

The NewsLine

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▶ MACROECONOMICS

FINANCIAL MARKETS

ECONOMIC POLICY

SECTORS

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EMU

Downward trend continues

Sentiment indicators for the eurozone continued to decline in November. So far, slower economic momentum in the eurozone has been primarily attributed to the unfavorable development of industry. However, the service sector - the backbone of the current upswing - is far from enjoying immunity and increasingly coming under pressure. We are revising our forecast for this year's economic growth from 2.1% to 1.9%. For the coming year, we expect economic growth to slow to 1.7%. In view of the slowdown in economic momentum, there is a rising probability for the ECB to adjust its Forward Guidance at the upcoming December meeting and postpone somewhat the turnaround in interest rates anticipated for fall 2019.

The sentiment indicators published today point to a rather disappointing final quarter of 2018. The combined purchasing managers' index for industry and services in the eurozone fell to 52.4 points in November, its lowest level in almost four years. The industrial sector has been under notable strain in 2018 due to the disappointing export trend and - more recently - very low automobile sales. The service sector in comparison has proven much more robust, but the increased political uncertainty as well as rising costs and prices are increasingly weighing on the growth momentum here as well.

The further decline in business prospects within a year suggests that the economic slowdown will continue in the coming year. This is also supported by the decline in total orders – export order in fact declined for the second consecutive month. While net exports are unlikely to provide a renewed growth impetus in the coming year, domestic demand - and private consumption in particular given the positive labor market trend - is unlikely to run out of breath

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for some time to come. All in all, we expect economic growth of 1.7% for the Eurozone in 2019 after a 1.9% rise in GDP in the current year.

Against the background of the continuing decline in EMU economic indicators, the probability is rising that the ECB will slightly adjust its communication at the December press conference and postpone somewhat the first interest rate hike in a decade which has been anticipated for autumn 2019.

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