

EUROZONE ECONOMY

MAY 2019

The Eurozone economy grew 0.4% in the first quarter of 2019, almost double the 0.2% growth recorded in the final quarter of 2018, and helped by upticks in France (+0.3%), Spain (+0.7%) and Italy (+0.2%).

Headlines

Eurozone growth in Q1 2019 almost doubles from Q4 2018

Inflation was steady compared to a year ago

Unemployment at its lowest since September 2008

Germany shows signs of turning the corner

Year-on-year growth stood at 1.2%, slightly above the market expectation of 1.1%. The improved growth performance suggests that both Germany and Italy performed better in the first quarter of this year, following a contraction in H2 2018. These estimates may ease concerns about an imminent recession in Europe, yet the sustainability of this upturn remains to be seen.

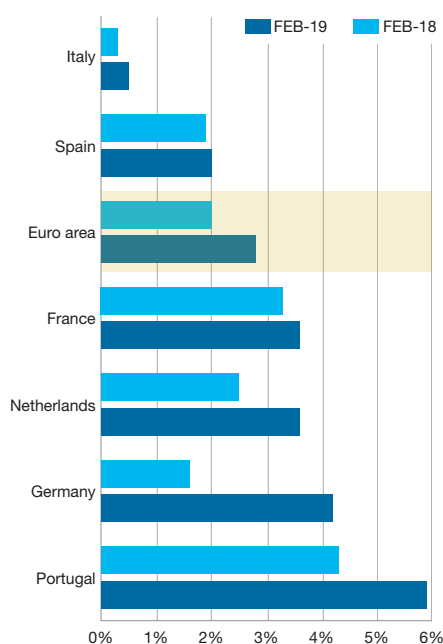
Industrial production in February has seen the worst decline in activity since November 2018, falling 0.2% month-on-month and 0.3% year-on-year. These drops were driven by a decline in energy production (-3.0% m-o-m; -5.9% y-o-y). Among the largest economies in the currency bloc, German industrial output declined the most in February; down -2.0% compared with -2.8% in February 2018. Spain followed with

a -0.4% decline (+3.1% a year ago). Meanwhile, Italy noted a +0.9% growth in production, following the -0.8% contraction this time last year. On a monthly basis, Spain and Germany recorded the biggest output declines with -1.1% and -0.4% respectively. Italy (+0.8%) and France (+0.4%) observed gains in output.

Consumers continue to support the domestic economy in the Eurozone as retail trade remains buoyant with trade volumes up +2.8% y-o-y and +0.4% m-o-m in February 2019, led by non-food products. Germany (+4.5% y-o-y) was one of the top performers among the larger economies. This data suggests resilience in the euro area domestic economy amid talk of a slowdown.

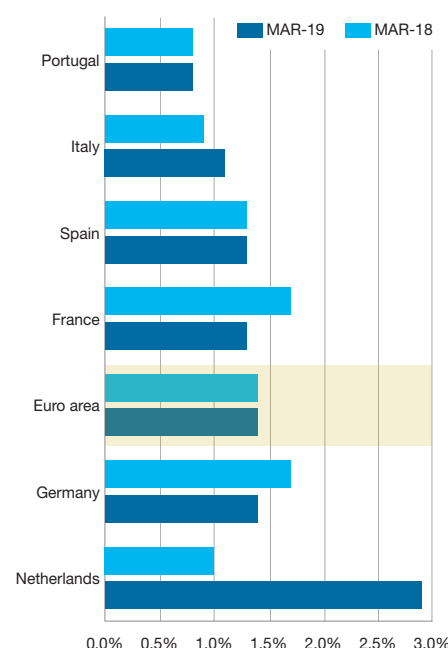
Annual inflation rate remained at 1.4% in March 2019, unchanged from a year earlier

FIGURE 1
Eurozone retail trade volume
February 2019, Annual % growth



Source: Eurostat

FIGURE 2
Eurozone inflation
March 2019, Annual % growth



Source: Eurostat

and 0.1 percentage points lower than February 2019. Prices softened for food, alcohol and tobacco, services, as well as non-energy industrial goods.

Meanwhile, unemployment rate in March 2019 dropped to 7.7%, down from February 2019 and from 8.5% in March 2018, reaching the lowest level since the global financial crisis. Germany again led with the lowest level of unemployment at 3.1%.

The 10-year Eurozone government bond yield dropped to 0.84% in March 2019 from 0.95% in February 2019 and from 1.07% in March 2018.

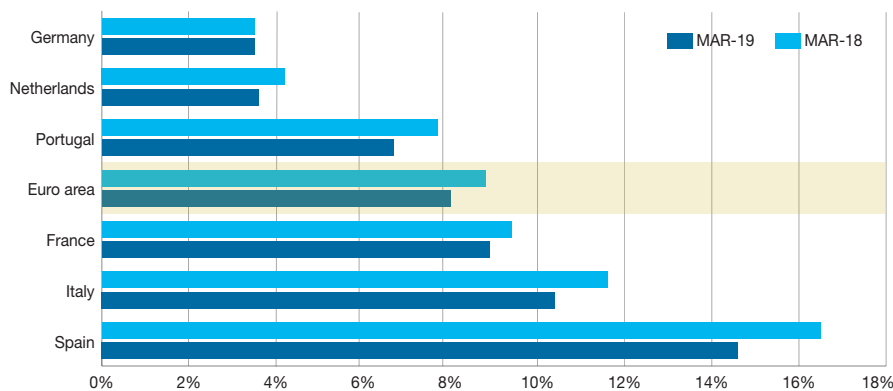
Stronger than expected first quarter growth in the currency bloc has given the euro a boost. Although April's PMI data, which shows that UK services have

moved back above the 50 threshold that indicates growth to 50.4, gave the pound a slight lift. The EUR/GBP trades around GBP 0.86. The EUR/USD, oscillating around USD 1.13, was weighed down by renewed strength in the greenback which was supported by a less than dovish FOMC monetary policy update on May 1.

Better than expected performance in Germany, as indicated above, is implying that domestic demand may be slowly returning. This tallies with German government forecasts, which expect GDP to perk up in 2020, with growth increasing to 1.6% per annum. As outlined in our *Germany report*, we expect the German economy to buoy over 2019, thus underscoring its attraction as an investment destination for investors looking to the euro area.

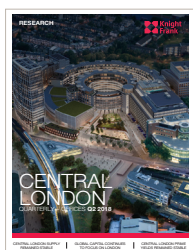
“We expect the German economy to buoy over 2019, thus underscoring its attraction as an investment destination for investors looking to the euro area.”

FIGURE 3
Eurozone unemployment rate
March 2019, Annual % growth



Source: Eurostat

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