

Flash Note

Euro area: Q4 GDP growth

Strong, but not stronger

Pictet Wealth Management - Asset Allocation & Macro Research | 30 January 2018

Euro area real GDP expanded by 0.6% q-o-q in Q4, in line with expectations but marginally less than its upwardly revised 0.7% q-o-q increase in Q3.

The French economy grew by 0.6% q-o-q in Q4 and the Spanish economy by 0.7% q-o-q.

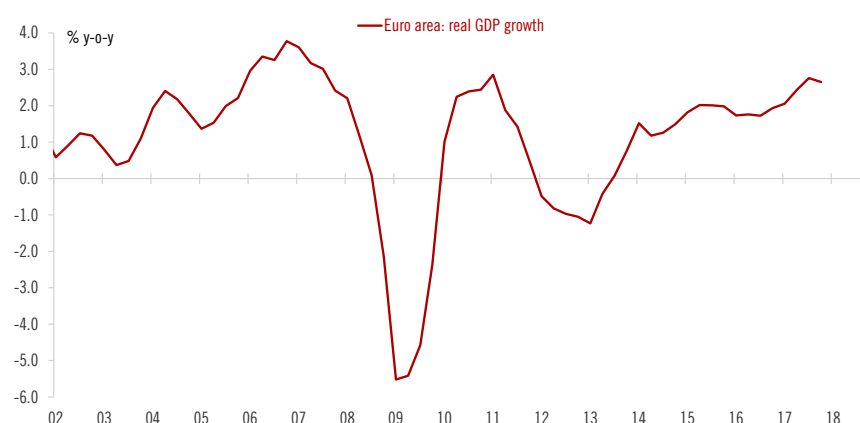
The year's first set of sentiment indicators suggest that the euro area started 2018 on a very strong note

We forecast euro area GDP growth of 2.3% in 2018, with near-term upside risks.

According to Eurostat's preliminary estimate, euro area real GDP rose by 0.6% q-o-q in Q4 (2.3% q-o-q annualised; 2.7% y-o-y), in line with consensus expectations but slightly less than its upwardly-revised 0.7% q-o-q increase in Q3. **The euro area economy expanded by 2.5% in 2017 overall, its fastest annual growth since 2007.** The flash Q4 estimate is based on figures published by six countries (including Spain and France), as well as some confidential inputs from five others. German and Italian flash GDP readings are due on 14 February, while the euro area breakdown by expenditure components will be published on 7 March.

As for 2018, the first set of euro area [sentiment indicators](#) suggests that the euro area started the year on a very strong note and confirmed that growth is improving, in quantity as well as quality, with rising job creation and investment. That said, some forward-leading indicators (in particular IFO expectations and manufacturing new export orders) have dropped modestly in January, consistent with our forecast of a gradual slowdown in the pace of growth in the second half of 2018. We forecast **euro area [GDP growth](#) of 2.3% in 2018**, with near-term upside risks.

Chart 1: euro area real GDP growth



Source: Pictet WM – AA&MR, Eurostat

AUTHORS

Nadia GHARBI
ngharbi@pictet.com
+41 58 323 3543

Frederik DUCROZET
fducrozet@pictet.com
+41 58 323 4582

Pictet Group
Route des Acacias 60
CH - 1211 Geneva 73
www.pictet.com

France: capex driving GDP growth

The French economy ended the year very strongly, with real GDP expanding at a 0.6% quarterly rate in Q4 (2.5% in annualised terms), following on from its 0.5% increase the previous quarter. As a result, **France's annual GDP**

Notice: This marketing communication is not intended for persons who are citizens of, domiciled or resident in, or entities registered in a country or a jurisdiction in which its distribution, publication, provision or use would violate current laws and regulations.

The information, data and analysis furnished in this document are disclosed for information purposes only. They do not amount to any type of recommendation, either general or tailored to the personal circumstances of any person. Unless specifically stated otherwise, all price information is indicative only. No entity of the Pictet Group may be held liable for them, nor do they constitute an offer or an invitation to buy, sell or subscribe to securities or other financial instruments. The information contained herein is the result neither of financial analysis within the meaning of the Swiss Bankers Association's Directives on the Independence of Financial Research, nor of investment research for the purposes of the relevant EU MiFID provisions. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness.

Except for any obligations that any entity of the Pictet Group might have towards the addressee, the addressee should consider the suitability of the transaction to individual objectives and independently assess, with a professional advisor, the specific financial risks as well as legal, regulatory, credit, tax and accounting consequences. Furthermore, the information, opinions and estimates in this document reflect an evaluation as of the date of initial publication and may be changed without notice. The Pictet Group is not under any obligation to update or keep current the information contained herein. In case this document refers to the value and income of one or more securities or financial instruments, it is based on rates from the customary sources of financial information that may fluctuate. The market value of financial instruments may vary on the basis of economic, financial or political changes, currency fluctuations, the remaining term, market conditions, the volatility and solvency of the issuer or the benchmark issuer. Some investments may not be readily realizable since the market in the securities can be illiquid. Moreover, exchange rates may have a positive or negative effect on the value, the price or the income of the securities or the related investments mentioned in this document. When investing in emerging countries, please note that the political and economic situation in those countries is significantly less stable than in industrialized countries. They are much more exposed to the risks of rapid political change and economic setbacks.

Past performance must not be considered an indicator or guarantee of future performance, and the addressees of this document are fully responsible for any investments they make. No express or implied warranty is given as to future performance. Moreover, forecasts are not a reliable indicator of future performance.

The content of this document can only be read and/or used by its addressee. The Pictet Group is not liable for the use, transmission or exploitation of the content of this document. Therefore, any form of reproduction, copying, disclosure, modification and/or publication of the content is under the sole liability of the addressee of this document, and no liability whatsoever will be incurred by the Pictet Group. The addressee of this document agrees to comply with the applicable laws and regulations in the jurisdictions where they use the information reproduced in this document.

This document is issued by Banque Pictet & Cie SA. This publication and its content may be cited provided that the source is indicated. All rights reserved. Copyright 2018. Banque Pictet & Cie SA is established in Switzerland, exclusively licensed under Swiss Law and therefore subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA).

Distributors: Banque Pictet & Cie SA, Pictet & Cie (Europe) SA

growth hit 1.9% in 2017, up from 1.1% in 2016 and its highest level in six years. What is more, it looks likely to improve again in 2018. The carry-over for this year is 0.9%.

The big story in the French economy, like in those of most other euro area countries, is the strong increase in capex. Total private investment spending rose by 1.1% q-o-q in Q4 and is now up by over 9% since early 2015. The construction sector has played an important role in this respect, but corporate investment in machinery and equipment also accelerated markedly in 2017. Favourable monetary and financial conditions remain an important driver of private investment.

Meanwhile, the slowdown in private consumption in Q4 (including a 1.2% m-o-m drop in December following a massive 3.0% rise in November, fuelled by Black Friday sales) is not necessarily bad news as the economy needs to rebalance towards investment and exports. Net exports boosted growth in Q4, more than offsetting the drag from inventories, amid signs of further improvement in external demand for French goods and services. Assuming price competitiveness improves further, structural reforms continue and the global environment remains supportive, the French economy is likely to surprise positively again this year.

Spain: no major impact from the Catalan crisis so far

The Spanish economy expanded by 0.7% q-o-q in Q4, in line with consensus expectations and marginally less than its 0.8% q-o-q rise in Q3. **The economy grew by 3.1% in 2017 overall**, in line with our forecast. This was its fourth consecutive year of expansion and the third above 3%. The breakdown by expenditure components is not yet available (this will be published on 2 March), but growth is expected to have been mainly driven by domestic demand. The net trade contribution is expected to have turned positive.

The impact on the Spanish economy of the current turmoil in Catalonia is difficult to measure, as growth had already been expected to slow somewhat in late 2017 and in 2018. Today's data suggest that the Catalan crisis has only had a minor impact on Spain's aggregate GDP so far. **We expect growth to moderate to 2.5% in 2018.**