

# Eurozone: Economic sentiment goes through the roof

The European Commission's economic sentiment indicator soared in April, with the services sector now also in expansion mode. We can now declare the Covid-19 recession over. Inflation expectations also continue to increase



Source: Shutterstock

## Surging sentiment

The European Commission's economic sentiment indicator surged to 110.3 points in April from 100.9 in March, dwarfing the consensus forecast of 102.2. In two months' time sentiment has gained 16.9 points, now firmly standing above its long-term average. Amongst the bigger member states, all countries saw higher sentiment figures, with the Netherlands gaining 10.7 points, Spain 9.1, France 8.5, Germany 5.7 and Italy 5.3.

## Strength across the board

Industrial confidence is now at a record high, while sentiment in the service sector surprised with an 11.7 point jump. Confidence in retail and in construction saw a significant increase, while consumer confidence also improved. It is very encouraging to see that all forward-looking

indicators are rising. Production expectations in industry reached their best reading on record, while stocks were considered scarce as never before. Order books and demand expectations are swelling in all sectors. The Employment Expectations Indicator (EEI) exceeded its long-term average for the first time since February 2020 on the back of a hefty increase in April (+9.9). All surveyed business sectors showed more optimistic employment plans.

## Investment and consumption

The quarterly survey showed that the rate of capacity utilisation rose to 82.5%, a marked 5.0 percentage points higher than in January and now above both the indicator's long-term average and pre-pandemic level. This bodes well for a recovery in business investment in the course of this year. With unemployment expectations declining, it comes as no surprise that a growing number of consumers is planning major purchases over the next 12 months. The Covid-19 recession can now be declared officially over.

## Inflation scare?

Selling price expectations rose for the second month in a row across all surveyed business sectors. Consumer price expectations increased only mildly. Selling price expectations in industry are now close to a record high, but they are now also in construction, retail and even the services sector above their long term average. The big question is how temporary these price increases will be. Will they disappear once some of the supply chains problems are resolved? With strong demand to be expected in the second half of the year and a further inventory build-up in the offing, we doubt that price tensions will disappear quickly. To be sure, it is probably too early to anticipate a price-wage spiral. But if we see a strong recovery in the coming months, which seems to be suggested by today's data, the hawks in the ECB's Governing Council will likely become a bit more vocal. The chances of the Pandemic Emergency Purchase Programme being lengthened after March 2022 are getting slimmer by the day and the central bank could even suggest that it will not fully spend the current envelope.

## Author

### Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@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 [www.ing.com](http://www.ing.com).