eurozone, which is likely to be somewhat stronger than in the second quarter. Steady bank lending growth is also in line with that view



Berlin, Germany. Eurozone growth is expected to remain muted, but it should be stronger than what we've seen through the second quarter

This morning's batch of eurozone data seems to be in line with some cautious acceleration of growth in the third quarter. But after the rosy picture painted by the PMI last week, the European Commission's sentiment indicator provides a more nuanced view of the economy: things are somewhat better than in the second quarter, but don't expect a vibrant growth rate either.

Economic sentiment slightly weaker than in July

After the PMI reflected a surprisingly upbeat reading of the eurozone economy last week, the European Commission's economic sentiment indicator adds a bit of nuance to the picture. A tick down from 95.2 to 94.9 in the headline index shows that expectations of a jump in growth would be overdrawn. The decline was mainly due to lower confidence among consumers, but services and construction sentiment indicators were also slightly down.

The improvement in manufacturing sentiment was smaller than for the PMI, but even so, industry did become more upbeat on orders, for example. And production improved by a lot according to

the survey, although production expectations for the months ahead ticked down again. Still, that is in line with stronger third-quarter manufacturing output.

For services, demand weakened again and is now below the already soft second-quarter average. That means that so far, limited growth can be expected from the service sector in the third quarter, according to the survey. This will surely keep growth muted given the size of the sector.

Bank lending growth still modestly accelerating

The European Central Bank's bank lending data showed a continued acceleration of year-on-year growth. Even though lending growth has been very volatile from month to month recently, the growth rate for July compared to July last year increased for both households and non-financial corporates to a rate of 2.4% and 2.8% respectively. Historically, this remains modest, but it is still likely to translate into somewhat higher business investment.

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