

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



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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.

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