

EUROZONE ECONOMY

OCTOBER 2018

The latest GDP figures point to continued momentum for the euro area economy.

Headlines

Eurozone GDP continues to recover with stable business investment rates

Strong retail spending reveals optimism about the euro

Unemployment figures are at the lowest level since the financial crisis

Seasonally adjusted GDP rose 0.4% in Q2 2018, unchanged from Q1 2018, growing 2.1% from Q2 2017. Household consumption was weighed down by subdued sentiment (+0.2% in Q2 after +0.5% in Q1), while fixed investments picked up as credit conditions eased (+1.2% in Q2 after +0.3% in Q1). The business investment rate has remained stable at around 23.0% in the euro area since the Brexit referendum.

Industrial production in July 2018 owes much of its -0.8% fall to shrinking production of consumer goods. 12-month industrial production in the euro area measured -0.1% due to decreased production in consumer goods and energy.

Retail trade volumes rose by 1.8% on an annualised basis in August 2018. Non-food volumes were up 2.9%, food, drinks and tobacco rose 0.9%, though automotive fuel trade fell by -0.3%. Ireland registered the highest yearly surge in total retail volume with +7.9%, followed by Lithuania (+7.4%), Hungary (+6.8%) and Poland (+6.5%), revealing a bullish attitude in the single-currency region.

Annual inflation in the Eurozone read at 2.0% in August 2018, down from 2.1%

in July, but up on the 1.7% observed in August 2017. Increased inflation primarily came from energy, services and food, alcohol and tobacco.

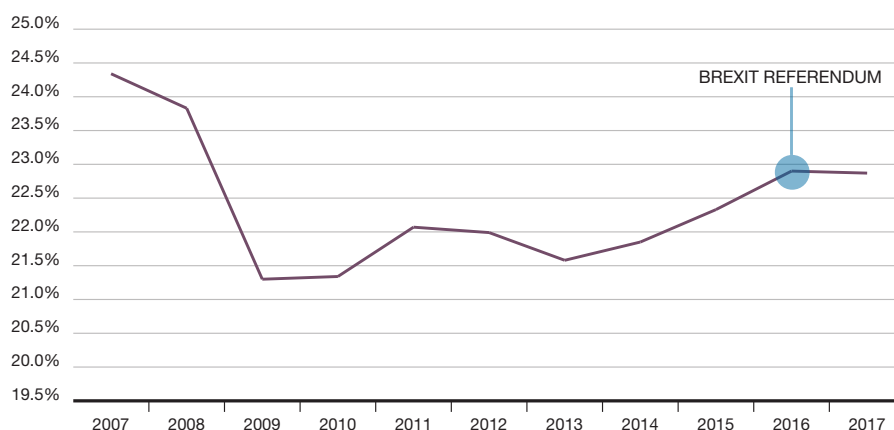
Unemployment measured 8.1% in August 2018, down from 8.2% in July 2018, and 9.0% in August 2017. This represents the lowest rate on record since the global financial crisis.

The 10-year Eurozone government bond yield stood at 1.32% at the end of September 2018. As US treasury yields soared to multi-year peaks on buoyant economic data in early October; Eurozone yields followed suit with increases of 3-6bps. The 10-year US Treasury now offers around 265bps of extra yield compared with German debt.

Reports of Ireland planning to support Theresa May's Irish border backstop proposal in addition to Italian-inspired weakness in the euro has lifted the pound to euro exchange rate to a multi-day high in early October. Meanwhile, the US dollar has benefited from Fed Chair Jerome Powell's hawkish comments, weakening the EUR/USD rate.

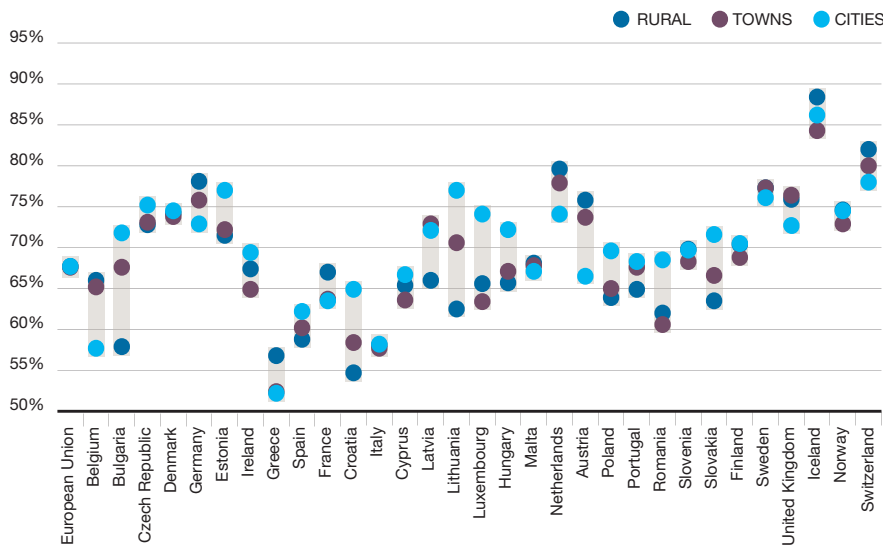
FIGURE 1

Eurozone business investment rate has remained fairly stable since the referendum



Source: Eurostat

FIGURE 2
Employment Rate by degree of urbanisation – 2017
 (% share of population aged 20-64)



Source: Eurostat

Employment rates across regions in the European Union are lower in cities than in rural areas, especially in Belgium and Austria in 2017. A Eurostat study found that western EU member states tend to observe higher employment rates for the working-age population living in rural areas than in cities. Large variances of up

to 10 percentage points were recorded in Belgium (72% employment in rural areas compared with 62% in cities), Austria (79% for rural areas and 70% for cities), the Netherlands (82% and 76%), Germany (82% and 77%), and Greece (61% and 56%). Eastern member states in contrast saw working-age city residents more likely to be in employment.

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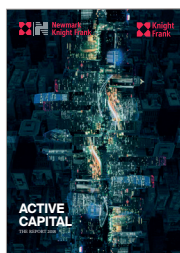
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