

The NewsLine

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EUROZONE

Moving broadly in the right direction

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Although Germany is no longer the driving force, the economic recovery in the eurozone is nevertheless picking up a bit of speed. Today's GDP figures are likely to stoke the debate on an early exit from the ECB's extremely loose monetary policy.

In the first three months of this year, gross domestic product in the eurozone rose by 0.4% in a quarter-on-quarter comparison, compared with 0.3% in the previous quarter. This acceleration in economic activity is in line with our expectations and we are sticking to our forecast of average GDP growth of 1.5% in 2015. With developments in some countries coming as something of a surprise, the general observation is that the forces driving growth are shifting: Germany is no longer the "sole tower of strength", former crisis countries such as Spain are reporting above-average growth and core countries that have been criticized for lagging behind on the reform front, like France, are showing a marked improvement in the economy.

With sequential GDP growth of 0.3%, Germany got off to a subdued start to the year. Whereas the country's domestic demand showed positive development, net exports were a drag. Looking ahead to the second quarter, however, we expect to see Germany return to stronger economic growth, also because experience has shown that when the value of the euro drops, this takes some time to start stimulating exports (although the euro has picked up again of late, it is still well down on a year earlier).

The marked increase in GDP in France at the start of the year came as a positive surprise, up by 0.6% on the previous quarter, although it is worth bearing in mind that slight downward corrections were made to the figures for the previous two quarters and that changes in inventories made a substantial

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contribution to growth. As in Germany, foreign trade exerted a drag while private consumption was up considerably on the back of lower oil prices. We are raising our forecast for French economic growth in 2015 from 0.9% to 1.2%. There are a few reasons why we have opted to remain cautious with this forecast: the data published today, for example, pointing towards a continuation of the negative employment trend suggest that the French economy is unlikely to really take off.

The other core country that is seen as a bit of a problem child, alongside France, is Italy, which has finally emerged from recession, matching Germany with GDP growth of 0.3% in the first quarter. Spain (+0.9% q-o-q) is growing at more than twice the EMU average. On the other hand, developments in Austria and Finland, as well as in Greece, where the economy contracted for the second quarter running, are worrying. Annual GDP growth in both Austria and Finland is practically flat.

All in all, the latest figures confirm that the economic recovery in the eurozone as a whole is heading in the right direction. What is more, this is partly expected to have a self-reinforcing effect as the increase in confidence gradually chips away at the business sector's reluctance to invest. With the economic outlook now looking more solid, the debate as to whether the ECB's expansionary monetary policy is still the right approach is likely to become more heated in the not-so-distant future – raising the question, for example, of whether the central bank should perhaps curb its QE measures earlier than announced. In principle, the economic upturn should translate into rising bond yields. The current upward trend, however, is on the drastic side and is therefore likely to ease off soon, especially since the ECB's unconventional measures serve to anchor EMU yields for the time being.

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