PICTET 1805

Flash Note

Euro area: Q3 GDP growth

The recovery is continuing to broaden out

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Euro area headline GDP growth was confirmed at 0.6% q-o-q in Q3.

At the country level, Germany surprised to the upside, posting GDP growth of 0.8% q-o-q in Q3 and beating consensus expectations. The impressive performance was driven by exports and investment in equipment and machinery. Turning to Italy, economic activity strengthened in Q3. After a rise of 0.3% q-o-q in Q2, real GDP expanded by 0.5% q-o-q in Q3, in line with consensus expectations.

All in all, the good performance of most economies was further evidence that the recovery is continuing to broaden out across countries.

Looking ahead, leading indicators such as PMIs remain consistent with a strong and stable expansion of the euro area economy, if at a slightly slower pace than in H1. As a result, we keep unchanged our GDP forecasts of 2.1% for 2017 and 1.7% for 2018, with some residual upside risks.

Today Eurostat published its second estimate of euro area Q3 GDP growth. The headline number was confirmed at 0.6% quarter-on-quarter (q-o-q) in Q3, in line with the previous estimate (to be precise it was revised up slightly from 0.585% q-o-q to 0.613% q-o-q). The breakdown by expenditure components will only be released on 24 November, but high-frequency data and some country-specific releases suggest that growth was fairly broad-based.

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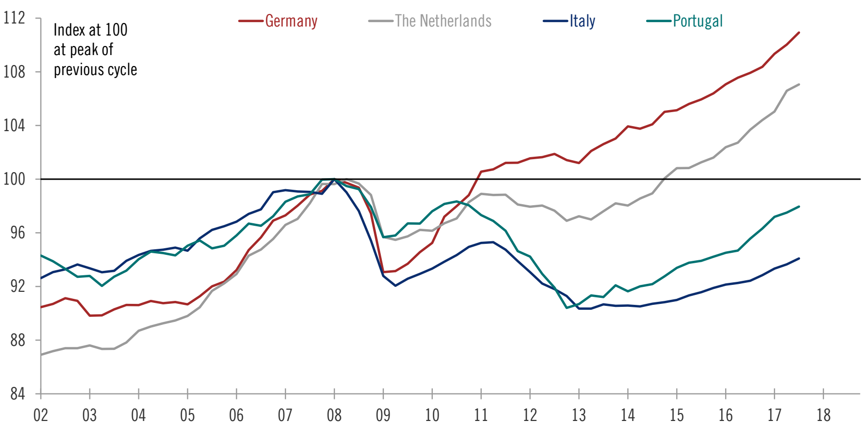
Chart 1: real GDP indexed at 100 at peak of previous cycle



Source: Pictet WM – AA&MR, Eurostat

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German: big upside surprise

German real GDP expanded by 0.8% q-o-q in Q3, above consensus expectations (0.6%). This was an acceleration from Q2's 0.6% gain. Importantly, the Q1 figure was revised up from 0.7% q-o-q to 0.9% q-o-q. The final details are not yet available (published on 23 November), but the statistical office noted that **foreign trade and investment in machinery and**

equipment were the key drivers of this impressive performance. By contrast, growth in consumer and government spending likely weakened following a strong print in Q2.

Overall, today’s data confirm the robust shape of the German economy. The expansion of investment in machinery and equipment is positive news for the cycle, as investment has been the missing link in 2017. With today’s strong print and the upward revision of Q1 figure, the carry-over effect reached 2.4%, meaning that even with flat GDP in the final quarter of 2017, German activity would grow by 2.4% on average this year.

Italian: the laggard is catching up

In Italy, **economic activity strengthened in Q3**. After an expansion of 0.3% q-o-q in Q2, real GDP rose by 0.5% q-o-q in Q3, in line with consensus expectations. The expenditure breakdown is not yet available (it will be published on 1 December), but according to some comments by the statistical office and high frequency data, both domestic demand and foreign demand supported growth. Italian GDP is still 5.9% below its pre-crisis level, but the 0.5% expansion was an encouraging sign that the recovery remains on track, a message confirmed by recent business surveys.

Portugal: acceleration in sight

In Portugal, real GDP growth increased by 0.5% q-o-q in Q3, 0.2 percentage points more than in the previous quarter. The details are not yet available, but the statistical office suggested that the contribution of net trade became positive in Q3, while the contribution of domestic demand diminished somewhat on the back of weak investment. The country is still 2% below its pre-crisis level, but **business surveys point to strong momentum in Q4**.