

Eurozone growth: more good news to come

- We raise our Eurozone GDP forecasts:** The Eurozone economy continues to beat expectations. Forward-looking survey data suggest more good news is to come. As a result, we raise our GDP forecast for Q4 2017 and Q1 2018 from 0.5% qoq to 0.6%. This translates into a growth rate of 2.3% in 2017 (from 2.2%) and 2.2% in 2018 (from 2.0%). We also expect a slightly higher rate of growth in 2019 (1.9%, from 1.8%) (see table).
- Growth momentum remains unabated:** Following a strong first half, economic growth moderated slightly in Q3. After an upwards revised buoyant pace of GDP growth at 0.7% (0.65%) qoq in Q2, the economy expanded by 0.6% (0.58%) in Q3. In the first three quarters of 2017, the Eurozone grew by an annualised pace of 2.4%, well above the trend rate of 1.5%, putting the region ahead of both the US and the UK for the first time in many years. The recovery is driven by all countries, sectors and pillars of demand, especially private forces at home: household consumption and investment have together contributed c80% to GDP growth since Q2 2013. Consumption benefits from the almost 7m jobs created in the Eurozone over the last four years, while businesses profit from the low interest rates and positive global environment.
- The outlook remains very encouraging:** Survey data point to another strong quarter. The European Commission's economic sentiment index (ESI), which is highly correlated with annual growth in the Eurozone, reached a 17-year high in October. Forward-looking components of the ESI such as order books at multi-year highs suggest growth will continue unabated. Moreover, according to the October PMI survey, the rate at which companies expand their workforces rose to the highest in more than a decade. This is early evidence that this year's appreciation in the euro did not affect Eurozone exporters too much, thanks to stronger foreign demand and a stabilisation of the exchange rate since early August. Although risks remain, the Eurozone looks set to enjoy resilient growth at around 2% and low inflation. Headline and core inflation fell to 1.4% yoy and 0.9% in October from 1.5% and 1.1% in the previous month respectively.
- Good news for the currency union:** The Eurozone recovery is some 3-4 years behind the more mature ones in the US and the UK. The Eurozone needs further years of economic recovery for the labour market to clear (the unemployment rate has fallen from 12.3% in May 2013, but at 8.9% in September remains above its pre-crisis level), new initiatives of structural reforms to raise long-term growth (France is just doing that) and political stability, especially in places like Italy, to let the economy run its course. Let's see how many years we get.

Table: Eurozone economic forecasts

		2016	2017	2018	2019	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
GDP	% y/y	1.8	2.3	2.2	1.9	2.0	2.3	2.5	2.4	2.4	2.2	2.2	2.1	2.0	1.9	1.9	1.8
	% q/q					0.6	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
	%q/q ann.					2.2	2.6	2.4	2.3	2.2	2.0	2.0	1.9	1.8	1.8	1.8	1.8
Private Consumption	% y/y	2.0	1.9	2.1	1.8	1.6	1.8	2.0	2.1	2.2	2.2	2.1	1.9	1.9	1.9	1.8	1.8
	% q/q					0.4	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Government Consumption	% y/y	1.7	1.3	1.6	1.6	1.0	1.2	1.4	1.5	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
	% q/q					0.2	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Investment	% y/y	4.5	3.5	2.7	2.4	4.0	3.3	3.8	2.9	3.8	2.3	2.4	2.4	2.4	2.4	2.4	2.4
	% q/q					-0.2	2.0	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Final Domestic Demand ¹	% y/y	2.4	2.1	2.1	1.9	2.0	2.0	2.3	2.1	2.5	2.1	2.1	2.0	1.9	1.9	1.9	1.9
	% q/q					0.2	0.8	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net Exports ¹	% y/y	-0.5	0.2	0.0	-0.1	0.1	0.2	0.2	0.4	-0.1	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1
	% q/q					0.4	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% y/y	-0.1	0.1	0.1	0.1	0.0	0.2	0.1	0.0	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1
	% q/q					-0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	EUR bn	359	332	310	286	84.1	74.1	92.9	81.3	80.1	68.1	86.9	75.3	74.1	62.1	80.9	69.3
	% of GDP	3.3	3.0	2.7	2.4												
Industrial Production ²	% y/y	1.5	2.6	2.1	1.6	1.4	2.6	3.5	2.8	3.0	2.2	1.5	1.6	1.6	1.6	1.6	1.6
	% q/q					0.2	1.2	1.1	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Unemployment Rate ²	%	10.0	9.1	8.3	7.7	9.5	9.2	9.0	8.7	8.5	8.4	8.2	8.1	7.9	7.8	7.6	7.5
CPI ²	% y/y	0.2	1.5	1.4	1.7	1.8	1.5	1.5	1.3	1.1	1.3	1.5	1.6	1.7	1.7	1.7	1.8
General Govt. Balance	% of GDP	-1.5	-1.2	-1.0	-0.8												
General Govt. Debt	% of GDP	88.9	87.2	85.8	83.8												
ECB main refinancing rate ³	%	0.00	0.00	0.00	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25

¹ Contribution to GDP growth ² Period averages ³ End of period

Source: Berenberg calculations

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