

Eurozone GDP growth rounds up a very strong year

Economic growth in the Eurozone dropped slightly in Q4, but Q3 growth was revised up to 0.7%, rounding out the year at 2.5% growth. Economic sentiment saw a surprising dip in January but still remains at an exuberant level



Economic growth has shifted to a substantially faster growth path over the course of 2017, and current GDP data confirms that. Eurozone growth for 2017 as a whole was stronger than many advanced markets, like the US and UK for example.

While detailed breakdowns have yet to be released, it seems that the Eurozone economy continues to fire on all cylinders. Investment has yet to fully recover from the crisis but has been an essential contributor to growth during the year.

However, the big question for 2018 is whether the stronger euro will offset the effects of improving external demand

The fourth quarter was no exception in France (for which more detailed data has been released), indicating that investment growth accelerated. Survey data suggests this was probably the case across the Eurozone. As unemployment continues to come down given increasing labour shortages, consumption continues to improve as well. French data also showed that net exports contributed significantly to growth as well thanks to the pickup in global growth.

However, the big question for 2018 is whether the stronger euro will offset the effects of improving external demand. The high growth in Q4 means that the carry-over effect for 2018 is very favourable. We expect Eurozone GDP growth to come in at 2.5% again this year.

The Economic Sentiment Indicator dropped slightly in January but remains close to a 17-year high. This confirms our view of a strong start to the year although downside risks to the outlook deserve mention. Political risk like the German coalition talks and Italian elections could have a significant impact on the economic outlook, and at the same time, optimism about growth could tighten financial conditions further.

Still, with businesses indicating new orders continue to increase, employment growth and capacity utilisation remaining high, it seems a safe bet that the Eurozone economy will continue to perform well in the months ahead.

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