

31 October 2017
Snap

Stellar report card for Eurozone economy

What's not to like about strong growth, falling inflation and unemployment? But we think the drop in core inflation will certainly be taken as a justification for ECB's dovish tapering

An impressive report card for the Eurozone economy as GDP growth comes in at 0.6% QoQ for the third quarter and the unemployment rate drops to 8.9%. The drop in core inflation to 0.9% will no doubt be taken as a justification for dovish tapering by the ECB.

The decline in core inflation was the most surprising data point today

GDP was slightly slower than the upwardly revised Q2. These revisions have contributed to a further improvement in the annual growth rate for 2017, which we now expect to come in at 2.3%. The current pace of economic growth is well above trend and is causing the output gap to be closed quicker than expected. While the expenditure breakdown has not been released yet, domestic demand has most likely been an important contributor to growth again, given labour market strength and improving investment conditions such as higher capacity utilisation and improved lending demand and conditions.

In France, consumption growth increased, and investment growth remained robust at 0.8% QoQ.

The tick down in headline inflation was widely expected as energy base effects are pushing the inflation rate down for the moment. The drop in core inflation is more notable. The decline in core inflation may have been the most surprising data point today. It was well below analyst estimates and the lowest reading in five months. While seasonal effects are likely impacting the number to a certain degree, price growth in services dropped from 1.5% to 1.2% and these prices are likely to bounce back - this will be taken as a sign that last week's dovish tapering from the ECB was justified. Even though pipeline inflation pressures are slowly mounting, the 2% target is getting further away for now.

Will labour market recovery start to impact price growth? For now, don't hold your breath

Some positive news for inflation growth in the medium term is that unemployment fell significantly, to 8.9% in September. July and August were also revised downwards from 9.1 to 9%, causing the summer stagnation in unemployment to disappear. That stagnation would have been somewhat odd given the strength in economic performance and business survey data on hiring anyway.

This means the labour market recovery continues to underpin the economic recovery at the moment, which will boost GDP growth over the winter months. The most important question remains when the labour market recovery will start to impact price growth. For now, don't hold your breath.

Bert Colijn

Senior Economist, Eurozone

+31 20 563 4926

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 NV 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. The producing legal entity 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 subject to limited regulation by the Financial Conduct Authority (FCA). 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.