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EUROZONE GDP: WEAKISH Q1 CONFIRMED, PORTUGAL DISAPPOINTS

Berenberg Macro Flash

GDP, Q1 2018 (previous refers to Q4 2017, qoq, in %)

	Eurozone	Portugal
Actual:	0.4	0.4
Previous:	0.7	0.7
Consensus:	0.4	0.6
Berenberg:	0.4	0.6

Eurozone's weak start to 2018 confirmed: The economy slowed in Q1 to 0.4% qoq vs. 0.7% in Q4. The soft patch comes after 2017 saw the fastest expansion in a decade. Eurostat today revised Q1 real GDP growth down slightly to 0.40% qoq in Q1 vs. 0.42% qoq in the first reading and in-line with trend growth. Eurostat did not provide a detailed breakdown with the second GDP reading today (it will do so with its final reading on 7 June). Monthly data indicates that the Eurozone economy suffered from a temporary dent in growth amid cold weather, the flu, trade tensions and a stronger Euro). We expect the economy to bounce back slightly in Q2 to 0.5% qoq and a general rebound in activity in H2 to 0.6% qoq as trade tensions ease, followed by growth at more moderate levels of 0.5% in 2019. We expect 2.3% GDP growth in 2018 and a slight deceleration to 2.1% in 2019, 0.1% above Bloomberg consensus forecasts for 2019 and in-line for 2018. [For more details please see our take from the first reading.](#)

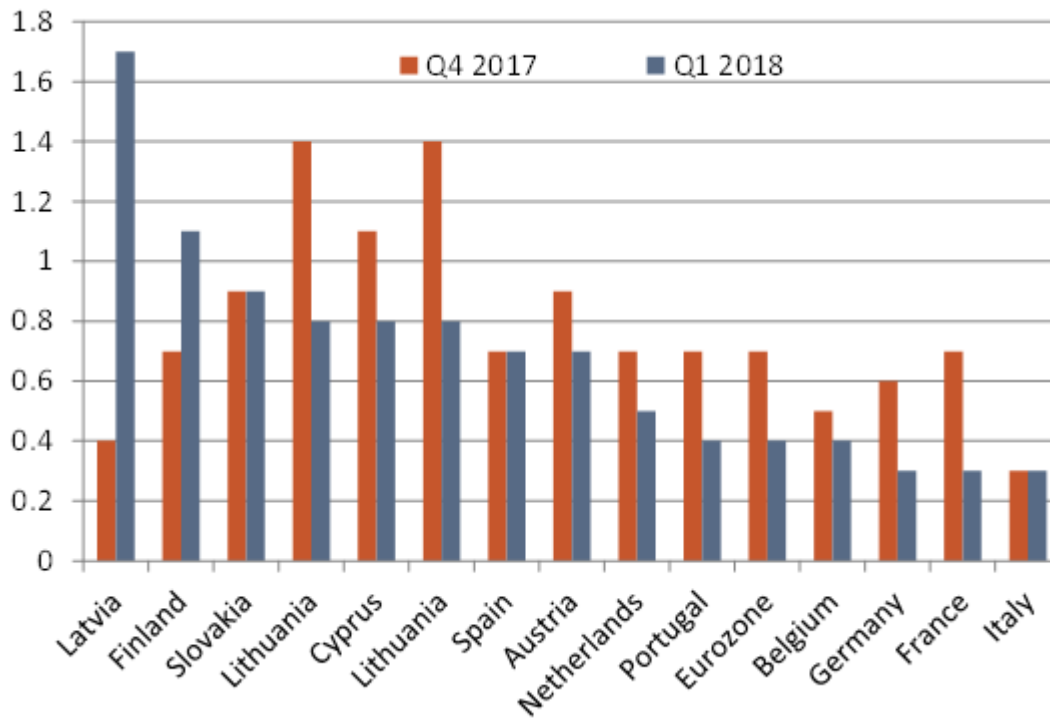
Portugal profits from strong domestic demand but net exports drag: Portugal's real GDP expanded by 0.4% qoq in Q1 according to a first official estimate after gains of 0.7% qoq in Q4 and 2.7% in 2017, a 17-year record. This was below our and Bloomberg consensus forecast of 0.6% qoq. Portugal's qoq GDP growth seems to be a little more volatile than in neighbouring Spain. In 2017 we had one weaker quarter (Q2 with only 0.3% qoq growth), but GDP got back on track in the following quarter (0.6% qoq in Q3). According to the press release, Q1 GDP growth was driven by an increase in domestic demand and its contribution was higher than in Q4 (0.3% qoq). Retail sales growth impressed in Q1 with 1.7% qoq vs. 0.8% qoq in Q4 and is driven by employment gains. The unemployment rate fell to 7.4% in March vs. 7.9% in December, the lowest level since 2004. Also industrial production did well in Q1, increasing by 1.3% qoq. However, net exports disappointed and contributed negatively to GDP as imports (driven by strong domestic demand) grew faster than exports. Despite downside risks for our call for 2.5% GDP in 2018, we remain optimistic and believe that Portugal's successful recovery from the financial crisis will continue.

Latvia and Finland in the lead: On a country basis, **Latvia** had the fastest growth in Q1 in the Eurozone with 1.7% qoq (among the countries that have published their results so far), followed by **Finland** with 1.1% qoq and **Slovakia** with 0.9% qoq. **Italy**, **France** and **Germany** had the slowest Q1 GDP growth with only 0.3% qoq (see Chart).

Chart: Eurozone GDP growth for selected countries



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Qoq growth in %. Not all Eurozone countries have released Q1 GDP figures yet. Source: Eurostat

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