Eurozone GDP surprised to the upside in the third quarter

Economic growth accelerated in the eurozone from 0.2% to 0.4%, in part driven by one-offs. Underlying growth remains sluggish, but there are no signs of the deterioration that the European Central Bank has been concerned about either. For the quarters ahead though, we think it's fair to expect a slowdown in growth again as the outlook remains weak

Things might be looking slightly brighter for the eurozone, but we don't quite see today's data as the kick-off to a vibrant recovery for the region

PMIs have been indicating doom and gloom about the eurozone economy since May, but third-quarter GDP data has come in surprisingly strong. The acceleration from 0.2% to 0.4% growth quarter-on-quarter indicates that worries about an imminent recession are overdrawn. Still, don't overestimate the strength of the eurozone economy on the basis of this better-than-expected growth reading either.

First of all, notoriously volatile Irish GDP growth (significantly influenced by multinational accounting activity) contributed positively to today's reading; without Ireland, eurozone GDP would have grown 0.3%. Besides that, the French GDP growth figure of 0.4% is likely to have been boosted by the Olympics this summer. So looking through the one-offs, the eurozone economy is showing modest growth at the moment.

Still, Germany also performed better than expected and avoided recession by posting a 0.2%

growth print. And Spain continued with its fast growth at 0.8%, in part boosted by the EU recovery fund investments. Italy remains a negative outlier as it experienced 0% growth, decelerating from 0.2% in the second quarter.

For the ECB, this provides a bit of a reality check on economic activity. The central bank had shown significant concerns around growth developments, indicating that all indicators were heading in the same downward direction. Clearly, even though one offs played a role, today's data should calm the ECB about growth developments. At the IMF meeting last week, discussions about a 25bp or 50bp cut from the ECB had opened up, but today's GDP data provides a hawkish argument to the debate ahead of the December meeting.

The question remains as to whether or not today's GDP data is not a dead cat bounce. We remain cautious about the outlook for the months ahead as the consumer continues to save, making a consumption recovery on the back of stronger real wage growth relatively muted. Investment will see some boost from lower rates, but the impact is set to be limited given the low capacity utilisation in industry and that the export environment is sluggish. So, don't see this as the kick-off to a vibrant recovery – the eurozone economy remains sluggish for the moment, and GDP growth in the fourth quarter is likely to come in lower than the surprisingly strong third quarter reading.

Author

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com