

Eurozone growth slows to 0.2% as core inflation dips

Q2 GDP growth in the eurozone slows to 0.2%. Clearly, the economy is expanding at a slow cruising speed that seems too low for inflation to increase quickly towards the ECB target. And that gives the Bank more ammunition to act in the autumn



Decent growth with a worrying outlook

The Eurozone economy has not been able to maintain its surprising growth rate of Q1 as softening global demand and uncertainty about the outlook dampen economic activity. While 0.2% is still a decent growth pace, concerns about the economy in the second half of the year are not decreasing, despite monetary stimulus being on its way.

The first quarter of 2019 was strong and had caused confusion among analysts as surveys had pointed to a weak start to the year. We can now conclude that one-offs lifted economic activity in Q1 and that surveys had indicated continued weakness as the underlying trend. That raises a red flag for Q3 as both the Economic Sentiment Indicator and the PMI point to a strong drop in industrial production in July. That means that Q3 will likely remain subdued at best from a growth perspective.

Decent labour market performance as unemployment continues to fall

We have often pointed out that the strong labour market performance in the eurozone has been key for economic growth to not weaken further. Continued job growth has fueled household consumption at a time when global demand risks threaten the Eurozone outlook. In June, the unemployment rate dropped again, this time to 7.5% from a revised 7.6% in May. Despite concerns about Germany, overall Eurozone job growth continues to be in decent shape. This means that the number of unemployed continues to decline at a steady pace, which should benefit the service sector in the months ahead.

Inflation adds even more ammunition for the ECB to act forcefully in September

For the European Central Bank, the question is not whether to stimulate the economy more, but by how much it will do so in September. Today's inflation data should confirm the dovish view of a softening inflation outlook as core inflation was weaker than expected at 0.9%. As weaker demand and uncertainty about the future hold, the core inflation outlook seems to be weakening. That gives even more ammunition for the ECB to act, as if it needed any more persuading.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.