

Snap | 28 July 2017

The bumblebee from Draghi's speech flies high

The Eurozone Economic Sentiment Indicator hits a decade new decade high.



Five years after ECB president Draghi's famous "whatever it takes" speech, the bumblebee from his euro metaphor flies high. Political turmoil has faded to the background for the moment, economic recovery is in full swing, and even Greece returned to the markets this week. The ESI reached its highest reading since August 2007 this month at 111.2, after the German IFO and PMI already pointing towards continued strong growth for the first month of Q3. Consumer confidence ticked down slightly after reaching its highest reading since 2001 in June, while service sector sentiment increased by 0.8 points. The industrial sentiment was unchanged in July.

Confirming previous surveys, businesses' employment expectations continue to increase. In industry and services hiring expectations reached their highest levels since 2007 and 2011 respectively. This will continue to drive domestic demand growth in the coming quarters, helping to sustain the economic recovery. The export environment is somewhat more uncertain with a stronger euro possibly undermining the contribution from net exports in the quarters ahead. Export order books dropped slightly in July, but are still at historically high levels. Manufacturers even indicated a slight increase in competitiveness in markets outside the EU for Q3.

111.2

Eurozone Economic Sentiment Indicator

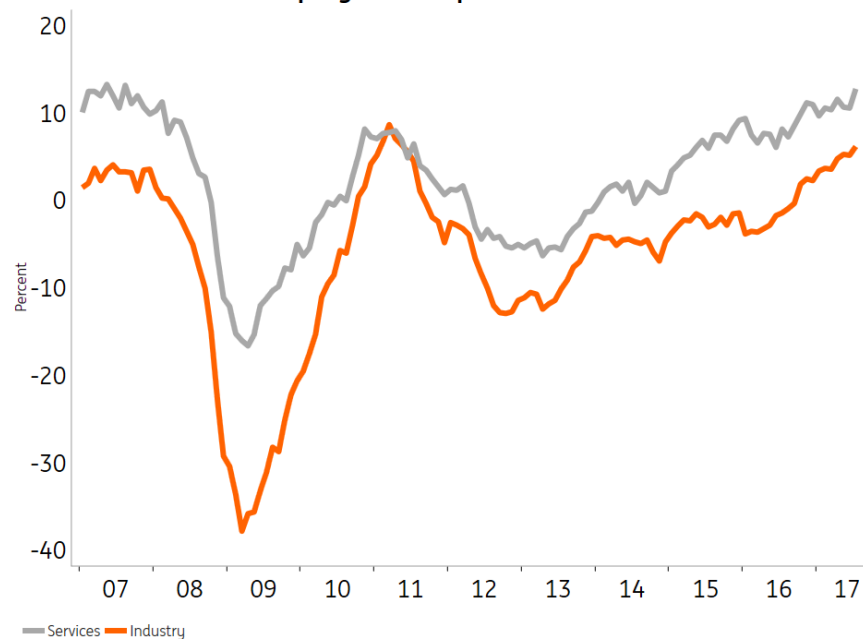
The ESI reached the highest reading since August 2007

So with Q3 off to a strong start, the results for Q2 are looking quite strong as well. This morning Spanish, French and Austrian GDP sent a strong message for the Eurozone as a whole with 0.9, 0.5 and 0.8% QoQ growth respectively. This averages out at 0.6% growth for one-third of the Eurozone economy. While the overall figure could still come in at 0.5%, this does make for a good Eurozone report card halfway through the year.

Employment expectations are reaching multiple year highs

Both in industry and services, employment expectations show continued strengthening of the labour market.

Euro Area business employment expectations



Source: European Commission, ING

These figures will please ECB hawks but inflation expectations have yet to improve meaningfully. Selling price expectations for both industry and services increased slightly in July, but are still below where they were at the beginning of the year. As input price growth has slowed, a weak inflation reading for the months ahead seems imminent, keeping the ECB in a difficult position regarding their monetary stance ahead of the important Autumn meetings.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@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 <http://www.ing.com>.