

# The NewsLine

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EURO AREA

## Economic recovery remains on track

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Although the euro area economy slowed in the second quarter of the year, the economic recovery remains intact. Developments in Italy, however, where the economy stagnated, came as a disappointment. Although the Brexit vote is not expected to put too much of a damper on the EMU economy, the pace of growth is likely to be subdued in the second half of the year.

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Preliminary Eurostat estimates for Q2 2016 show that the eurozone economy expanded by 0.3% (Q/Q), half the rate of growth seen in the previous quarter (0.6%). Although detailed data on the individual components is not yet available, we expect private consumption to have once again been a key driver of economic activity. For a change, net exports are likely to have made a positive growth contributions after weighing on economic growth in previous quarters.

The German economy grew by 0.4% (Q/Q) in the period April – June. The economic upswing is proving to be a robust one, even though growth slowed slightly after the strong start to the year (0.7%). According to Destatis, positive impetus came in particular from net exports, but German domestic demand also remains in good shape. Both private and public consumption are expected to have contributed positively to economic growth in the Spring quarter. Weak investment activity – particularly in equipment and construction – however weighed on economic growth in the second quarter following a strong start to the year.

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Next to Germany, Belgium (0.5%), the Netherlands (0.6%), Spain (0.7%) and Finland (0.3%) also reported positive results. Cyprus (0.7%) – which is enjoying higher catch-up growth after exiting the recession – is also worthy of mention.

By contrast, developments in Italy, France and Austria, where economic output stagnated in the second quarter, came as a disappointment. In Austria and France, the stagnation is partly payback following the strong first quarter of 2016. In Italy, however, economic momentum had already been on the weak side in previous quarters, especially given very favorable conditions including the low oil price and the ECB's ultra-expansive monetary policy.

The data published today confirms that the eurozone recovery remains on track. Leading economic indicators that are already available for the third quarter suggest that the Brexit vote will not put too much of a damper on the economy and that at most a slight deceleration in economic momentum should be expected in the second half of the year. We are sticking to our forecast of annual growth of 1.5% for the eurozone in 2016.

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