

## Eurozone: V for very good, but with some points of caution

The European's Commission's Economic Sentiment Indicator rose more than expected in July, confirming a V-shaped recovery. But with the consumer still hesitant and the number of new Covid-19 infections picking up again, the growth pattern might turn out to be more patchy in the coming months



Shoppers in Brussels

### Strong start of the third quarter

We know second-quarter GDP growth, to be published tomorrow, will be horrible. The 10.1% drop in 2Q German GDP already sets the tone. But that is old news. The markets are now focusing on indicators that can give a flavour of the strength of the recovery now that all countries have come out of lockdown.

In that regard, the European's Commission's Economic Sentiment Indicator offers encouraging news: it rose to 82.3 in July from 75.8 in June and that was better than expected. All sectors, except for construction and the consumer, saw a strong confidence improvement. Forward looking indicators such as order books and hiring plans in industry and services also picked up, which suggests that the recovery has legs. At the same time, selling price expectations improved in industry, services and construction, showing that deflationary pressures might be easing.

## Consumer is the weak spot

The consumer remains the weak spot in the report, with fears of unemployment over the next twelve months marginally increasing. At the same time savings intentions rose for the third month in a row. The risk is, therefore, that a too cautious consumer will slow the recovery pace. That is probably also linked to the evolution of the pandemic. While the number of new Covid-19 infections in Europe remains way below those in the US, it's clear cases have been on the rise in the past few weeks and some countries are tightening their containment measures. This has probably not yet been reflected in the current ESI survey, as the survey is mainly taken in the first half of the month. Therefore, consumer confidence might still soften a bit more.

## from V to patchy

Of course, we shouldn't become too bearish either: this is a very strong economic sentiment report. The trough of the recession is now behind us and the European recovery fund and a possible vaccine next year should further support the recovery in 2021. But until then we remain a bit more cautious on the pattern of the recovery. The data suggests initially a V-shaped recovery but this is likely to morph into a more patchy pattern in the coming months.

### Author

#### Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

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

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