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MORE GOOD NEWS: EUROZONE SENTIMENT RISES TO 10-YEAR HIGH

Berenberg Macro Flash

Eurozone economic sentiment (ESI), September

	Economic sentiment	Consumer confidence
Actual:	113.0	-1.2
Previous:	111.9	-1.2 (flash)
Consensus:	112.0	-1.2
Berenberg:	112.0	-1.2

European sentiment surges to decade high: The Eurozone economy may still be gaining momentum according to the further rise in economic sentiment to 113.0 in September after 111.9 in August. The last three months' average for the ESI reached 112.1, the highest level since 2007. This indicates some upside risk to our call that GDP growth will slow down slightly (0.5% qoq) from a strong second quarter (0.6% qoq). The gains in sentiment are broad based with good news from all major sectors and countries. As the Eurozone upswing is well entrenched, the earlier rise in the euro exchange rate has not clouded the outlook in any significant way yet. Even the subindex for export orders in manufacturing advanced further in September

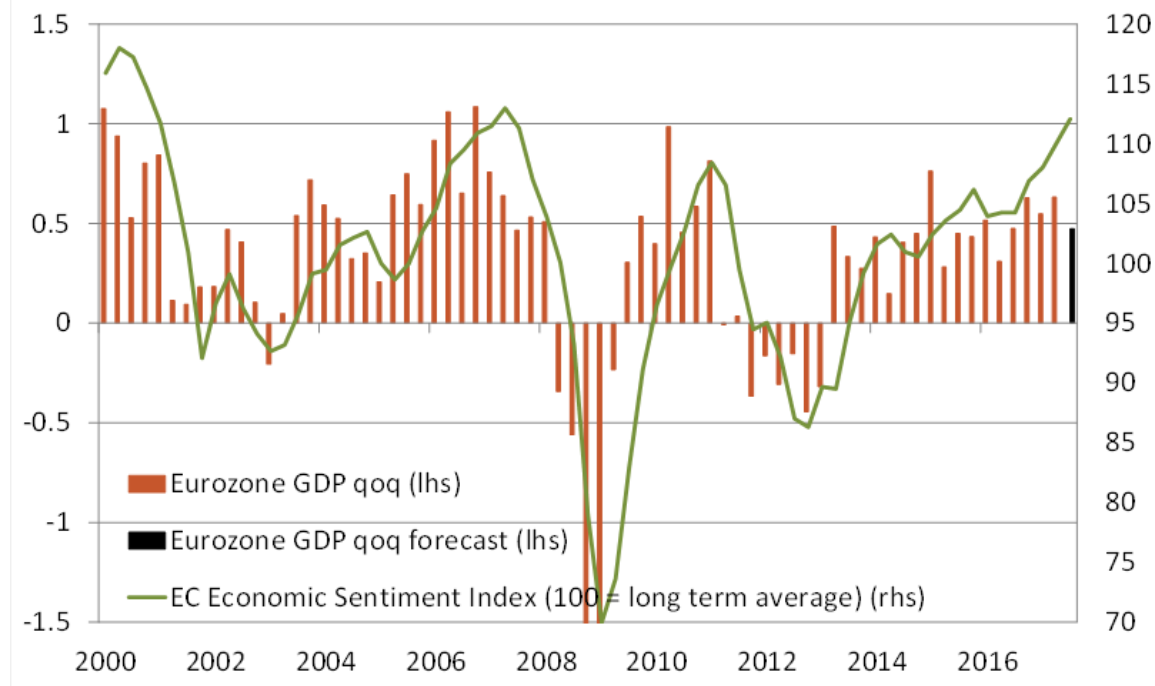
Impressive results from Southern Europe: The **Portuguese** ESI (+2.4 to 114.4) jumped to the highest level since March 2000 supported by a strong uptick in services and construction confidence. The latter rose to the highest level since 2002. In **Italy** (+1.8 to 110.9) the ESI increased to a 10 year record amid a strong rise in consumer and retail trade confidence. The **Spanish** ESI (+0.9 to 109.9) reached a 20 months high supported by a rise in confidence across all sectors despite the noise surrounding Catalonia. This bodes well for continued robust growth in Spain (we expect 3.1% GDP growth in 2017) and creates upside risk to our 1.4% 2017 GDP forecast in Italy as well as our 2.6% 2017 GDP forecast in Portugal. In **France** the ESI reached a new 6 year high (+0.4 to 111.2) amid expectations that President Emmanuel Macron will deliver structural reforms. The French construction confidence index climbed to a 9 year high. The **German** ESI (+0.5 to 112.4) improved slightly and remained close to a six year high. The **Greek** ESI (+1.6 to 100.6) rose in September above 100 for the first time since the end of 2014. The country seems to profit from the much reduced risk of a Grexit following the conclusion of the second review in June and a very strong tourism season. Greek sentiment improved across all sectors. The Eastern European countries continue to show impressive sentiment readings. The **Hungarian** ESI (+2.4 to 121.9) jumped to an all-time high while labour shortage in the Hungarian manufacturing sector increased to a new record of 81.4, the highest level in Europe. This will likely put further pressure on wage growth in Hungary (up 13.1% yoy in July).

All sectors driving the Eurozone economy: The confidence level in the Eurozone increased across all sectors in September. The industrial confidence indicator rose to 6.6 from 5.0, which is close to the all-time high reached in 2007 (7.7). Furthermore, the services sector indicator increased to 15.3 in September from 15.1 in August, a 10 year high. In line with services, consumer confidence (-1.2 in September vs. -1.5 in August) climbed to the highest level since April 2001. Construction confidence (-1.7 in September vs. -3.3 in August) reached a 10 year high.



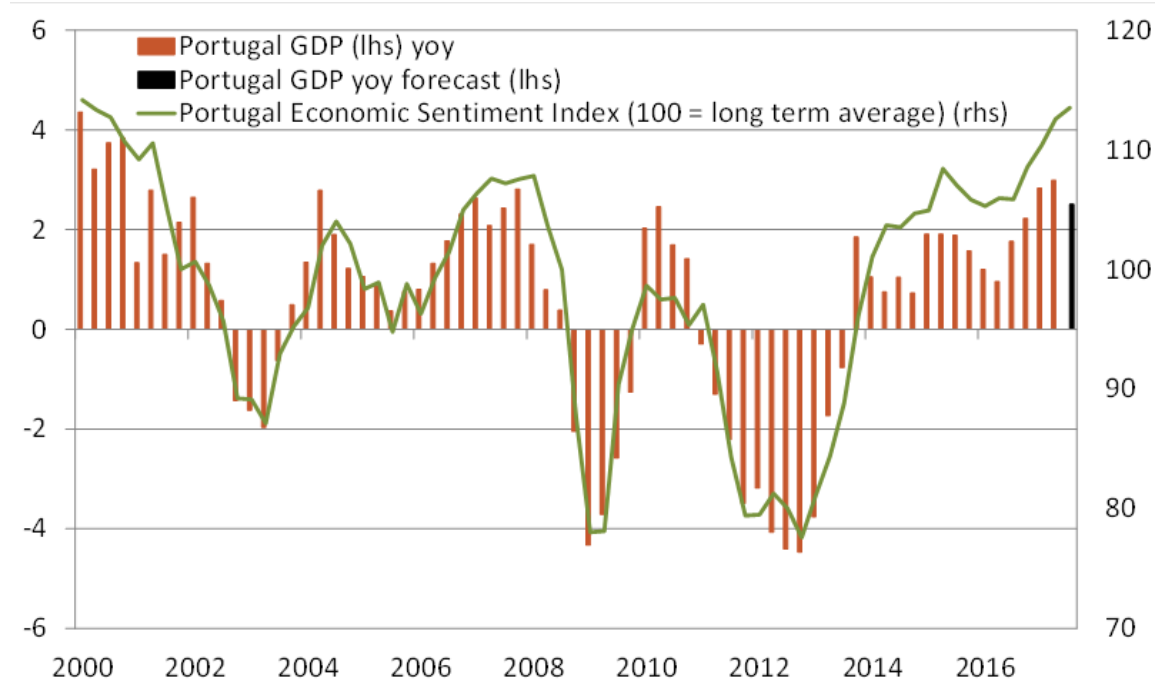
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Eurozone economic sentiment index (quarterly average) vs. GDP qoq (in %)



Source: European Commission, Eurostat.

Portugal economic sentiment index (quarterly average) vs. GDP yoy growth (in %)

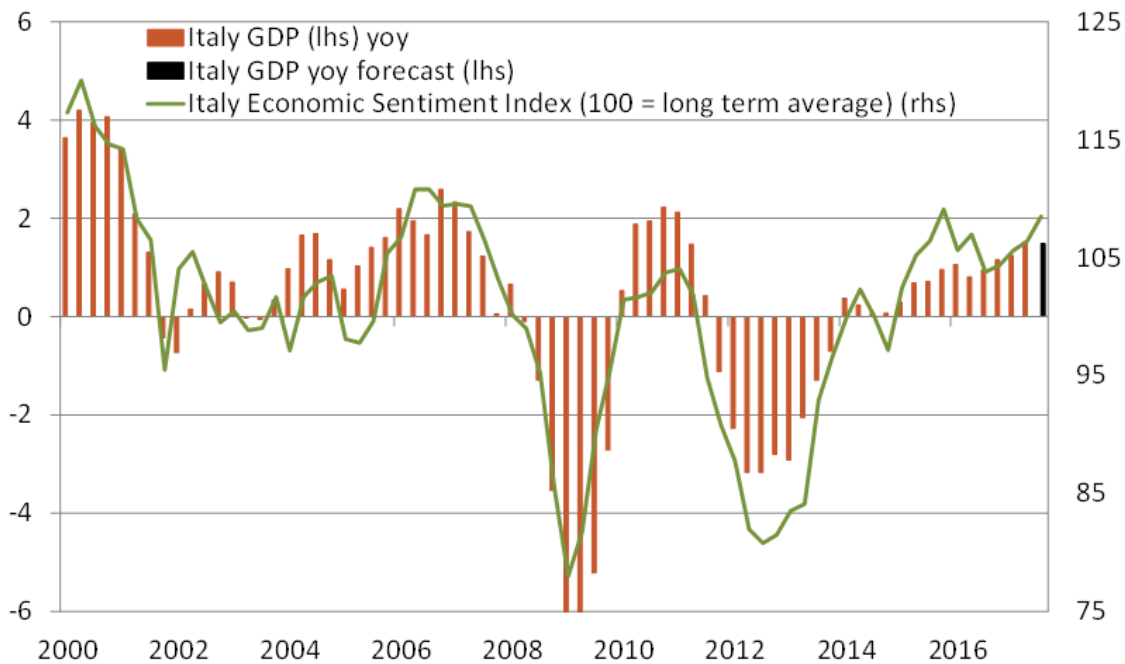


Source: European Commission, Eurostat.



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Italy economic sentiment index (quarterly average) vs. GDP yoy growth (in %)



Source: European Commission, Eurostat.

Eurozone economic sentiment, by sector

	SEP	AUG	JUL	JUN	MAY	APR
Economic sentiment	113.0	111.9	111.3	111.1	109.3	109.7
Industry	6.6	5.0	4.5	4.5	2.8	2.6
Services	15.3	15.1	14.2	13.3	12.8	14.2
Consumer	-1.2	-1.5	-1.7	-1.3	-3.3	-3.6
Retail	3.0	1.6	3.9	4.4	2.0	3.1
Construction	-1.7	-3.3	-1.8	-3.5	-6.0	-9.9

Eurozone economic sentiment, by country

	SEP	AUG	JUL	JUN	MAY	APR
Germany	112.4	111.9	112.5	111.9	109.5	111.0
France	111.2	110.8	108.9	109.5	107.6	106.2
Italy	110.9	109.1	105.5	106.1	106.1	107.0
Spain	109.9	109.3	107.9	108.9	108.4	107.9



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