

The NewsLine

January 31, 2017

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EUROZONE

Economy humming at turn of year

Unfazed by the heightened global uncertainty the eurozone economy put on a spurt at the end of 2016. What is more, the latest economic indicators and the favorable labor market trend point to a strong start to 2017. We expect GDP growth to accelerate slightly this year to 1.8%.

According to the flash estimate published by Eurostat today, the eurozone economy grew by 0.5% q-o-q in the fourth quarter, thus picking up pace slightly on the 0.4% seen in the preceding quarter. In 2016 as a whole average GDP growth is thus likely to have been 1.7% as expected. So far the eurozone appears to be shrugging off the heightened economic and political uncertainty of recent months. Neither the result of the Brexit referendum in June nor the outcome of the US presidential elections in November managed to knock the eurozone economy off its moderate growth path.

The individual results available for only a few countries so far point to a broad-based recovery. Austria notched up quarterly growth of 0.5% in the fourth quarter. At 0.4% q-o-q, France and Belgium saw somewhat stronger growth again. By contrast, the upswing in the Spanish economy continued unabated (0.7% q-o-q).

The latest economic indicators and sentiment surveys suggest that the eurozone economy has got off to a buoyant start to 2017 as well. The balance sheet recession has finally been overcome and domestic demand is likely to continue to provide a positive boost. Although consumer sentiment is likely to take a slight knock given the pickup in inflation and the rebound in oil prices, the favorable labor market trend is providing support. In December eurozone unemployment stood at 9.6% - the lowest figure since May 2009.

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The eurozone inflation figures also published today confirm our assumption that the specter of deflation will disappear completely in 2017. At 1.8%, annual inflation in the eurozone reached its highest level for almost four years. We see average inflation this year close to the ECB's target. Neither solid economic growth nor the marked pickup in inflation since the end of last year are likely to prompt the ECB to announce its tapering plans as early as at its next meeting. However, given stronger than expected inflation, it is high time that the ECB ensures that it has the necessary flexibility to reduce its bond purchases more swiftly.

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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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