

## Eurozone: an economy flirting with stimulus

The marked slowdown in Eurozone GDP in the second quarter was broad-based. As the industrial slump deepens and downside risks for the months ahead increase, calls for stimulus will rise too.



The second estimate of GDP growth in the Eurozone confirmed the slowdown to 0.2% QoQ. Most countries saw a slowdown compared to Q1, which had been inflated by one-off factors. Germany clearly stood out with a contraction of -0.1%, but Italian output growth also stagnated in Q2. French and Spanish GDP growth slowed too, making the Netherlands the largest economy to maintain its Q1 pace of growth.

Eurozone industrial production provided more evidence that industry is currently the economy's Achilles heel. Production for the Eurozone as a whole plummeted by -1.6% in June. German industry declined by -1.8% in June, but was not the worst performer by a long shot. France saw production decline by -2.3%, while some of the smaller countries recorded even deeper contractions in production. July surveys have painted a worrying picture about production, causing concerns about continued weakness in the third quarter.

## *For how long can the labour market can keep Eurozone domestic demand afloat?*

---

As the industrial recession in the Eurozone appears to be deepening, the pressure on the service sector intensifies. Surprising labour market strength has fueled domestic demand as industrial production has been contracting and second quarter employment growth did slow down to 0.2% from 0.4% in the fourth quarter. While continued job growth will still boost household consumption and maintain wage pressures, it does provide less fuel for domestic demand than before. As businesses indicate that hiring intentions are slowing, the question is for how long can the labour market can keep Eurozone domestic demand afloat?

Today's confirmation of a German contraction in the second quarter further ignites discussion about a possible broader downturn. With more downside risks down the line like Brexit, Italian political turmoil and trade war uncertainty, that debate seems to be legitimate. The ECB has all but decided on a next stimulus package for September, but the question is whether governments are willing to provide additional support if downside risks were to materialize.

### Author

#### **Bert Colijn**

Senior Economist, Eurozone

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.