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ANOTHER EUROZONE SENTIMENT GAUGE SURGES TO A DECADE HIGH

Berenberg Macro Flash

Eurozone economic sentiment, June

	Economic sentiment	Consumer confidence
Actual:	111.1	-1.3
Previous:	109.2	-1.3 (flash)
Consensus:	109.5	-1.3
Berenberg:	109.6	-1.3

Buoyant Eurozone sentiment drives on a broad-based and firming upswing: The surge in the European Commission's sentiment survey adds to those gauges that signal stronger momentum this year, and point to a serious upside risk to our call of 0.5% qoq in Q2 and 1.9% yoy for the full year (see chart). All countries, sectors and pillars of demand are driving the upswing. That makes the upswing all the more resilient. It would probably even weather a hasty withdrawal of monetary accommodation. But this is not to come anyway since the ECB is simply in no hurry to do that despite all the noise in recent days. Underlying inflation remains subdued as tomorrow's flash estimate for June will likely show.

Sentiment reaches decade high: Economic sentiment surged from 109.2 in May to 111.1 in June. The average for the second quarter stands at 110.0, the highest level since 2007. The jump in June comes after a small slip in May when a calendar effect (late Easter) weighed on the service and retail sector.

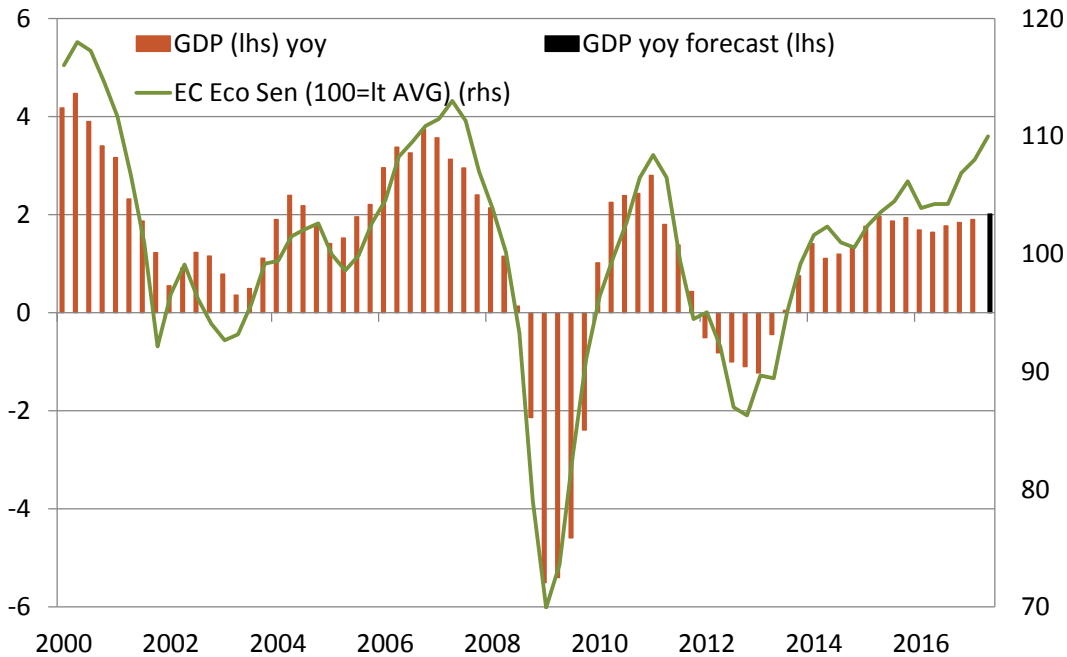
All sectors contributing: Manufacturing tends to drive the ups and downs of the business cycle more than the less volatile service sector. The assessment of order book volumes in manufacturing has risen to its highest level since the financial crisis started in 2008 (see chart). While export orders have surged since early 2016, they are still lagging slightly behind overall orders. Domestic demand is supporting the upturn even more than external demand. After two strong quarters we expect business investment to pick-up from a healthy 3.4% yoy in 2016 to a buoyant 5.0% this year, providing a bigger contribution to GDP growth than private consumption. The service sector is also in a good mood, while showing a somewhat less dynamic pick-up in confidence. Still, current and future employment in the service sector in Q2 2017 reached their strongest levels since mid-2007 (see chart). This is encouraging. Services account for the bulk of economic activity and employment. Due to a firming labour market consumers took the fading of the oil price tailwind in their stride in Q1 this year. With the fall in pump prices throughout Q2, life is easier. In early 2016, low oil prices had boosted their real purchasing power to such an extent that the readiness to go shopping reached a 15-year high (see chart). That the willingness to buy big ticket items rose even further at the beginning of this year and remained fairly unchanged in Q2 is impressive after headline inflation rose from 0.0% yoy from January to May to 1.7% in the first five months of 2017.

Sentiment trending up across the Eurozone, even in Greece: In most countries GDP is expanding at a rate above trend. In line with the Ifo surveys sentiment in Germany surged from 109.5 in May to 111.9, thanks to an uptick in all sectors. Sentiment in France also rose broad-based and significantly (+2.2) reflecting the promising recovery of the French economy over recent quarters and the high expectations to deliver on reform proposals towards President Emmanuel Macron. Sentiment improved slightly in Spain (+0.5), while it remained unchanged in Italy (0.0). In Greece, the conclusion of the second review and expectations of some debt relief talks soon to be held likely provided the ground for a small rebound in confidence (94.0 after 93.2).



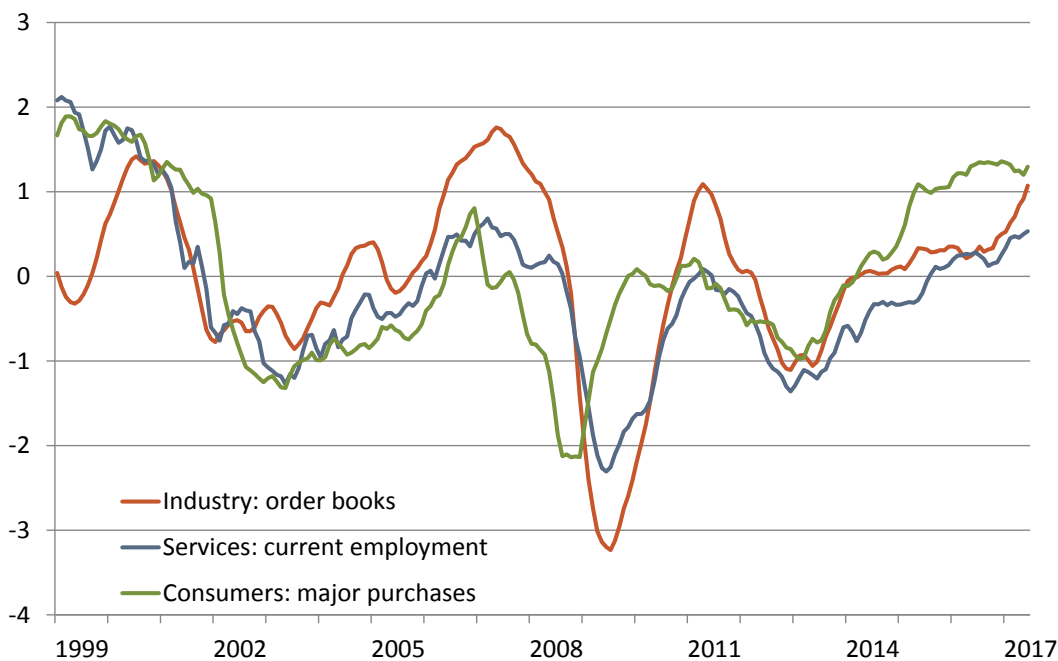
MACRO NEWS

Economic sentiment (quarterly average) vs. GDP qoq growth (in %)



Sources: European Commission, Eurostat.

Key components of Eurozone economic sentiment



Volume of order books in manufacturing industry, current employment in services, major purchases at present in consumer sentiment survey, standard deviations from long-term average, three-month moving averages. Source: European Commission, monthly economic sentiment survey

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Eurozone economic sentiment, by sector

	JUN	MAY	APR	MAR	FEB	JAN
Economic sentiment	111.1	109.2	109.7	108.0	108.0	108.0
Industry	4.5	2.8	2.6	1.3	1.3	0.8
Services	13.4	13.0	14.2	12.8	13.9	12.9
Consumer	-1.3	-3.3	-3.6	-5.1	-6.4	-4.9
Retail	4.4	2.0	3.1	1.8	1.8	2.3
Construction	-3.5	-5.7	-6.0	-9.9	-10.1	-12.9

Eurozone economic sentiment, by country

	JUN	MAY	APR	MAR	FEB	JAN
Germany	111.9	109.5	111.0	109.2	108.3	109.1
France	109.8	107.7	106.2	105.1	105.9	105.0
Italy	106.1	106.1	107.0	105.6	105.7	105.5
Spain	108.9	108.4	107.9	106.9	108.7	107.4

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