

The NewsLine

May 23, 2017

} MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

EUROZONE

Upside risks predominate

The eurozone economy continues to firm up. After a strong start to 2017, the latest sentiment surveys signal that the pace of growth will be maintained in the second quarter. With major political risks having been successfully circumnavigated in recent months, domestic demand in the eurozone is likely to move up a gear as uncertainty fades. Healthy global growth looks set to boost exports. Our eurozone growth forecast of 1.7% for 2017 might be exceeded.

The economic upswing in the eurozone continues to firm up: In May the composite purchasing managers' index for industry and services remained unchanged on the previous month at a six-year high of 56.8 points. Whereas economic momentum in Germany and France picked up appreciably, the pace of growth outside the two eurozone heavyweights eased somewhat but was still close to its ten-year high. Particularly encouraging is the fact that the assessment of job growth in April was the most upbeat for almost ten years. The business surveys signal that, after the strong start to 2017, the solid growth momentum has not slowed. On the contrary: With major political risks having been successfully circumnavigated in recent months, domestic demand – especially investment – is likely to move up a gear as uncertainty fades. Exports, on the other hand, are likely to be buoyed by healthy global economic growth. Although we are sticking for now with our forecast of 1.7% growth in the eurozone this year, the upside risks are increasingly gaining the upper hand.

In Germany the latest business surveys suggest that the economy is well on course for a boom. The ifo business climate index climbed in May from 113.1 to 114.6 points, thus reaching its highest level since 1991. Businesses corrected their view of both the current situation and expectations up sharply, with the assessment of the current situation particularly upbeat. Of late the

Katharina Utermöhl
Phone +49.69.24431-3790
katharina.uterhoehl@allianz.com
Allianz SE
<https://www.allianz.com/economic-research/en>



The NewsLine

May 23, 2017

construction sector and manufacturing have been providing a particularly strong push. The purchasing managers' index for Germany is similarly euphoric: In May the composite index for industry and services rose from 56.7 to 57.3 points. We are sticking for now with our forecast of an average increase in real gross domestic product of 1.7% in 2017, but should the export engine continue to hum (+6.6% y/y in Q1 2017), growth could come in even higher.

The French purchasing managers' index for industry and services rose strongly again in May from 56.6 to 57.6 points, reaching its highest level for six years. This puts the composite index marginally above Germany's for the second month in a row. Above all the PMI for the services sector improved markedly and, at 58.0 points after 56.7 in the preceding month, reached a new six-year high. By contrast, the index for the industrial sector slipped slightly by 0.3 points to 55.8. With the French economy having long seemed to be stuck in the doldrums and growth in the last three years having lagged well behind that in the eurozone, we now expect momentum to accelerate. With Macron's election victory the risk of Frexit has been banished and the reform prospects for the French economy are the rosier they have been for years. We have therefore nudged up our growth forecast for this year slightly to 1.5%.

The NewsLine

May 23, 2017

ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. More than 86 million private and corporate customers insured by Allianz rely on its knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks. In 2016, around 140,000 employees in over 70 countries achieved total revenues of 122 billion euros and an operating profit of 11 billion euros. This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE. These assessments are, as always, subject to the disclaimer provided below.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save
