

# The NewsLine

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## EUROZONE

# Economic growth slows further

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With today's GDP figures, eurozone growth of just over 2% should still be achievable. The ECB is caught between the tensions of falling growth forecasts and rising inflation forecasts. In our opinion, the EMU economy can well cope with a further reduction in QE.

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According to Eurostat's provisional flash estimate, eurozone gross domestic product grew by 0.3% in the second quarter. Compared to the first quarter of the year, the rate of expansion has thus weakened slightly again after 0.4%. According to today's data, however, economic growth of just over 2% should still be achievable for 2018 as a whole.

The new GDP figures are rather disappointing, as growth momentum has almost halved in the first half of 2018 compared to 2017. However, at 0.35% Q2 GDP growth still slightly exceeds the average quarterly GDP growth rate since 2010.

Forward-looking sentiment indicators such as order intake or the economic outlook for the next 12 months, which form part of the purchasing manager index, hardly suggest that economic growth in the eurozone will pick up notably again in the coming months. According to today's data, the fall in eurozone unemployment has also paused in June with the unemployment rate registering at 8.3% unchanged from the previous month.

While the forecasts for EMU economic growth have generally tended to be revised downwards in the last few months, as far as inflation forecasts are concerned slight upward corrections have recently predominated. Driven largely by rising energy prices (up 9.4% year-on-year in July), annual eurozone

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inflation reached 2.1% in July, its highest level since December 2012. Taking into consideration the new data, the likelihood of an upward revision to our 2018 inflation forecast of 1.7% has risen. It is not easy for the ECB to act in this area of tension. Nevertheless, we are of the opinion that the EMU economy is in sufficient shape to smoothly absorb a further tapering step in QE.

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