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