

The NewsLine

November 13, 2015

MACROECONOMICS FINANCIAL MARKETS ECONOMIC POLICY SECTORS

EUROZONE

Moderate upturn continues

Consumption remains the eurozone's growth engine, whereas net exports are likely to have been a drag on growth given the slowing global economy. Today's GDP figures are unlikely to persuade the ECB to drop plans to expand its bond purchasing program.

The moderate economic recovery in the eurozone continued in the third quarter. Eurostat's flash estimate shows gross domestic product up 0.3% on the previous quarter. Details on the individual components are not yet available, but information lifted from national GDP readings suggest that growth was primarily driven by private consumption. The growth drivers low inflation, favorable financing conditions and improving labor market conditions in many eurozone countries are increasingly feeding through. By contrast, the external sector faltered despite the weaker euro and is likely to have made a negative contribution to growth in the third quarter. This is probably attributable not only to declining export demand from abroad – given the emerging slowdown in the world economy – but also to the steep rise in imports. Today's GDP figures, although not bad per se, are unlikely to persuade the ECB to drop plans to expand its bond purchasing program.

The German economy suffered a slight setback in the third quarter, with growth slowing to 0.3% from 0.4% in the preceding quarter. The main stimulus came from domestic consumption, not surprising given the favorable backdrop of record employment, rising wages and low inflation. By contrast, fixed capital formation and the external sector were a drag on economic growth.

The French economy managed to notch up positive growth again in the third quarter, but the recovery is still on shaky ground. Third quarter growth was supported above all by the traditional growth engine, private consumption,

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whereas net exports were negative. Only a positive inventory effect averted a renewed growth setback.

Italy disappointed with GDP growth of 0.2% on the previous quarter. However, a marked improvement in sentiment among Italian consumers and businesses raises hopes that growth will accelerate in the coming quarters.

The eurozone periphery, which in recent quarters was able to sparkle with steadily rising growth rates, came off the boil somewhat in the third quarter. While Spain still managed to chalk up GDP growth of 0.8%, Portugal's economy stagnated. The Greek economy surprised on the upside, shrinking by only 0.5% on the previous quarter despite the prolonged bank holiday and the imposition of capital controls in late July.

For the eurozone as a whole we are sticking with our forecast of a moderate upward trend. In our view, the favorable backdrop will have a positive effect in 2016 as well. In addition, the fruits of reform in the periphery will increasingly be felt, propping up economic growth. We expect GDP growth in the eurozone to come in at 1.5% in 2015 and 1.7% in 2016.

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