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EUROZONE GDP: SOFT END TO 2019, REBOUND AHEAD

Berenberg Macro Flash

Eurozone GDP, Q4 2019 (in %)

	qoq	yoy
Actual:	**0.1**	**1.0**
Previous:	0.3	1.2
Consensus:	0.2	1.1
Berenberg:	0.1	1.0

Soft end to Q4 concludes worst year since 2013: According to the first Eurostat GDP estimate, real Eurozone GDP edged only a little higher by 0.1% in Q4 2019 after 0.3% qoq growth in the previous quarter. The data was in line with our below-consensus expectations. In yoy terms, this translates into a growth rate of 1% after 1.2% in Q3 2019 (see Chart 1) – or in annual terms 1.2% after 1.9% in 2018. Growth in Spain and – to a lesser degree – in Germany offset declines in Italy and France. While the Eurozone recorded its 27th consecutive quarter of growth, the comparison with Q4 2017 and 2017 – 3.0% yoy and 2.7%, respectively – highlights the trade-driven slowdown over the past two years.

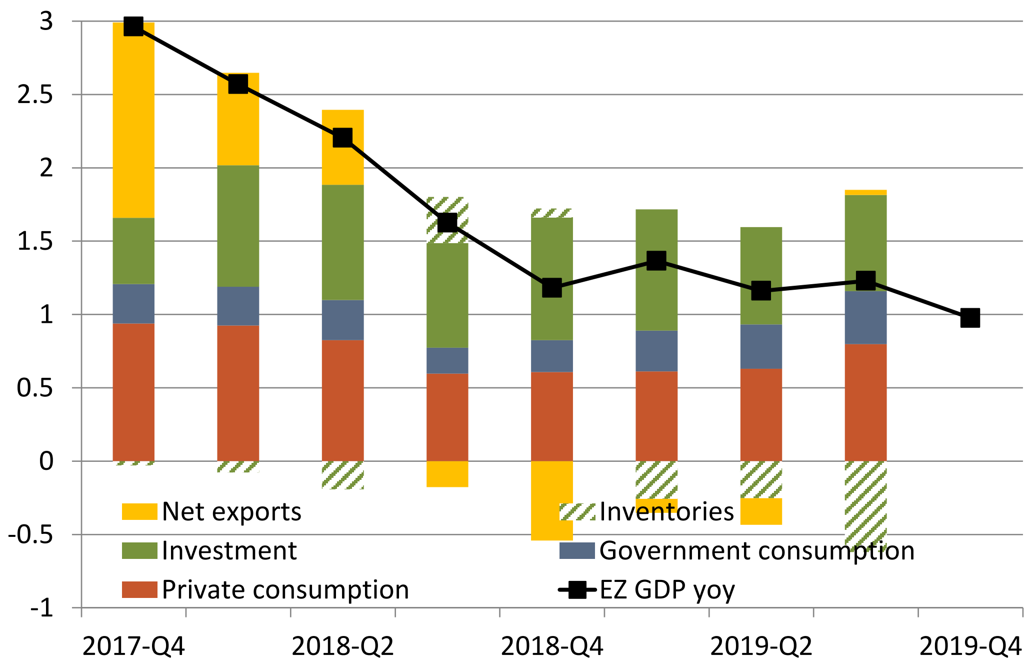
Varied performance among Eurozone members: After Q4 GDP data for Austria and Belgium (published yesterday) had surprised to the upside, data out today for the second, third and fourth biggest Eurozone economies disappointed. French GDP unexpectedly declined by 0.1% – the first time since 2016. Italian GDP declined by 0.3% qoq as a positive contribution from foreign trade was offset by a fall in domestic demand. While the headline number for Spanish GDP growth surprised on the upside (0.5% qoq versus expectations of 0.4%), the details were less positive. A contribution of 0.9ppt by net exports and slightly higher stocks (0.1ppt) offset the 0.5ppt drag from domestic demand. Private consumption was flat. Following strong growth in Q3, investment collapsed by 3.2% qoq in Q4.

Narrowing of the gaps in 2020: Eurostat does not provide an expenditure-based breakdown of the GDP data until the third reading (published on 10 March). Surveys and the already published national GDP data indicate that the gap between the trade-oriented goods producers and domestically-oriented services has started to narrow. We see two reasons for this development:

First, as political and trade uncertainty recedes, **trade and manufacturing are gradually stabilising** (see Chart 2). Business investment should rebound as the inventory correction draws to an end. Low costs of capital help, too.

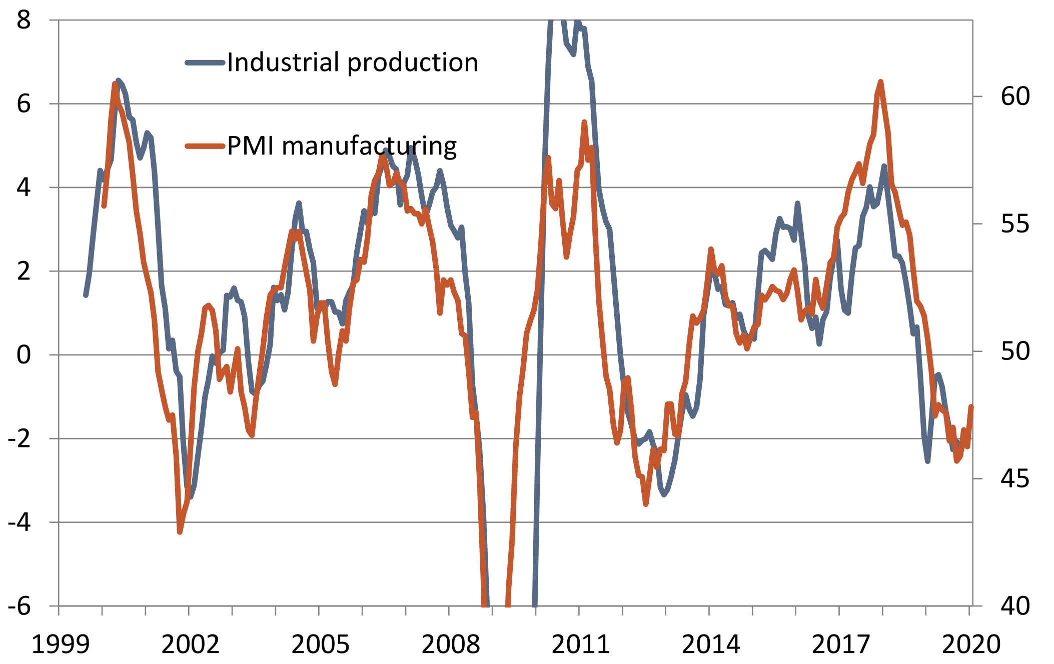
Second, **domestic demand has expanded a little softer recently** as the sustained external headwinds started to spill over into consumer confidence and spending (see Chart 3). Going forward, domestic demand **should remain sufficiently resilient, though.** Ongoing employment gains, gradually rising wage growth and elevated, rebounding consumer confidence can support healthy consumption growth. Persistent low inflation (headline: 1.4% yoy in January down from 1.3%; core: 1.1% after 1.3%) can continue to support real wage gains. Amid a new readiness by Eurozone governments to loosen up fiscal policy, public expenditures should also contribute to domestic demand.

Chart 1: GDP growth and its contributions to growth



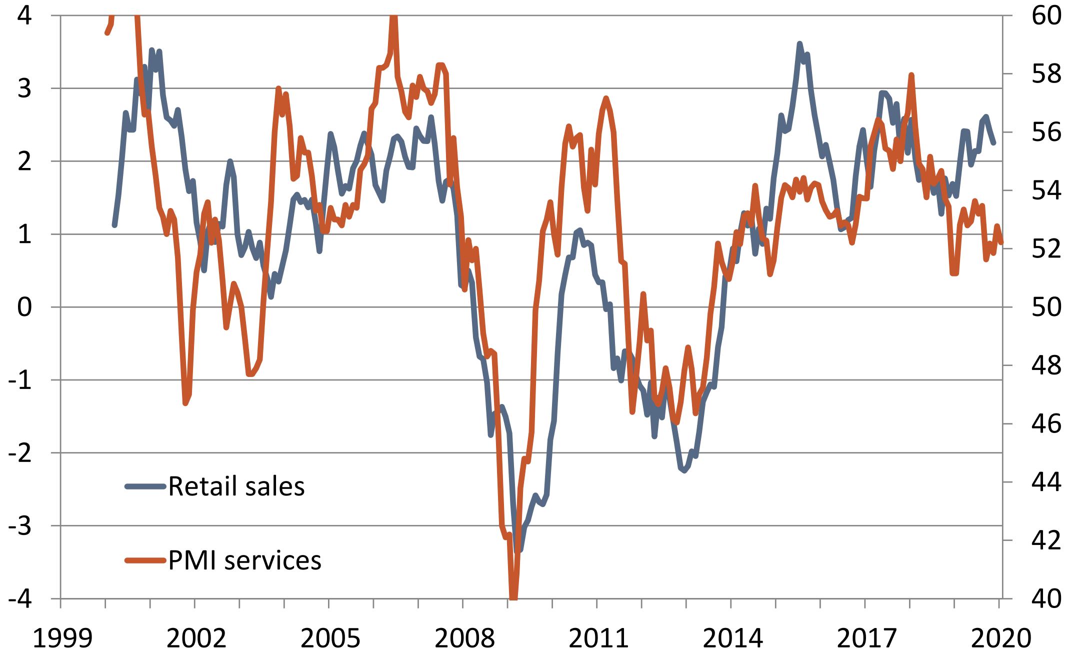
Yoy GDP growth in %, contributions in %-points. No breakdown for Q4 2019. Source: Eurostat, Berenberg

Chart 2: Nascent signs of bottoming out in manufacturing



Three-month average of yoy growth in industrial production, left scale, PMI manufacturing (50=no expansion), right scale. Source: Eurostat, Markit, Berenberg.

Chart 3: Services – softening, but resilient



Three-month average of yoy growth in retail sales, left scale, PMI services (50=no expansion), right scale. Source: Eurostat, Markit, Berenberg.