ECONOMIC RESEARCH

The NewsLine

April 30, 2019

MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

EUROZONE

Eurozone Q1 GDP growth: positive surprise

Georges Dib
Phone +33.1.8411-3383
Georges.dib@eulerhermes.com
Allianz SE

Allianz Research
https://twitter.com/AllianzResearch

According to the Q1 2019 GDP flash estimate, the Eurozone grew more than expected at +0.4% q/q, accelerating from Q4 2018 (+0.2%q/q). While we do not know the growth breakdown by component yet, this positive surprise could be attributable to higher than expected inventory building. Advanced indicators show that stocks of finished products in the manufacturing sector as assessed by companies continued to strengthen in April. Our assumptions for a rebound starting to materialize and accelerating in H2 still hold, yet such inventory building poses a risk of a negative adjustment in the quarters to come as demand might prove weaker than expected by companies. While external demand is expected to have remained weak in Q1, domestic demand, and in particular consumer spending, is expected to have accelerated as illustrated by the retail sales data in January and February.

The Eurozone has been experiencing a longer than expected soft patch in activity as it was faced with an industrial recession in Germany, a mini-shock in consumer confidence in France and a mild recession in Italy with elevated fiscal policy uncertainty weighing on internal demand (the French and Italian uncertainty shaving -0.2pp from the region's growth). On top of that, the trade dispute between the US and China is estimated to have subtracted close to -0.2pp from Eurozone growth in 2018 - as much as the Brexit-related uncertainty.

However, first quarter figures in both France (+0.3% q/q) and Spain (+0.7%) surprised on the upside. In France, this is attributable to inventory building that was a bit stronger than expected, contributing by +0.3pp to Q1 growth. It mirrors the main upside surprise on the supply side in manufacturing production. In Spain, while private consumption continued to slow in line with our expectations, investment rebounded more strongly than expected, driven by machinery and equipment, and imports contracted more than exports.

Going forward, we expect the Eurozone to fare better overall thanks to (i) a resilient real wage growth, as inflation remains muted; (ii) a positive fiscal impulse (+0.2pp on real GDP growth) for the first time since 2009; (iii) a still very accommodative monetary policy stance which should allow refinancing rates to remain very low until late 2020; (iv) higher demand from China in the second half of the year as the stimulus bears fruit and (v) rising economic confidence as key risks fail to materialize (escalation of the US-China trade dispute, tariffs on US car imports and a no-deal Brexit).

ABOUT ALLIANZ

The Allianz Group is one of the world's leading insurers and asset managers with more than 86 million retail and corporate customers. Allianz customers benefit from a broad range of personal and corporate insurance services, ranging from property, life and health insurance to assistance services to credit insurance and global business insurance. Allianz is one of the world's largest investors, managing over 660 billion euros on behalf of its insurance customers while our asset managers Allianz Global Investors and PIMCO manage an additional 1.4 trillion euros of third-party assets. Thanks to our systematic integration of ecological and social criteria in our business processes and investment decisions, we hold the leading position for insurers in the Dow Jones Sustainability Index. In 2017, over 140,000 employees in more than 70 countries achieved total revenue of 126 billion euros and an operating profit of 11 billion euros for the group. These assessments are, as always, subject to the disclaimer provided below.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

NO DUTY TO UPDATE