

## Eurozone: Staying alive

The GDP flash estimate shows a decent 0.4% growth rate in the first quarter. With the economic cycle already in a late stage, that's probably as good as it gets



According to the GDP flash estimate, the eurozone grew 0.4% quarter-on-quarter in 1Q 2019, above consensus (0.3%) and better than the 0.2% growth rate seen in the fourth quarter. Year-on-year, growth was 1.2%. As the GDP components are not available yet, the figure is hard to interpret, but given the weak performance of manufacturing in the first quarter, net exports have probably contributed negatively to growth. Consumption, which slowed down in the second half of last year, was probably somewhat stronger in the first quarter, as unemployment continued to fall. In February, the eurozone's unemployment rate actually stood at 7.7%, with the quarterly average for 4Q at 7.93%.

### No early recession

Paraphrasing Mark Twain who said reports of his death were greatly exaggerated, we can say that calls for a eurozone recession were certainly premature. Declining unemployment and gradually rising wages are supporting household consumption, while easy financing conditions remain in place. At the same time, the recovery is getting old and no one should expect from a greybeard that he will continue to run at the pace he could achieve in his youth. And indeed, the elderly are also more vulnerable to shocks. While there are still a number of risks (think of trade tensions,

higher oil prices and the Brexit uncertainty) the improving international picture is likely to support eurozone exports in the coming months. In a number of eurozone countries, fiscal policy is also somewhat looser which is likely to underpin household consumption. In that regard, GDP growth should hover around 0.3% in the remainder of the year. Not great, but probably the best we can expect in the current stage of the cycle.

## Wait-and-see

Today's figures probably haven't made the European Central Bank any wiser. The economy remains solid enough not to need extra stimulus. But at the same time not much has to go wrong to bring GDP growth to a standstill. In that regard, wait-and-see remains the most likely ECB monetary policy stance. More news in June, when the conditions for the first TLTRO are likely to be announced.

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