

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

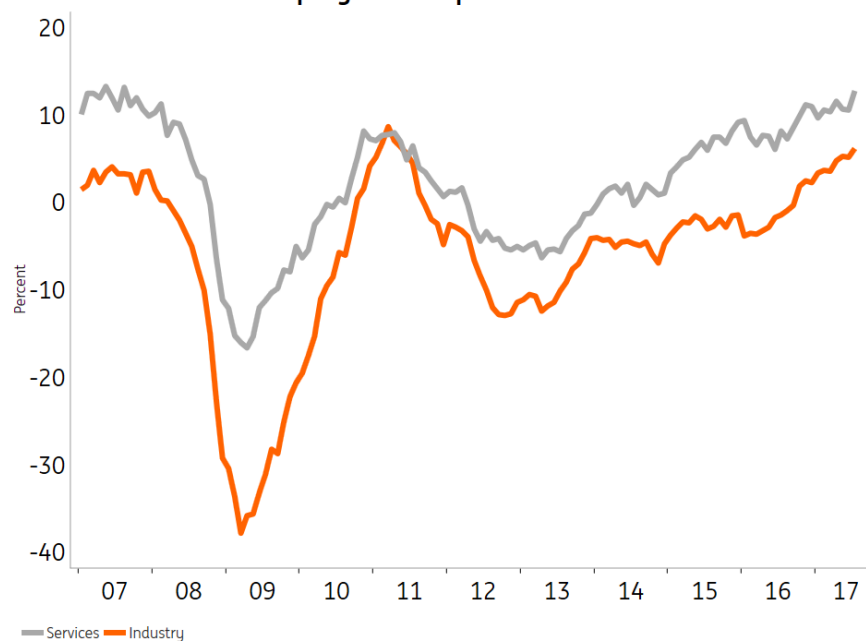
The ESI reached the highest reading since August 2007

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.

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