

Eurozone forecasts: small hit from trade tensions

- Eurozone growth accelerated to 2.5% last year, well above the 1.5% trend rate. Fundamentals point to further solid gains ahead. Monetary policy remains highly accommodative, fiscal policy provides a stimulus of 0.2% of GDP in 2018. For exports, robust global demand more than offsets last year's rise of the trade-weighted euro exchange rate from undervalued to now only modestly below the long-term average.
- The upswing is unusually broad based. All components of demand and all 19 Eurozone member countries contribute to the gains in demand. That offers the region some protection against external shocks. Supported by significant gains in employment (up 1.6% in 2017), consumer confidence remains close to a 17-year peak.
- Nonetheless, sentiment surveys and industrial output data have weakened visibly in the past few months. Until late March, we had not seen this as a major concern. After an outsized late 2017 surge in sentiment (17-year peak in December 2017) and industrial output (up 1.5% qoq in Q4), some correction is normal. Calendar and base effects, adverse weather and possibly the impact of the flu epidemic this winter may explain some of the recent weakness in high-frequency data for industry. Economies usually make up for such temporary losses and distortions in subsequent months.
- Over the past three weeks, however, the trade tensions stoked by US President Donald Trump have escalated significantly. We expect the US, China and the EU to avoid trade wars and [strike deals](#) in the end that will improve access especially to the Chinese market. All sides would have too much to lose from a genuine trade war.
- Unfortunately, resolving the disputes could be very noisy. We expect the resulting uncertainty to weigh further on business sentiment, especially in the more export-orientated member countries of the Eurozone in the next two months. As companies become more cautious, they may not raise investment as much as we had expected so far. Once the dust settles, say by June 2018, investment dynamics could firm again.
- **Forecast revisions:** Due to the weak data for early 2018 and the trade tensions, we shave our calls for growth from 0.5% to 0.4% qoq for Q1 and from Q2 from 0.7% to 0.6% for Q2. Expecting some catch-up effect thereafter, we raise our calls for H2 2018 slightly. This takes our forecasts for full-year growth from 2.5% to 2.3% for 2018 and from 2.1% to 2.2% for 2019. We project no impact on the ECB outlook (asset purchases end in December 2018, first 25bp refi rate hike in June 2019).

Table: Eurozone economic forecasts

		2016	2017	2018	2019	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
GDP	% y/y	1.8	2.5	2.3	2.2	2.1	2.4	2.7	2.7	2.5	2.3	2.3	2.2	2.3	2.2	2.1	2.1
	% q/q					0.6	0.7	0.7	0.6	0.4	0.6	0.6	0.6	0.5	0.5	0.5	0.5
	%q/q ann.					2.5	3.0	2.8	2.4	1.8	2.4	2.4	2.2	2.1	2.1	2.1	2.1
Private Consumption	% y/y	1.9	1.7	1.7	2.0	1.6	1.9	1.9	1.5	1.5	1.5	1.7	2.0	2.0	2.0	2.0	2.0
	% q/q					0.5	0.5	0.3	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
	% y/y	1.8	1.2	1.6	1.6	1.0	1.1	1.3	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Government Consumption	% q/q					0.2	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
	% y/y	4.5	3.1	3.1	3.8	4.1	3.4	2.4	2.5	3.0	2.3	3.5	3.6	3.9	3.8	3.7	3.6
	% q/q					0.2	1.7	-0.2	0.9	0.6	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Final Domestic Demand ¹	% y/y	2.3	1.8	1.9	2.2	1.9	2.0	1.8	1.7	1.8	1.6	2.0	2.2	2.2	2.2	2.2	2.2
	% q/q					0.3	0.7	0.2	0.3	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.5
	% y/y	-0.5	0.6	0.4	-0.1	0.2	0.2	0.8	1.3	0.6	0.8	0.3	-0.1	0.0	-0.1	-0.1	-0.1
Net Exports ¹	% q/q					0.5	-0.2	0.5	0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	% y/y	-0.1	0.0	0.0	0.0	-0.1	0.3	0.1	-0.2	0.1	-0.1	0.0	0.2	0.1	0.0	0.0	0.0
	% q/q					-0.2	0.2	-0.1	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	388	387	427	421	83	74	123	106	105	82	129	110	105	82	126	107
	% of GDP	3.6	3.5	3.7	3.5												
	% y/y	1.6	2.9	2.6	1.6	1.2	2.7	3.7	4.2	3.8	3.2	2.3	1.2	1.8	1.6	1.6	1.6
Industrial Production ²	% q/q					0.1	1.2	1.3	1.5	-0.2	0.6	0.4	0.4	0.4	0.4	0.4	0.4
	% y/y	10.0	9.1	8.3	7.7	9.5	9.1	9.0	8.7	8.5	8.4	8.2	8.1	7.9	7.8	7.6	7.5
	CPI ²	0.2	1.5	1.4	1.7	1.8	1.5	1.4	1.4	1.3	1.4	1.5	1.5	1.5	1.6	1.7	1.8
General Govt. Balance	% of GDP	-1.5	-1.2	-1.0	-0.8												
General Govt. Debt	% of GDP	88.9	87.0	85.2	83.0												
ECB main refinancing rate ³	%	0.00	0.00	0.00	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50

¹ Contribution to GDP growth ² Period averages ³ End of period

Source: Eurostat, Berenberg projection; – for country details see our [Forecasts at a Glance](#).

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