

The NewsLine

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EUROZONE

Revival under way

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The eurozone economy edged up a further notch in the final quarter of 2014. In the coming quarters the slide in the oil price and the depreciation of the euro will have a positive impact. This increases the likelihood that the eurozone recovery is being underestimated, leaving the ECB behind the curve.

In the final quarter of 2014 the eurozone economy grew by 0.3% (q-o-q), stepping up the pace of growth slightly compared with the previous quarter. Heavyweight Germany played a key role, recording sequential GDP growth of 0.7%. This shores up our forecast of 2% German GDP growth this year. Strikingly, real disposable income in Germany looks set to rise by a good 3% in 2015. Against this backdrop, private consumption is likely to increase by 2.5 to 3% this year, the strongest growth for a long time.

Unlike in Germany, domestic demand in France failed to provide a marked impetus in the fourth quarter, with private consumption expanding only slightly and investment activity again down markedly. The upshot was meager sequential GDP growth of 0.1%. We are sticking with our forecast that, while the French economy will benefit from the overall positive environment in 2015, growth of close to 1% will be only half that in Germany.

The picture in Italy is bleaker still. With stagnation in the final quarter of 2014, positive sequential GDP growth remained elusive. For 2015 we are still penciling in weak growth of just under 0.5%. The second and third largest economies in the eurozone are laggards when it comes to the implementation of reforms and economic growth lags behind the eurozone average.

By contrast, the eurozone crisis countries embarked on a catch-up process: Ireland already notched up dynamic growth of an estimated 4.5% in 2014. Today's figures show Spain and Portugal performing well in the final quarter of 2014, with quarterly growth of 0.7% and 0.5% respectively. All three countries

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look set to outstrip the eurozone average in 2015 (see below). Today's negative sequential GDP rate for Greece needs to be treated with caution for statistical reasons (unreliable seasonal figures), but given the political situation big question marks hang over the recovery process.

All told, our forecast of around 1.5% growth in the eurozone in 2015 remains unchanged (with sequential rates close to 0.5% in the first half of the year). However, in the wake of today's relatively strong figures and given the forthcoming lift from oil prices and the euro exchange rate, the likelihood is increasing that the upward momentum is being underestimated. Apart from the fact that we are not supporters of the large-scale government bond purchases by the ECB anyway, the announced QE measures look all the more questionable against the emerging economic backdrop.

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