

## Eurozone GDP revised upwards no thanks to industry

GDP growth for the second quarter wasn't as bad as initially thought, coming in at 0.4% QoQ but industrial production didn't help much either declining by 0.9% in June, rounding out a poor quarter



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Eurozone GDP for the second quarter was revised up from 0.3% to 0.4% as Germany and Netherlands posted stronger than expected growth.

While the northern countries did boost growth back to the pace of the first quarter, it doesn't move the needle much on the overall economic picture. Even with the somewhat higher than initially expected growth rate, 2018 has been somewhat of a disappointment so far. Slower growth in household incomes thanks to higher inflation and only modest wage growth and lower confidence thanks to trade concerns have slowed growth down faster than expected after a spectacular 2017.

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Industrial production hasn't been of much help either in Q2. The manufacturing PMI declined in all months of the quarter and even though output was still expanding according to the PMI data, production has in fact declined by 0.2% over the quarter. The production of capital goods was the main culprit in June, with a decline of 2.9%, although the decline was broad-based among different goods categories.

For the months ahead, production seems to be limited by concerns about the global economy on the one hand and capacity constraints on the other. If businesses would invest to expand capacity, the second half of the year could be very strong, but for the time being, uncertainty seems to be holding back businesses from investing at a large scale.

With global concerns anything but subsiding, it seems that subdued investment will remain likely in the months ahead. A Eurozone economy performing at the current pace of 0.4% for the rest of the year, therefore, seems to be the base case for the moment.

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