

# EUROZONE ECONOMY

NOVEMBER 2018

## Headlines

Political uncertainty and softer industrial production have likely hurt the economic momentum from earlier this year

Unexpectedly weak German export data is putting pressure on the euro

The European Central Bank has kept the benchmark refinancing rate at 0 percent

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

Gross domestic product for the currency area increased by +0.2% during Q3 2018, up +2.2% from Q3 2017, but weaker than the +0.4% growth reported in Q2 2018. In fact, this is the slowest expansion since Q1 2013, when the Eurozone grappled with government debt and a banking crisis. Political uncertainty, firmer oil prices and softer industrial production have likely hurt the momentum from earlier this year. However, there are reasons to view the slackening in the economy as temporary as new emissions tests have dampened German car manufacturing during the third quarter this year.

Industrial production in August 2018 grew +1.0% from the month before, picking up again following the -0.7% decline in July, thanks to rising energy production, consumer goods and capital goods. Ireland (+15.1%), Slovenia (+7.0%) and Latvia (+6.4%) registered the highest increases in annual industrial production.

Retail trade volumes in September 2018 increased from September last year, driven by automotive fuels (+1.1%), food, drinks and tobacco (+0.9%) and non-food products (+0.7%). Month-on-month volumes remained unchanged in

September this year. The highest annual increases in the total retail trade volume were recorded in Ireland (+10.2%), Lithuania (+7.9%) and Poland (+6.5%). Belgium Spain and Austria registered the largest volume reduction (-2.2%, -1.5% and -1.5%).

Annual inflation in the euro area is projected to increase to 2.2% in October 2018, up from 2.1% in September, according to flash estimates. The top contributors to inflation are expected to be energy (10.6%), followed by food, alcohol and tobacco (2.2%), and services (1.5%).

Unemployment in the Eurozone measured 8.1% in September 2018, down from 8.9% a year ago and unchanged from August 2018. This remains the lowest rate in the euro area since November 2008. Low unemployment rates remain unchanged in Czech Republic (2.3%), Germany (3.4%) and Poland (3.4%). Greece and Spain remain the member states with the highest unemployment rates.

The European Central Bank kept the benchmark refinancing rate at 0 percent on the 25th October and announced that it will maintain the bond-buying

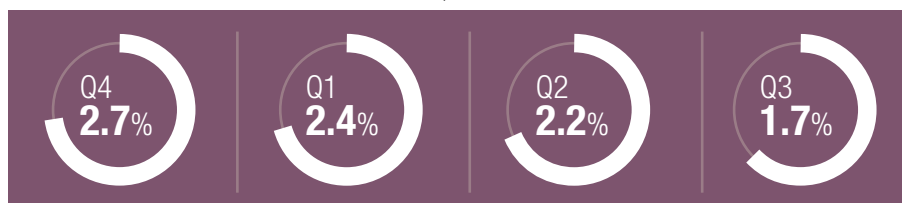
FIGURE 1

### Eurozone growth is slowing

#### PERCENTAGE CHANGE COMPARED WITH THE PREVIOUS QUARTER

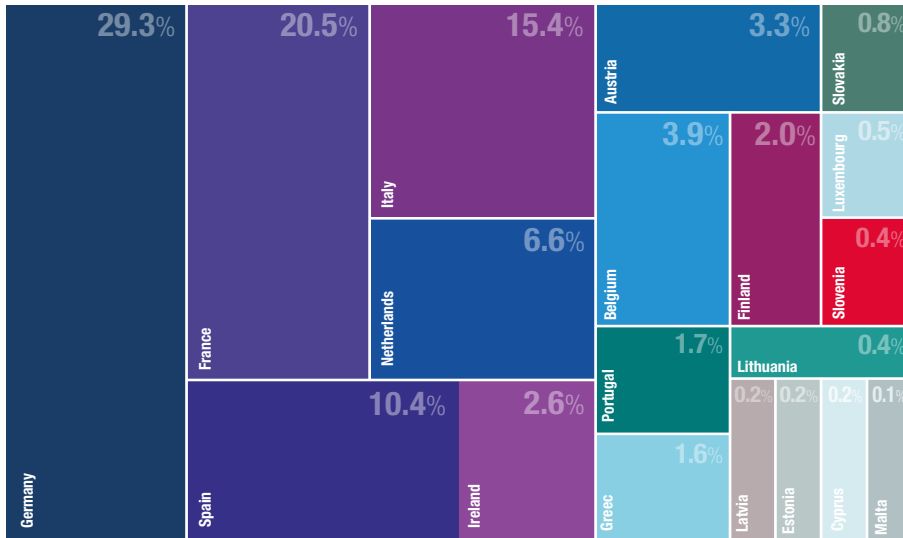


#### PERCENTAGE CHANGE COMPARED WITH THE SAME QUARTER OF THE PREVIOUS YEAR



Source: Eurostat

FIGURE 2  
**The Eurozone GDP was valued at EUR 11,206 billion in 2017**  
 Germany is the largest economy in the single currency block.



Source: Eurostat

programme until the end of December. The 10-year Eurozone government bond yields increased to 1.56% at the end of October. This is a 24 bps increase from September 2018 and a 68 bps increase from December 2017. The annualised IPD equivalent yield in the Eurozone was 4.33% in December 2017, 36bps lower than the year before; putting the arbitrage at 3.45% at the end of 2017. It is this arbitrage opportunity that made European real estate a very good place to invest in. The current narrowing of the spread between top and bottom quartile office yields towards historical lows is showing that investors are happy to take on more property-level risk in Tier 1 Western European office markets.

Trade data has indicated that the German economy had its worst quarterly performance in Q3 since the start of 2015. An unexpected contraction in German export volumes has put downward pressure on the euro, whereas the dollar surged after the Federal Reserve kept interest rates unchanged in November. This has weakened the EUR/USD exchange rate to 1.1367. Meanwhile, the GBP/EUR exchange rate touched a six-month high when GBP 1 could buy EUR 1.1504.

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