

# EUROZONE ECONOMY

JANUARY 2019

**The latest preliminary flash estimates suggest slowing growth in the Eurozone, amid discord over the Italian budget and the Chinese economy losing traction.**

## Headlines

Larger than expected slowdown in the Eurozone was likely driven by one-off effects in Germany, and a contraction in Italian GDP.

Year-on-year investment going into property in the Eurozone dropped 9%.

Investors might want to look to the UK for value.

Gross domestic product for the currency area increased by +0.2% during Q3 2018, up +2.2% from Q3 2017, and weaker than the +0.4% growth reported in Q2 2018. The larger than expected slowdown was driven by one-off effects in Germany, and a contraction in Italian GDP. Regulatory changes in the car industry explain the economic slowdown in part, while lower global demand also played into it.

Industrial production in November 2018 fell -1.7% from the month before following Germany's largest production decline in two years. Year on year, industrial production fell -3.3%. The broad-based decline marks the sector's biggest annual fall since November 2012. Over the year, Ireland (-9.1%), Germany (-5.1%), Portugal (-2.9%) and Spain (-2.8%) registered the highest decreases in industrial production, while Estonia (+7.9%), Poland (+5.3%) and Hungary (+3.5%) came out top.

Retail sales volumes in November 2018 increased 0.6% from October last year, as consumers bought more clothes and electrical goods in the run up to Christmas. Retail volumes increased

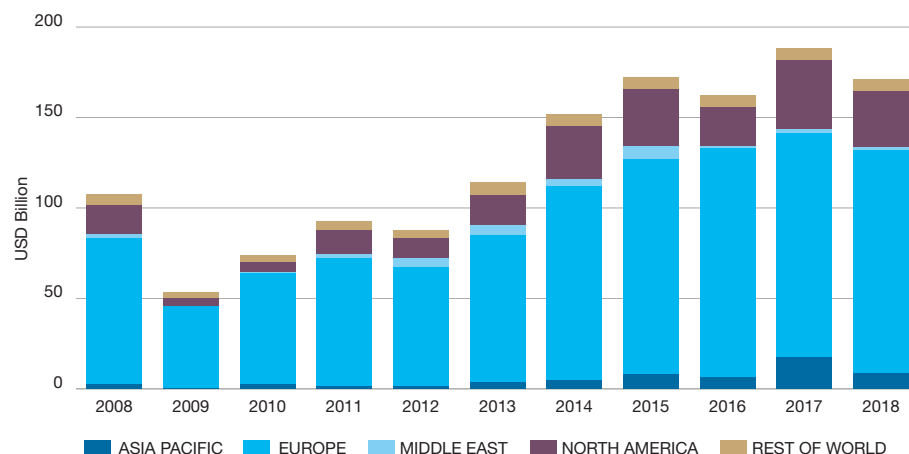
1.1% year-on-year, with the highest annual increases recorded in Slovenia (+10.7%), Romania (+7.2%) and Lithuania (+7.0%). Belgium (-1.6%), Malta (-1.3%) and Austria (-0.2%) registered the largest volume reduction.

Annual inflation in the euro area reduced to an eight-month low of 1.6% in December 2018, down from 1.9% in November in the wake of the slump in oil prices, which helped limit the increase in energy costs for consumers. This could be giving the European Central Bank pause for thought before raising interest rates, considering their 2% target.

The Eurozone's unemployment rate measured 7.9% in November 2018, down from 8.0% in October and from 8.7% a year prior. This is the lowest rate in the euro area since October 2008. Lowest unemployment rates were recorded in Czechia (1.9%), Germany (3.3%) and the Netherlands (3.5%). Greece and Spain remain the member states with the highest unemployment rates.

The 10-year Eurozone government bond yield dropped 19 bps on the month to

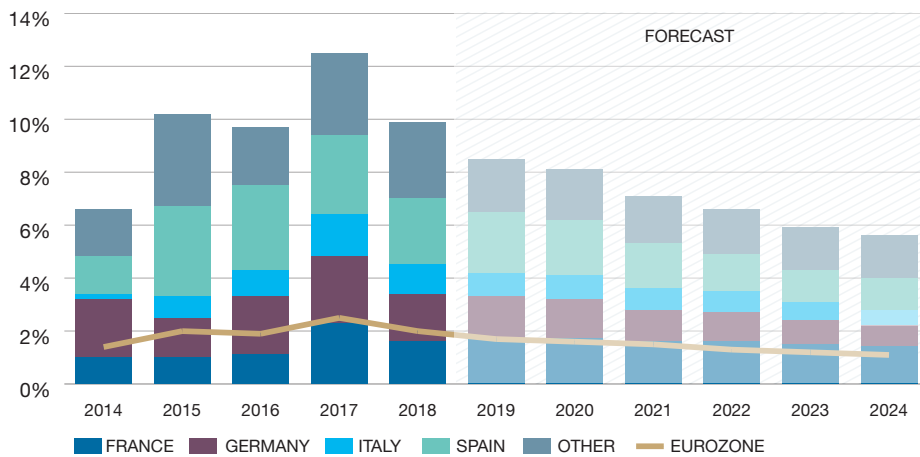
FIGURE 1  
**Capital invested in the Eurozone reduced 9% YOY**



Source: RCA

“With Italy in recession, political tension in Spain and France, the UK may seem more attractive for property investors in times to come.”

FIGURE 2  
The Eurozone is forecast to slow over the next five years



Source: Experian

1.21% at the end of December 2018. This constitutes a 33 bps increase from December 2017. According to RCA, global real estate investments going into the Eurozone totalled over US\$172 billion in 2018, down 9% from 2017. The inflow from Asia Pacific declined by 51% year on year, while the Middle East and North America reduced their investments in the Eurozone by 22% and 20% respectively. Though many are put off by the Brexit jitters looming over the UK, growth in the currency bloc is forecast to slow in the next five years. With Italy in recession, political tension in Spain and France, the

UK may seem more attractive for property investors in times to come.

Investors remain cautious ahead of the upcoming US-China trade talks at month end, and the upcoming EU parliamentary elections in May will likely begin to garner attention in the coming weeks. The EUR/USD exchange rate is hovering around US\$1.14. Theresa May’s proposal to reopen the Brexit deal with the European Union, despite Brussels’ previous rejection to the renegotiation option, is making the EUR/GBP fluctuate between £0.86 and £0.87.

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