Eurozone: ESI index at a high since January

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The EU Commission's ESI composite economic sentiment index improved further in August, rising to 98.4 from 96.9 previously. Although it remains below the long-term average, this is the highest reading since last January. The improvement is widespread across the main sectors. However, the recent rise in fuel prices and the risks of higher gas prices in the coming months call for caution, both in terms of growth and inflation. For the time being, at least, the economic cycle is showing signs of resilience and expectations regarding selling prices remain under control. This picture therefore remains consistent with a rate hike by the ECB in September, which we believe could be the last.

The EU Commission's composite index of economic confidence rose for the fourth month in August, reaching a high since the start of the year. Sentiment has now fully recovered from the declines recorded following the outbreak of the conflict in the Middle East. **The improvement is widespread across the main sectors**: industry (-5.3 from -6.1), services (5.8 from 5.1), retail trade (-5.7 from -6.8) and construction (-5 from -5.2). The improvement in consumer confidence (-15.5 from -15.9) has also been confirmed. **The available ESI and PMI surveys would be consistent with an average GDP growth of around 0.3% q/q in H2 2026.**

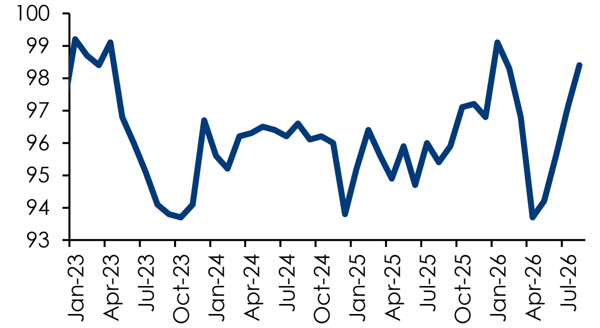
Manufacturing confidence has reached its highest level in the last three years, driven mainly by an improvement in production expectations, which has offset the slight declines recorded in assessments of orders and recent activity. Overall, however, **even for those components that have experienced a monthly fall, the indices remain above the average levels recorded in the second half of last year**. The resilience shown so far by the European manufacturing sector may also be due to the precautionary restocking that took place following the Hormuz blockade. However, **in addition to expectations, the recovery in hiring intentions,** at a high since 2023, **suggests that firms do not view this increase in production as temporary.**

The **services** sector, which is the most exposed to domestic demand and, consequently, to the energy shock affecting incomes, is showing signs of better-than-expected resilience in the central months of the year and does not appear to be affected by the renewed climate of geopolitical uncertainty. **Confidence has returned to its highest level since January, and the survey details show widespread improvement, not only in the assessment of demand and past activity, but also in expectations and employment.**

The surveys are likely to have only partially factored in the most recent rises in fuel prices (consumer inflation expectations, which are notoriously sensitive to prices at the pump, have in any case started to rise again, albeit slightly), and the future risks of rising gas costs should not be underestimated either. However, at present, the European economic cycle is showing signs of resilience and **businesses' expectations regarding selling prices, whilst still at high levels by historical standards, show no signs of overheating**. Expected price levels have fallen slightly in manufacturing (from 17.8 to 16.4), in the wholesale and retail trade (from 22.6 to 22.1) and in construction (from 9.4 to 8.4), whilst they have risen in the services sector (from 13.7 to 14.1), although the sector's index remains well below its previous peak, reached last April.

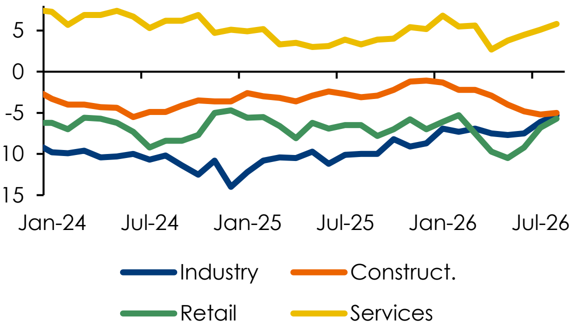
Compared with the start of the conflict, the downside risks to growth and the upside risks to core inflation appear to have eased but should not be underestimated. At present, however, the Eurozone economy appears set to end the year with an average GDP growth of just under 1% (it would be higher, just over 1%, excluding Ireland) **and resilient enough to handle what we believe will be the ECB's final 25bp rate hike in September.**

The ESI composite index remains below its long-term average (100) but has now recouped the ground lost following the outbreak of the conflict



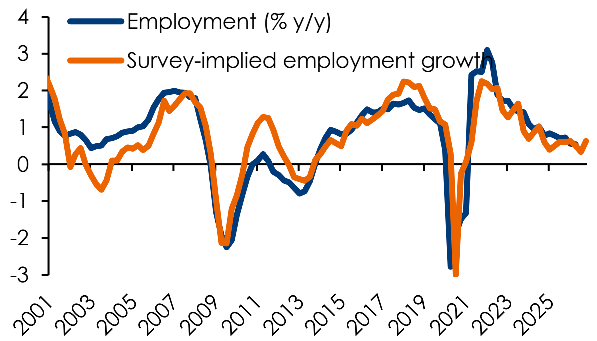
Source: Intesa Sanpaolo, EU Commission DG Ecofin

The improvement in confidence is widespread across the main sectors



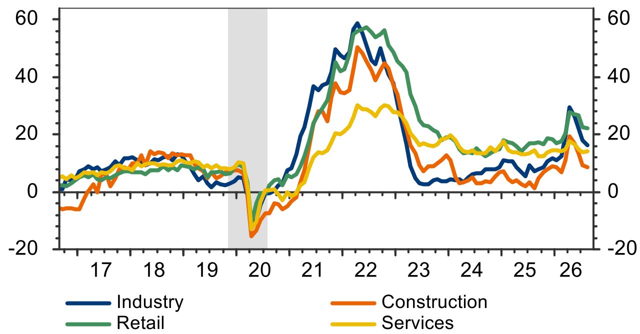
Source: Intesa Sanpaolo, EU Commission DG Ecofin

Hiring plans are consistent with a renewed upturn in employment towards the end of the year



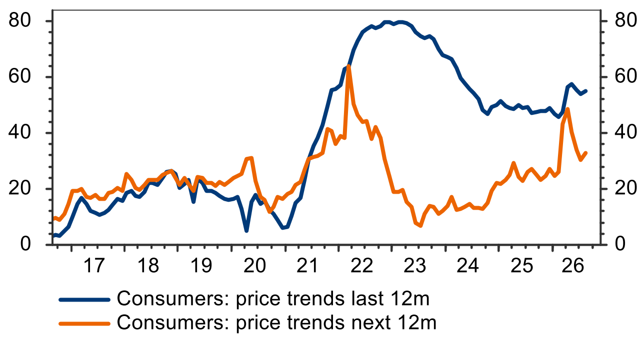
Source: Intesa Sanpaolo elaborations

Businesses' price expectations remain high but show no worrying signs of overheating



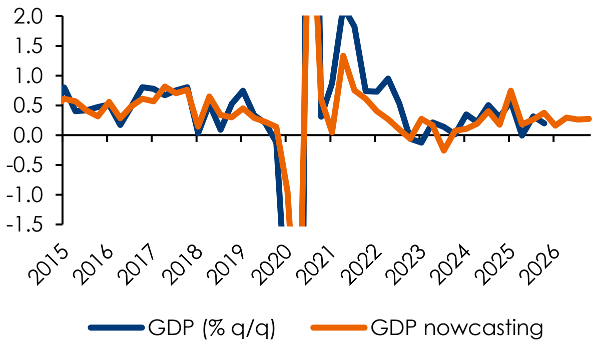
Source: Intesa Sanpaolo, EU Commission DG Ecofin

Consumers' perceived and expected inflation has risen slightly. The September survey may be more heavily influenced by the recent rise in fuel prices



Source: Intesa Sanpaolo, EU Commission DG Ecofin

Our nowcasting models point to an average quarterly GDP growth of 0.3% in H2 2026



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Appendix

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