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## STEADY GROWTH IN EUROZONE, NO IMMEDIATE TRUMP IMPACT ON OUTLOOK

### Berenberg Macro Flash

#### GDP Q3, in %

	Eurozone	Germany	Italy
<b>Actual:</b>	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>
Previous:	0.3	0.4	0.0
Consensus:	0.3	0.3	0.2
Berenberg:	0.3	0.3	0.1

The Eurozone accelerated slightly, to 0.35% qoq in Q3, in line with a flash estimate and slightly above the second quarter of 0.29% qoq. The breakdown by country shows some erratic moves. Germany disappointed (0.2% qoq), while Italy (0.3%), Portugal (0.8%) and Greece (0.5%) surprised on the upside. Early indicators for October suggest that the Eurozone economy should gain a little momentum. PMIs and economic sentiment for the Eurozone showed stronger readings in October compared to the average of the third quarter.

However, following from last week's US election, uncertainty is rising. Bundesbank's Weidmann said last week that "pronounced political uncertainty" is currently weighing on the outlook for growth. Today's published ZEW, a timely gauge for sentiment, especially among financial market participants, confirms this. The ZEW survey's press release showed that sentiment may not prove fully resilient to the upcoming Trump presidency as the ZEW expectations after the election were less positive than before the election – despite expectations rising overall (see below).

German ZEW expectations overall rose for the fourth consecutive month. Despite growing uncertainty in the political and economic sphere, we continue to forecast Eurozone GDP growth to accelerate to 0.4% qoq in the fourth quarter. We expect US president-elect Donald Trump, while implementing much of his domestic agenda of fiscal boost and deregulation, to ditch most of his international agenda of protectionism and "America first". Trump has started to back away from some of his wilder campaign threats. The world has become a more uncertain place, but we project hard and soft data to turn out positively for November, December and the fourth quarter as a whole. With fundamentals slowly improving in the Eurozone, we expect domestic demand to continue to strengthen and net exports to return to become a driver in the fourth quarter (in the latest economic sentiment reading views on export order books improved strongly) – after a weaker contribution in the previous quarter.

With heightened global uncertainty and the Eurozone's recovery remaining soft, especially low inflationary pressures, the ECB will meet in December not to discuss whether, but by how much to extend its monthly asset purchases of €80bn.

**Italy's positive GDP Q3 surprise corrects flat Q2:** The Italian economy returned to growth in the third quarter (0.3% qoq), after stagnating in the second quarter. This was above expectations of weaker growth (0.2%). The stronger-than-expected number stems from gains in industry and services. Industrial production improved by 1.2% in Q3 compared to the previous quarter. It remains uncertain whether this will continue – production weakened in September, suggesting growth in GDP is not going to last and the Q3 number was just a correction for the flat Q2 reading. With retail sales flat (average for August and July versus



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second quarter average), private consumption also seems to lack more momentum. The full breakdown will come with the second reading on 1 December.

**German economy slows, but fundamentals strong:** Economic growth in Germany slowed to the weakest pace (0.2% qoq) in a year in the third quarter, below ours and others' expectations (0.3%) and after 0.4% in Q2. Brexit and other uncertainties pushed the Eurozone's largest economy into a small summer slump. While we have to wait until 24 November for the breakdown of the headline number, the German statistical office said in a press release that a negative contribution came from net exports (with exports contracting and imports rising) and machinery investment. Today's numbers do not signal a material switch to growth rates below trend of 0.4% qoq. Germany remains in a healthy condition with positive fundamentals as employment improved to a record high of 43.7m in Q3 (+0.9% yoy). As result, both private and public consumption continued to increase. For the fourth quarter, hard and soft data (Ifo, PMI, ZEW) suggest a pace which is above the second and third quarter. We, therefore, continue to expect the German economy to expand by 0.4% in the last quarter of the year with exports, after a drag on GDP in Q3, providing a positive contribution like in the first half (and the Eurozone as a whole). With respect to the medium-term outlook, risks are more tilted to the downside. While we do not expect a surge of protectionism, the prospects for the trade-dependent German economy have not turned brighter with the election of the new US president, to put it mildly.

### German ZEW, November

	Current situation	Expectations
<b>Actual:</b>	<b>58.8</b>	<b>13.8</b>
Previous:	59.5	6.2
Consensus:	61.6	8.1
Berenberg:	62.0	8.5

**German ZEW suggests activity to be solid in early 2017:** The ZEW expectations rose for the fourth consecutive month from 6.2 to 13.8 (versus expectations of 8.1), its highest level since June this year, just before the Brexit vote, thanks to stronger economic numbers in the US and China. The reading confirms our fairly positive assessment in the middle of the fourth quarter. The rise suggests that the economy should start 2017 on a solid footing. The assessment of the current situation in the November ZEW, which mostly reflects hard data for the last few months, slipped slightly from 59.5 to 58.8, but remains at a high level. The average of the October and November readings of expectations and the current situation are well above the third quarter readings (59.2 and 10.0 vs. 54.2 and -1.9, respectively).



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