

ECONOMIC PULSE

EUROZONE: A VIGOROUS RECOVERY IN THE SECOND QUARTER

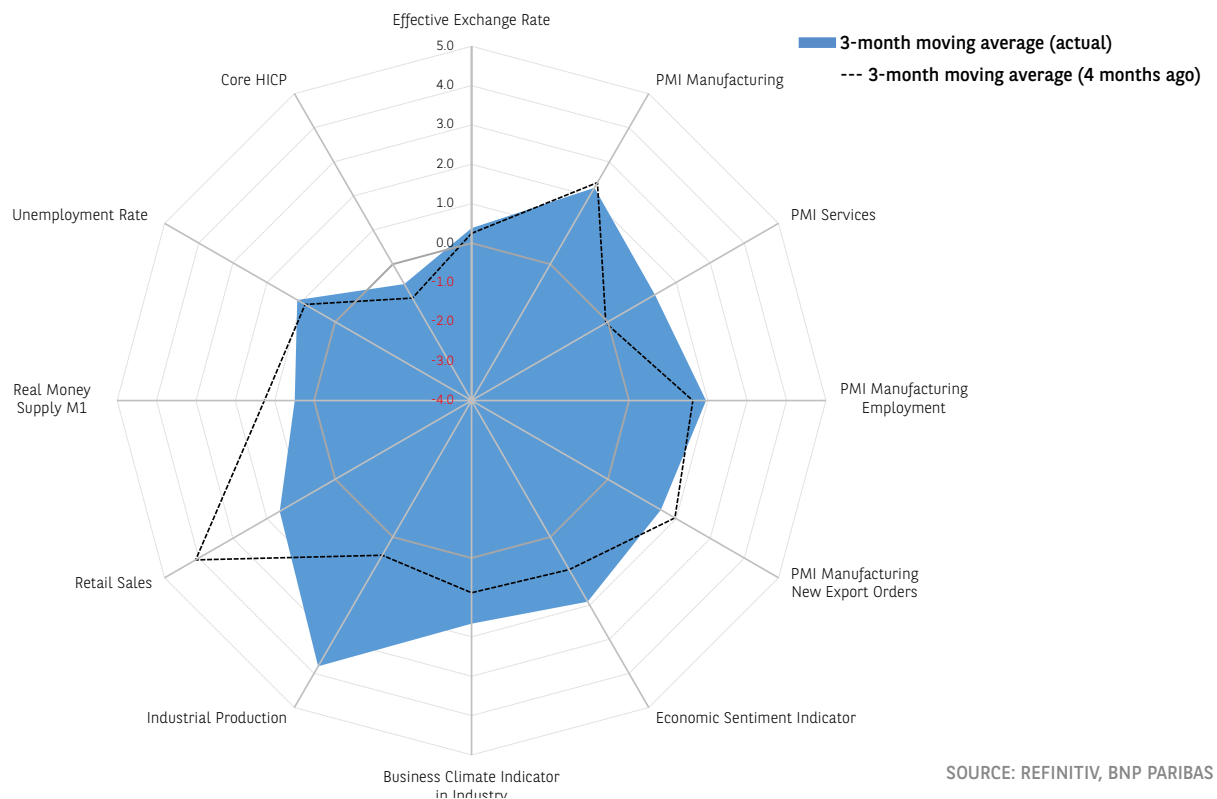
After two quarters of slight contraction (-0.4% q/q in Q4 2020, -0.3% in Q1 2021), during which lockdown restrictions were reintroduced in various countries in the zone, growth bounced back strongly in Q2 2021 (up 2.2% q/q, 14.3% y/y). The growth carry-over is nearly 4% and the gap to the pre-crisis GDP level of Q4 2019 is now only 2.5%. The strength of the rebound had already been seen in survey data from April to June, whether from Markit's PMI or the European Commission's Economic Sentiment Index (ESI).

Both these indicators gained another notch in July, taking the PMI to its highest level since mid-2006, at 60.2, and the ESI to an all-time record of 119. Both saw only small falls in August. Accordingly, Q3 growth is likely to remain strong: we are expecting a similar figure to that in Q2. The various supply constraints have knocked a few tenths of a point off our previous forecast issued in June, but the hit to growth remains contained, and these lost tenths should gradually be recovered in 2022. Positive momentum on employment and investment, together with the uptrend of the output price component of the PMI figures, reflect business confidence in the robustness of demand prospects and their ability to pass on rising input prices in output prices to protect mark-ups. Any sign of a significant shift in these positive signals will need to be watched closely.

The same is true when it comes to the effects of rising inflation (3% y/y in August) on consumer confidence. For the time being, consumer confidence is very high according to the European Commission's indicator. But however temporary and limited it might prove to be (core inflation remains low and below its long-term average), this rise in inflation is cutting into consumer purchasing power. This is another possible sticking point to watch even if the negative effect on consumption is likely to remain limited due to forced accumulated savings which can now be drawn down and also thanks to support from the healthy labour market. The possible triggering of a feedback loop between prices and wages against a background of inflation and significant hiring difficulties holds the attention too. The likelihood of this happening still appears low, given the still-high level of the unemployment halo (which includes those not actively seeking work and those forced to work part time). Such "second round" effects are not yet visible in either survey data or in wages.

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EUROZONE: QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +5. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

