

The NewsLine

February 12, 2016

MACROECONOMICS FINANCIAL MARKETS ECONOMIC POLICY SECTORS

EUROZONE

Recovery continues

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The economic recovery in the eurozone continued in the final quarter of 2015. Following a buoyant start to the year, the pace of growth slowed somewhat in the second half, but so far the eurozone economy has shown itself relatively unruffled by the worries about the global economy or the financial market gyrations in recent weeks. For 2016 we see growth picking up further to 1.7%. However, this assumes that the heightened global uncertainty does not weigh on economic activity.

As Eurostat announced today, the eurozone economy grew by 0.3% in the final quarter of 2015. Following a buoyant start to the year, this means that the economy cooled slightly in the second half of the year. In 2015 as a whole GDP rose by 1.5%.

So far the eurozone economy appears to be weathering the heightened uncertainty with regard to the global economy and the panic on the financial markets relatively well. Although GDP component details are not yet available, we assume that domestic demand, which is increasingly becoming the mainstay of the economy, was able to cushion slack global growth somewhat.

Growth in Germany was middling. GDP growth came in at 0.3% q-o-q, unchanged on the preceding quarter, bringing annual average growth to 1.7% for the year as a whole. The main impetus came from domestic factors: Both consumers and the government stepped up spending and fixed capital formation also recorded an increase. By contrast, net exports were a drag on growth of late. For 2016 we are expecting GDP to expand by 2.2%.

For the two eurozone heavyweights Italy and France the results were disappointing:

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The Italian economy recorded a meager increase of 0.1% in the fourth quarter. In 2015 as a whole Italian GDP thus increased by 0.6%. We think that concerns that the Italian economy is heading for a renewed recession are overdone. There are various indications that the economy is set to regain momentum again in 2016: Consumer sentiment is at a 15-year high, the business climate is upbeat and the situation on the labor market is improving steadily. We are forecasting an increase in GDP of 1.1% in 2016.

The French economy also lost steam in the final quarter of 2015, with output rising by only 0.2% on the previous quarter. The main factor was a decline in private consumption, but this was partly attributable to lower energy consumption thanks to the warm temperatures. By contrast, business investment provided a ray of light, rising by 1.3% - the strongest growth for four years. For 2016 we are penciling in GDP growth of 1.5%.

The news from the periphery was more encouraging: Spain again notched up strong growth (0.8%), Cyprus (0.4%) now also appears to be over the worst and Portugal remains on the growth path (0.2%). Only Greece registered a drop in GDP (-0.6%) – as the only eurozone country together with Finland (-0.1%).

For 2016 we are looking at GDP growth of 1.7% in the eurozone. We believe the upswing will gain in momentum, breadth and stability. Private consumption will remain the main driver. The fall in unemployment, which gathered pace in 2015, is likely to continue and will provide extra tailwind. And investment at last also looks set to pick up more strongly again. However, all this assumes that the heightened global uncertainty does not have a negative impact on the real economy.

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