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Eurozone growth falls to 0.1%: it got worse before it gets better

As GDP growth fell to a snail's pace in 4Q and core inflation dropped back in January, today's data brings a chilling confirmation that the eurozone has not started its growth recovery just yet. An ECB on autopilot remains the logical conclusion

People on the Paris metro

2019 ended on a bearish note as eurozone GDP growth fell to 0.1% in the fourth quarter. Weakness in France and Italy, where GDP fell by -0.1 and -0.3% respectively, was key in the slowing of eurozone growth while Spain actually saw growth accelerate from 0.3 to 0.5%. No more detailed information is provided about eurozone growth just yet, but in France, weakness was noted across expenditure categories with sluggish investment and consumer spending as well as a large drag from inventory drawdowns. While some one-offs may have negatively affected growth, it is too soon to start to see a recovery as downward risks were significant throughout the quarter as survey data already suggested.

Headline inflation ticked up, but core inflation fell to 1.1%. Core was always likely to come back down again as it had trended higher than price pressures warranted at 1.3% over the past two months. A reading just over 1% seems to be in line with the current economic situation, which means that any excitement among hawks at the higher core rate of the past two months has been premature. The ECB is on autopilot for the moment and these inflation numbers confirm that quite clearly.

Overall, recent optimism around a eurozone growth recovery seems warranted; it's just all about the timing. Green shoots are likely to have a modest and somewhat delayed effect given the severity of the manufacturing downturn and because downside risks have only moderately subsided. With a bottoming out of manufacturing, modest fiscal improvements and some reversal of the inventory drawdowns, the base case is that eurozone GDP growth is set for a subdued recovery over the course of the year.

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