

The NewsLine

January 31, 2019

MACROECONOMICS

FINANCIAL MARKETS

ECONOMIC POLICY

SECTORS

EUROZONE

Confidence will be essential for future growth

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Preliminary GDP data confirmed that the Eurozone economy ended 2018 on a weak note. While fundamentals remain positive: the labor market continues to expand and financial and monetary conditions remain accommodative, elevated uncertainty is likely to weigh on economic activity in 2019. We expect GDP growth to slowdown to +1.6% in 2019 from +1.8% in 2018. Risks to our forecast remain on the downside.

Preliminary data shows that real GDP in the Eurozone grew by +0.2% q/q in Q4 2018, slightly below expectations, but at the same pace as in the previous quarter. For 2018 as a whole GDP growth came in at +1.8%, above the potential rate for the fourth consecutive year.

We expect the slowdown to have been broad-based. Consumer spending is likely to have remained weak despite the ongoing labor market improvement (the unemployment rate fell to +7.9% in December – the lowest level in a decade) and the rebound in wage growth (+2.5% y/y in Q3). We believe elevated uncertainty has contributed to the rise in the Eurozone savings rate above 12% in 2018, the highest level since 2016). Overall, we expect consumer spending to have slowed to +1.3% in 2018 – lowest pace of growth since 2014. Negative second round effects from the uncertainty related to the US-China trade dispute have started to weigh more notably on Eurozone exports. We expect them to have grown by +2.7% in real terms in 2018, about half of the pace registered in 2017.

The weakness of consumer spending and external demand in addition to the crisis in the automotive sector in some Eurozone countries most notably Germany are likely to have held back corporate investment. In addition, the

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softening in margins has continued given the rise in labor costs and higher oil price through H2 2018.

Overall, we expect the Eurozone economy to remain on a “soft landing” trajectory. This will be supported by (i) more expansionary fiscal policy; (ii) a moderate acceleration in private consumption; (iii) somewhat higher external demand, in particular from China in H2 2019; (iv) lower oil prices; (v) resilient growth in emerging markets.

Moreover, positive confidence effects from the resolution of high impact uncertainty events such as Brexit, a waning threat of additional tariffs on the EU auto sector by the US, the resolution of the US-China trade dispute and in-check stress in Italy would also support growth.

Hence, we expect Eurozone GDP growth to reach +1.6% in 2019 but risks to our forecast are tilted to the downside.

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