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Carsten Hesse, Economist | carsten.hesse@berenberg.com | +44 20 3753 3001

EUROZONE GROWTH: SOLID EXPANSION, POSITIVE OUTLOOK

Berenberg Macro Flash

GDP, qoq %, Q4 2017 (in brackets Q3 2017)

EUROZONE	0.6 (0.7)
ITALY	0.3 (0.4)
PORTUGAL	0.7 (0.5)

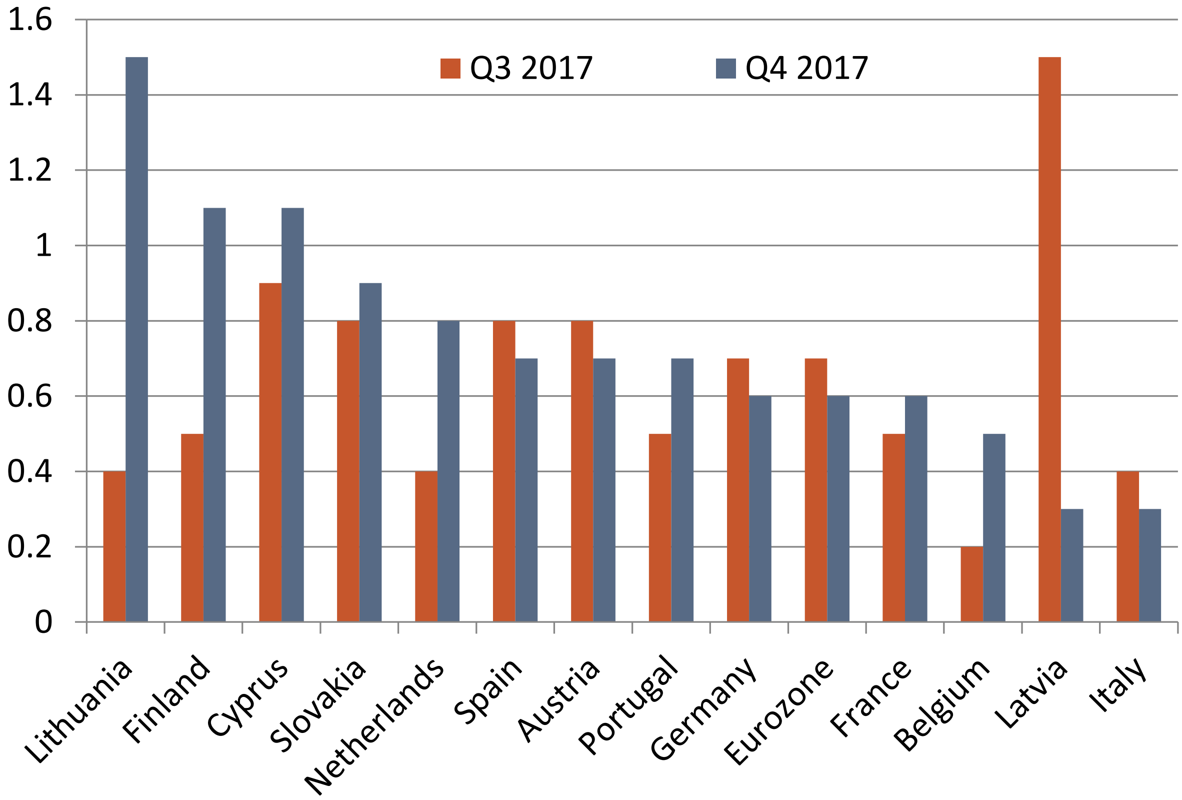
Growth in the **Eurozone** remains well above trend. Eurostat today revised Q4 real GDP growth up slightly to 0.59% qoq in Q4 vs. 0.56% qoq in the first reading. This is slightly slower than the 0.71% qoq expansion in Q3, but still above the c0.4% qoq trend growth rate. Although Eurostat did no provide a detailed breakdown with the second GDP reading today (it will do so with its final reading on 7 March), monthly data indicates that the Eurozone economy benefits from the global synchronised upswing. This boosts in particular exports and business investments (for more details please see our take from the first reading). Leading indicators such as the European Commission economic sentiment index (ESI), which remained close to a 17-year high in January and the Eurozone PMI Composite index jumping in January to the highest level since 2006, suggest that the strong economic momentum will continue. Neither a stronger euro nor political uncertainty - Italian elections, Catalonian referendum, prolonged German "grand coalition" negotiations – had a significant negative impact on the Eurozone economy. We expect 2.5% GDP growth in 2018 and a slight deceleration to 2.2% in 2019, 0.3% above Bloomberg consensus forecasts for both years.

Italian real GDP growth slowed slightly in Q4 to 0.3% qoq vs. 0.4% qoq in Q3 and below our 0.5% qoq forecast. The economy grew 1.5% in FY 2017. Italy's statistical office press release mentions an increase in added value of industry and services in 4Q as well as positive contributions from exports and stocks, while agriculture output declined. We see two major drivers for the Italian economy. Firstly, the unemployment rate fell to 10.8% in December vs. 11.1% in September on the back of strong employment growth (1.0% qoq on average in Q3 and Q2). Consumer confidence has risen close to historical highs, supporting the domestic economy and the services sector (PMI Services index jumped to a 10 year high in January). Secondly, strong global demand for Italian manufacturing products led to an increase of industrial production by an impressive 0.8% qoq after 2.0% qoq in Q3 (PMI Manufacturing rose to a 7 year high in January). We also finally see some light at the end of the tunnel for private sector loan growth which increased by 1.4% on average in Q4, while having dropped by 0.8% on average in the first three quarters of 2017. We expect around 1.5% GDP growth in 2018, but this also depends on who will govern Italy after the general elections in 3 weeks. Most parties promise large spending increases and tax cuts which could boost short-term growth, but in reality those promises will be difficult to implement as the budget deficit is already close to 2.3% of GDP.

Portugal's economy is booming. Real GDP expanded by 0.7% qoq in 4Q according to a first official estimate after gains of 0.5% qoq in Q3. This was slightly above our and Bloomberg consensus forecast of 0.6% qoq. Portugal's GDP grew 2.7% in 2017 after 1.5% in 2016, the fastest growth since 2000. Higher investments (we estimate an impressive 9.2% yoy) and an increase in private consumption (2.3% yoy according to our forecast) were the main drivers behind the acceleration of growth in 2017. Q4 GDP benefited from a positive contribution of net exports which was a negative contributor in Q3. Domestic demand growth moderated in Q4 due to a slowdown in private consumption. Retail sales growth (0.7% qoq) is driven by employment gains. The unemployment rate fell to 7.8% in December vs. 8.5% in September, the lowest level since 2004.

We remain optimistic for 2018 GDP growth (we expect 2.5%, 0.5% above Bloomberg consensus) due to rising domestic demand and the global upswing. The January Portuguese ESI remained close to the highest level since 2000, supported by high confidence in the manufacturing, construction and services sector.

Chart: Eurozone GDP growth (qoq, in %)



Not all Eurozone countries have released Q4 GDP figures yet. Source: Eurostat

Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com