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MACRO NEWS

29/07/16

Florian Hense, Economist | Florian.hense@berenberg.com | +44 20 3207 7859

EUROZONE Q2 GDP GROWTH SLOWED BEFORE BREXIT

Berenberg Macro Flash

Eurozone quarterly GDP growth, Q2

Actual:	0.3%
Previous:	0.6%
Consensus:	0.3%
Berenberg:	0.2%

	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
qoq	0.3%	0.6%	0.4%	0.3%	0.4%	0.6%
yoy	1.6%	1.7%	1.7%	1.6%	1.6%	1.3%

The Eurozone economy slowed in the second quarter, from 0.6% to 0.3%. The slowdown in the second quarter was, however, mainly for arithmetic reasons. The first quarter was unusually strong due to one-time effects. These effects faded in the second quarter. Taking the two quarters together, the Eurozone economy grew by just above trend (0.4%) in the first half of 2016. Among the major 4 Eurozone countries separate data was only available for France and Spain. The French economy stalled in Q2 (0.0% qoq), after strong, upwards revised growth of 0.7% in Q1 (from 0.6%). Spain's growth weakened, also, though only from 0.8% in Q1 to 0.7%.

Private consumption likely the main driver of growth

For the components of GDP, we have to wait for one more month. The data available for the three months of the second quarter allow some preliminary conclusions. Industrial production was weak, potentially turning flat in Q2, after a stellar first quarter of 0.8%. The contribution from net exports may have been limited this quarter. Retail sales firmed over the quarter driving on further improving labour conditions (unemployment improved from 10.2% to 10.1% over the quarter). All in all, this suggests that private consumption was the major driver of growth in the second quarter, after public spending. In general, growth looked skewed to the start of the quarter, suggesting a gradual slowdown throughout the second quarter from the high levels of Q1.

Risks to the outlook less tilted to the downside

Turning to the outlook, more than one month after Brexit, we see risks less tilted to the downside than before. Brexit looks to be first and foremost a UK issue. There are no real signs of a Brexit impact in the soft data. Expectations have fallen, but measures of the current situation, on the other hand, point to stable growth. The discrepancy between expectations (lower) and current activity (higher) is a recurrent pattern that we have seen throughout the year.

Financial markets have reacted orderly. As a consequence the ECB did not have to step in. This is in sharp contrast to the euro crisis when ECB president Mario Draghi was forced to deliver his "whatever it takes" remarks to clam markets.



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Inflation accelerates, credit impulse picks up

Impulses to the real economy may have come from stronger monetary developments. With bank loans strengthening recently (1.4% yoy in June vs. 1.2% in June), inflation accelerated unexpectedly to 0.2% yoy in July (from 0.1% in June). July's pickup of consumer prices continues the firming trend that started in June that may indicate some changes to underlying cost pressures. With ample slack in the economy wage growth so far, however, falls short matching productivity gains.

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