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# EUROZONE GDP: AUTUMN REBOUND AHEAD AFTER A SOFT PATCH NOW

## Berenberg Macro Flash

**Eurozone GDP, Q2 2018 (qoq and yoy, in %)**

| | qoq | yoy |
|---|---|---|
| **Actual:** | **0.35** | **2.14** |
| Previous: | 0.4 | 2.5 |
| Consensus: | 0.4 | 2.2 |
| Berenberg: | 0.4 | 2.2 |

**A further slowdown:** After a stellar performance in 2017, the Eurozone economy lost slightly more momentum than expected in the first half of 2018. Following a gain in real GDP of 0.37% qoq in Q1, growth slowed to 0.35% qoq in Q2, rounded down by Eurostat to 0.3% qoq as the precise value is 0.346%. For the first time since Q2 2016, growth has thus fallen a little short of the underlying trend rate of 1.5% annualised. Eurostat did not provide any demand details with its flash estimate for Q2 today.

**Reasons for the slowdown:** After a harsh winter and a flu epidemic had retarded growth temporarily in Q1, higher oil prices and trade tensions weighed on sentiment and demand in Q2. The surge in energy prices added 0.6ppt to the Eurozone's annual inflation rate by June 2018, squeezing the amount of real income households have to spend on other goods and services. At the margin, French transport strikes also played a role as they were one factor that kept French growth particularly subdued at +0.16% qoq in Q2.

**Clearer skies ahead:** Unless oil prices surge again, the current drag on gains in real disposable incomes and private consumption should gradually fade. Even if oil prices stay at current levels instead of coming down modestly in response to more US and OPEC supply, they would add only 0.3ppt to Eurozone headline inflation by December 2018. Most importantly, last Wednesday's US-EU agreement to negotiate instead of slugging it out in tit-for-tat retaliation has reduced the risk of a genuine trade war for the time being. A rebound in export expectations should thus lift overall expectations further in coming months. That would set the stage for slightly stronger Eurozone growth soon. The more competitively valued euro exchange rate may also help.

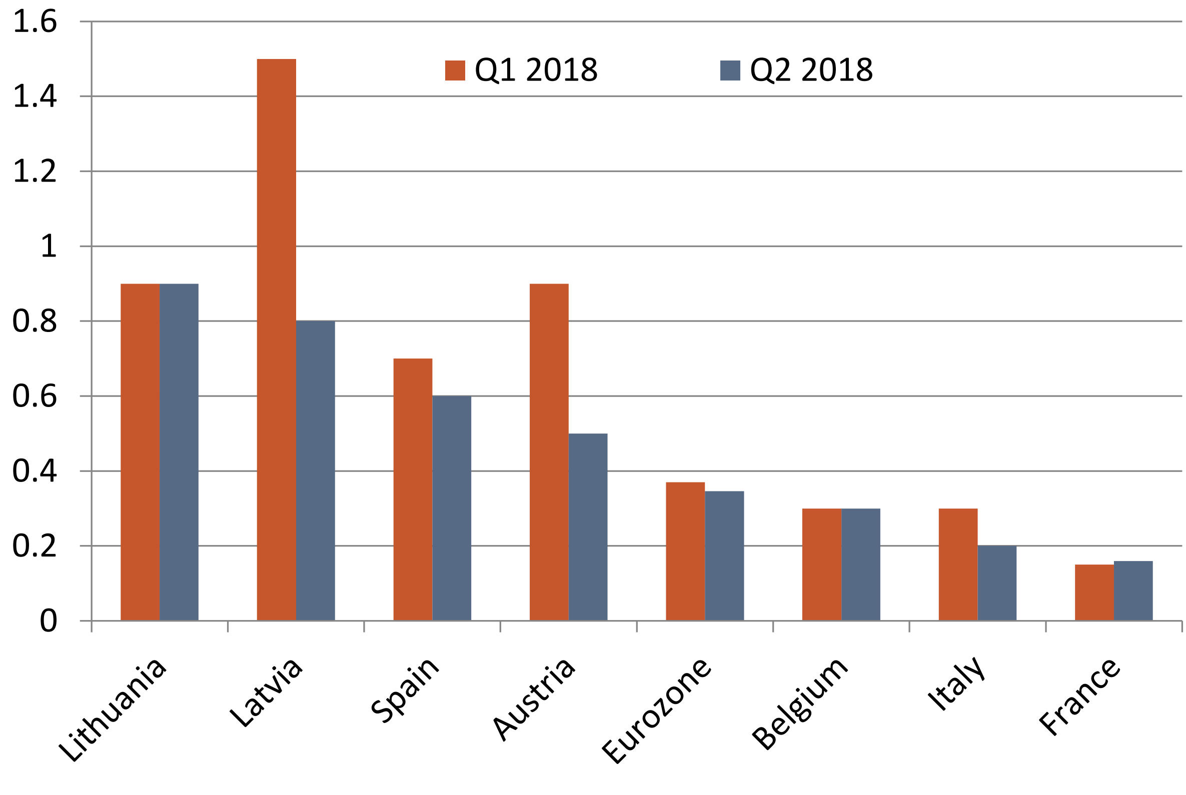
**Expect some rebound in late 2018:** We look for the Eurozone economy to expand slightly faster by 0.4% qoq in Q3 before returning to an above-trend pace of 0.5% qoq (2.0% annualised) in Q4 as trade tensions ease, followed by gains of 0.5% per quarter in 2019. If so, this would add up to annual growth in real GDP of 2.1% in 2018 and 2.0% in 2019 followed by a slight deceleration to 1.8% in 2020. Our calls are 0.1ppt below the Bloomberg consensus for 2018 but 0.1ppt above consensus for 2019 and 2020.

**Underlying fundamentals in the Eurozone remain mostly encouraging:** Unemployment fell to 8.3% in Q2, the lowest rate since late 2008. While Spain, Portugal, Ireland, Cyprus and – to a lesser extent – Greece reap the rewards of earlier supply side reforms, France has started to follow suit with the labour market, tax and railway reforms pushed through by President Emmanuel Macron in the last 12 months. Despite some reform slippage, Germany remains fundamentally healthy. Some indicators such as the recent near-stabilisation in sentiment indices, strong credit growth in June 2018 and a further easing of lending standards ahead as indicated by the European Central Bank's bank lending survey support our view that growth could re-accelerate to an annualised pace of c2% from Q4 2018 onwards.

**Broad slowdown in Q2 across Eurozone countries:** Among the countries that have released already Q2 GDP growth numbers, **Austria** had the largest drop in qoq growth from an exceptional 0.9% qoq in Q1 to a more normal 0.5% in Q2. While French growth very remained modest at 0.16% qoq, virtually unchanged on the 0.15% of Q1, **Spain** kept its position as one of the top performers of the Eurozone. However with a 0.6% qoq gain after 0.7% before, Spanish growth decelerated slightly to its least stellar advance in 4 years. For Spain, this is the return to a more normal pace after a pronounced rebound from the real estate and euro crisis before. The quarterly growth rates in **Lithuania** and **Belgium** remained unchanged with 0.9% and 0.3% qoq, respectively. Partly under the impact of political uncertainty, growth in **Italy** fell back from 0.3% qoq in Q1 to 0.2% qoq in Q2. Although **German GDP data** for Q2 will only be published on 14 September, the 0.9% qoq gain in German retail sales reported earlier today suggests that German GDP may come in at 0.5% qoq and thus one notch above our 0.4% qoq call.

The few country details available so far do not yet allow us to draw firm conclusion about the composition of growth. While private consumption was probably held back in the Eurozone by higher oil prices despite some consumption rebound in Germany, country details from Spain and France point to some gains in overall investment despite the uncertainty caused by trade tensions. If so, that would bode well for the outlook for late 2018. Net exports may have been a slight drag on Eurozone growth in Q2.

**Chart 1: Eurozone GDP growth for selected countries**




*Qoq growth in %. Not all Eurozone countries have released Q2 GDP figures yet. Source: Eurostat.*

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