

The NewsLine

July 29, 2016

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EUROZONE

Recovery continues

On the right track: The eurozone economy is not exactly humming, but it is growing. Unemployment is falling, not rapidly but steadily. Inflation is still close to zero, but the deflation debate will soon belong to the past. The ECB can lean back for now.

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Following the relatively strong start to the year, economic growth in the eurozone slowed in the second quarter to 0.3% on the previous quarter according to the initial Eurostat estimate. The available country figures show stagnation in France, ongoing buoyant GDP growth of 0.7% in Spain and a moderate sequential rate of 0.3% in Austria. All told, therefore, the eurozone economy continues to head upwards. In the light of initial encouraging indicators for the third quarter, which so far do not signal a major hit from the Brexit vote, we are sticking with our forecast of 1.5% growth in the eurozone this year.

The recovery on the labor market is likely to increasingly develop into an important mainstay for the economy. According to today's figures the unemployment rate stood at 10.1% in June (unchanged on May, down from 10.4% at the start of the year). It is now at its lowest level since mid-2011. Although the low of 7.2% seen in March 2008 ahead of the outbreak of the financial crisis is still some way off, the ongoing decline in unemployment is nonetheless substantial (our forecast for end-2017: 9.5%).

With the provisional figure of 0.2% published today, eurozone inflation has still not moved emphatically above the zero mark. But this will happen in the coming months. At the turn of the year it is likely to stand above 1%. Even though this will be thanks to an oil-price induced base effect, the debate about deflationary risks is likely to be a thing of the past and inflation expectations will probably rise.

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With the latest batch of data there is unlikely to be undue pressure on the ECB to ease further – above all to expand and/or extend its bond purchasing program. In our view, the ECB will endeavor all the more to remain on hold since an expansion of its bond purchasing program would probably have to entail decisions on countering the possible scarcity of purchasable paper (adjust the current thresholds and/or purchasing key, etc.). Towards the end of this year at the latest the ECB will have to indicate whether it will start tapering at the end of March 2017 (and if yes, in what form) or whether the bond purchasing program is to be extended.

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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.

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