

## Eurozone: No bounce back in GDP

GDP growth of just 0.2% quarter-on-quarter in the final quarter of 2018 confirms the slow growth environment that the eurozone has slipped into and there does not seem to be an easy way out as downside risks persist in early 2019



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Hopes of a swift bounce back after the poor third quarter had already faded towards the end of the year, but the 0.2% growth in GDP remains disappointing nevertheless. After hopes of 2.5% growth at the beginning of the year, 2018 annual growth has turned out to be only 1.8%. The end of the year was marked by a disappointing recovery in auto production in Germany, downside risks further impacting confidence and yellow vest protests in France. The persistence in the growth decline indicates that there is more to it than one-offs with downside risks persisting early in 2019 as well.

Italy saw growth decline by -0.2% in Q4, therefore entering a technical recession and adding to worries about the stability of the third largest eurozone economy. More positive was France where despite the impact from the yellow vest protests, GDP growth held up at 0.3%. A much more severe impact had been indicated by the PMI, which had plummeted into negative territory in December. Exports increased significantly in France, offsetting stalling consumption growth. Germany also avoided a technical recession in Q4 judging from the annual growth figure for 2018

and Spain saw a slight acceleration of growth to 0.7%.

For the ECB, the weak growth rate means that the current staff projections of 1.7% growth for 2019 will be a tall order. Given the weakness in surveys about eurozone growth in January as well, it is likely that the 2019 growth forecast will see a substantial downgrade in March when the new staff projections are released. With this, the almost philosophical debate in the governing council of where we are and where we are going may take a more pessimistic turn that will please the doves...

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