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EUROZONE GROWTH: EVEN ITALY AND PORTUGAL ARE HELPING

Berenberg Macro Flash

GDP, qoq %, Q3 2017 (in brackets Q2 2017)

EUROZONE	**0.6% (0.7%)**
ITALY	0.5% (0.3%)
PORTUGAL	0.5% (0.3%)
SPAIN	0.8% (0.9%)

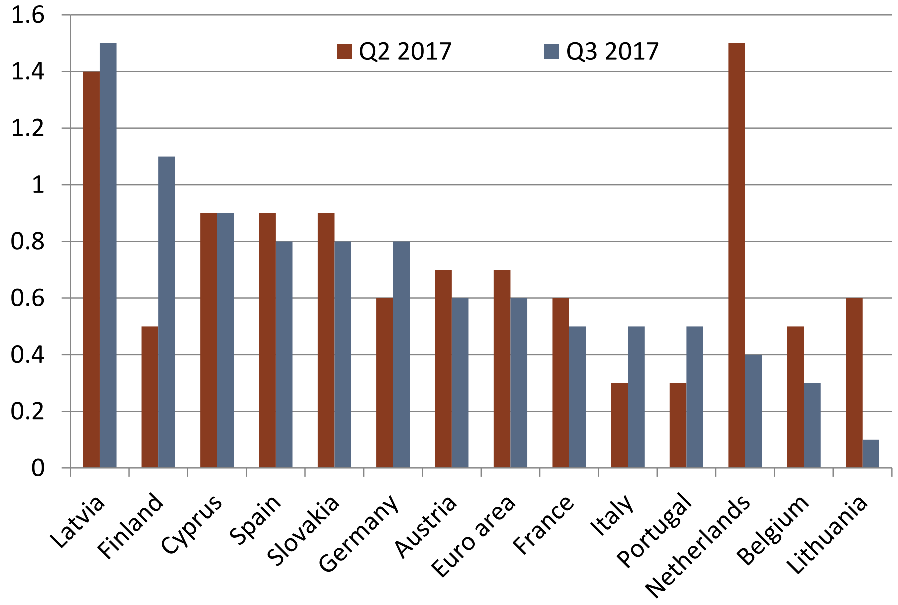
SOLID GROWTH - POSITIVE OUTLOOK

Growth in the **Eurozone** remains well above trend. Eurostat today revised Q3 real GDP growth up slightly to 0.613% qoq in Q3 vs. 0.585% qoq in the first reading. This is slightly slower than the 0.65% qoq expansion in Q2, but still above the c0.4% qoq trend growth rate. Although Eurostat did no provide a detailed breakdown with the second GDP reading today, macro data released over the last weeks indicate that the Eurozone profits from the global synchronised upswing and elevated economic confidence levels. This boosts exports, private consumption and business investments. Leading indicators such as the European Commission economic sentiment index (ESI), which rose to a 17-year high in October, suggest that the strong economic momentum is broad based and here to stay. So far, the Catalan political turmoil, the political uncertainty in Italy ahead of the spring 2018 elections and sticky Brexit negotiations have no measurable negative impact on the Eurozone economy. We expect 2.3% GDP growth in 2017 and a slight deceleration to 2.2% in 2018, 0.1% and 0.3% above Bloomberg consensus forecasts, respectively. The risk to our forecast for 2018 is modestly on the upside.

Italian real GDP growth accelerated in Q3 to 0.5% qoq vs. 0.3% qoq in Q2, in-line with our forecast. The economy is on track to grow around 1.5% in 2017 ahead of parliamentary elections in spring 2018 which could see a hung parliament and stronger influence from populist parties. Italy's statistical office press release mentions an increase in added value of industry and services in 3Q as well as a positive contributions from domestic demand and exports while agriculture output declined. We see two major drivers of the Italian upswing. Firstly, employment growth (0.5% qoq in Q3) due to the recent labour market reforms increases consumer confidence which is close to historical highs and retail sales (+0.5% qoq). Secondly, strong global demand for Italian manufacturing products led to an increase of industrial production by an impressive 1.4% qoq.
On a negative note, Italy is the second most indebted nation in the EU (debt-to-GDP ratio c132%) and the still high level of non performing loans levels prevent a faster recovery in private sector loan growth (-1.3% yoy in August). Fortunately, Italy finally started to tackle the problems in its bank balance sheets in earnest this year.

Portuguese real GDP expanded by 0.5% qoq in 3Q according to a first official estimate after gains of 0.3% qoq in Q2 and 0.9% in Q1. This was slightly below our and Bloomberg consensus forecast of 0.7% qoq, but we remain confident that with a likely gain of 0.5% qoq (or more) in Q4, Portugal can still achieve 2.7% growth for 2017 as a whole vs. 1.5% in 2016. Higher net exports and private consumption supported growth in Q3 while investments declined after exceptionally strong gains in the previous three quarters. Similar to Italy, retail sales growth (+0.4% qoq) is driven by a decrease in the unemployment rate (8.5% in Q3 vs. 8.8% in Q2). We remain optimistic for Q4 growth as the October Portuguese ESI jumped to the highest level since 2000 supported by high confidence in the manufacturing sector and a rise in consumer confidence to a record high

Chart: Eurozone GDP growth qoq (not all countries have released 3Q GDP figures yet)



Source: Eurostat

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