

The NewsLine

February 21, 2018

▶ MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

EMU

Economic upswing not at risk

The setback in today's sentiment indicators is not the beginning of the end of the current economic upswing. Economic momentum in the eurozone remains very strong and the growth outlook rosy. Rather, we interpret the mood damper as a gradually unfolding normalization of the extraordinarily strong EMU growth rates. In 2018, we expect eurozone GDP to grow more than 2% - this would be the fourth consecutive year since 2015 that economic growth exceeds the potential rate.

The composite purchasing managers' index for industry and services in the euro area fell to a 3-month low in the month of February. Despite the setback, however, with 57.5 points the sentiment indicator remains at a very high level. After all, only in January the EMU purchasing managers' index reached a 12-year high. Evidence in support of sustained strong economic momentum and the favorable growth outlook are robust employment growth and a renewed improvement in companies' optimism about the year ahead - this sub-index once again reached a record high.

In Germany, the overall index fell from 59.0 to 57.4 points – mainly due to declining sentiment in the service sector, where the index fell by two points to a three-month low of 55.3 points. Reassuringly the positive trend in new orders, which has been observed for 38 months now, remains unbroken. However, the increase in February was somewhat lower, especially for export orders, which may provide an indication of a slight slowdown in the global economy.

The French purchasing managers' index for industry and services fell from 59.6 to 57.8 points in February. The sentiment damper proved more pronounced in the manufacturing sector. Here, the index dropped by 4.1 points to 57.1.

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Today's sentiment indicators suggest that the euro area's GDP growth rate in the first quarter of 2018 will be about as strong as in the final quarter of 2017. Going forward it is likely that sentiment indicators in the eurozone will continue to decline from record highs. However, we do not see this as the end of the current economic upswing, but rather as a gradual normalization of the extraordinarily strong growth rates in the euro zone. All in all, following last year's 2.5% GDP growth, in 2018 we again expect EMU economic growth to come in above 2% - this would be the fourth consecutive year since 2015 that economic growth exceeds the potential rate.

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