

Snap | 2 May 2018

Eurozone off to a false start in 2018

GDP growth drops to 0.4% QoQ in the first quarter. Healthy but moderating growth seems to be the theme for the Eurozone economy in 2018



Source: Shutterstock

The first quarter of the Eurozone economy was much like the last season of House of Cards. Expectations were sky-high, but as it progressed it turned into a disappointment.

Sentiment among businesses and consumers started to turn halfway through the quarter, and this seems to have translated into weaker domestic demand growth. French data for 2Q indicates that personal consumption and private investment growth have both weakened. Gross exports declined outright in France, indicating the stronger euro could provide more tailwind for Eurozone businesses this year than initially expected.

With just 0.3% GDP growth, France disappointed and was among the weaker large economies in 1Q together with Italy that just reported 0.3% growth as well. Spain continued its fast-paced recovery at 0.7%, while Germany will release its figures later in the month.

At last week's ECB meeting, Mario Draghi pointed to temporary factors like the weather and strikes to partly explain the weakness in recent economic data. He mentioned earlier that the largest trade war impact on the Eurozone economy could come through the confidence channel. 1Q data suggests that some of the weaker confidence has translated to lower growth

for now. Even though early survey data for 2Q has stabilised, there is not much that indicates a bounce back.

We expect GDP growth to remain healthy in 2018, but not reach the highs of last year. For monetary hawks, this means the data does not provide much to like ahead of the ECB June meeting.

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