

Flash Note

Euro area: Q2 GDP growth

Revising our 2018 GDP growth forecast down to 2.0%

Pictet Wealth Management - Asset Allocation & Macro Research | 31 July 2018

Euro area GDP growth unexpectedly slowed down to 0.3% q-o-q in Q2.

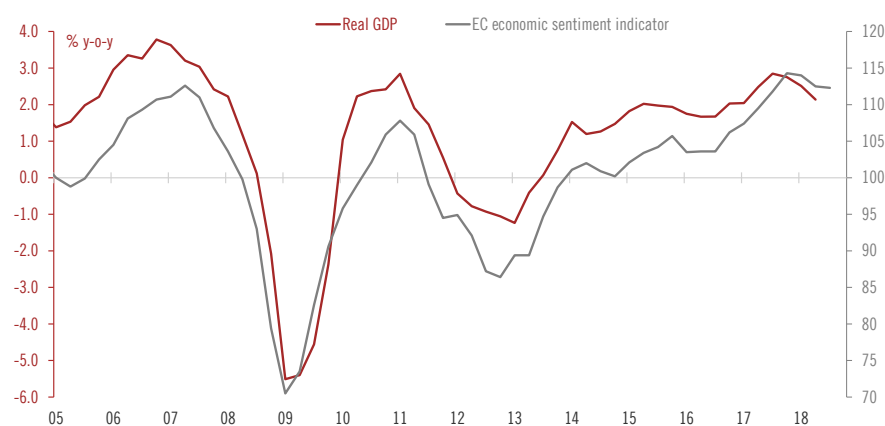
Following today's GDP growth data and recent economic indicators, we have revised down our GDP growth forecast for 2018. We now expect euro area real GDP to grow by 2.0% on average this year compared with 2.5% in 2017.

Forward-looking indicators (PMI and the European Commission's economic sentiment indicator) have recently shown signs of stabilising after weakening earlier this year. Moreover, fundamentals supporting household spending and business investment remain solid.

According to Eurostat's preliminary flash estimate, **euro area real GDP expanded by 0.3% q-o-q in Q2 2018** (0.346% q-o-q unrounded, 1.4% q-o-q annualised, 2.1% y-o-y), below consensus expectations (0.4%). This was the weakest growth in two years and comes after a GDP growth of 0.4% q-o-q in Q1. The carryover effect for 2018 reached 1.7%, meaning that even with zero growth in the remainder of 2018, euro area GDP would grow by 1.7% on average this year. The breakdown of euro area growth by expenditure components will be published on 7 September. Based on high-frequency data and some country-specific releases, domestic demand was again the main driver of growth in Q2.

Following today's GDP growth data and recent economic indicators, we have revised down our GDP growth forecast for 2018. **We now expect euro area real GDP to grow by 2.0% on average this year** (down from our previous forecast of 2.3% for 2018). We remain constructive on the cyclical outlook for the euro area. Forward-looking indicators (purchasing manager indexes (PMI) and the European Commission's economic sentiment indicator) have recently shown signs of stabilising after weakening earlier this year (*see chart 1*). **Fundamentals supporting household spending and business investment remain solid** so that the euro area is likely to continue growing at rates that above its long-term potential, despite a slowdown from 2017. But **risks to the growth outlook remain tilted to the downside**, with global trade tensions the most prominent of them.

Chart 1: euro area real GDP growth and EC economic sentiment index



Source: Pictet WM – AA&MR, Eurostat, European Commission

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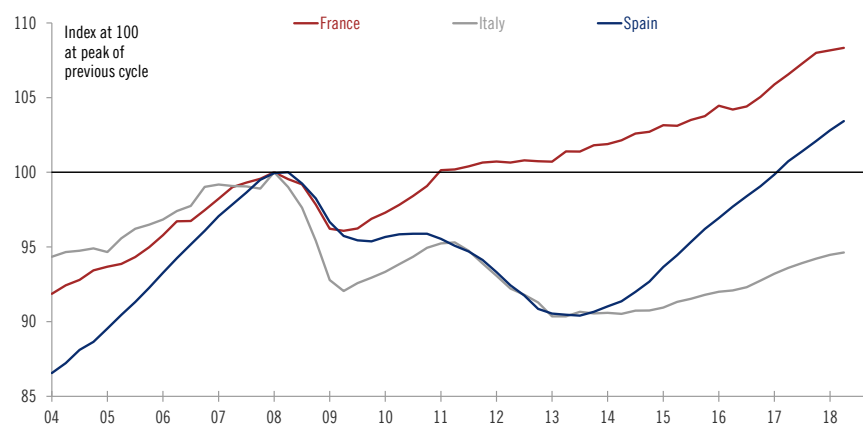
Italy and Spain decelerated in Q2

Some euro area countries have also published Q2 preliminary figures. Among the four biggest economies, only Germany has yet to publish its flash GDP reading (it will come out on 14 August). French GDP grew at the same pace as in Q1 (0.2% q-o-q, see [our previous Flash Note for more details](#)).

In Italy, GDP growth decelerated to 0.2% q-o-q in Q2 from 0.3% q-o-q in Q1, in line with consensus expectations. The breakdown of Italian growth by expenditure components will be published on 31 August.

Finally, in Spain, GDP growth slowed to 0.6% q-o-q (2.7% y-o-y) in Q2 from 0.7% q-o-q (3.0% y-o-y) in Q1, below consensus expectations (0.7%). It was the lowest reading since Q2 2014. The GDP breakdown was mixed. Investment (+2.6% q-o-q after 0.8% in Q1) accelerated thanks to a strong rebound in investment in equipment and machinery, but private consumption, a leading driver of the recovery, slowed to 0.2% q-o-q (from 0.7%), the lowest quarterly rate since Q1 2014. Furthermore, exports (-1.0% q-o-q after 1.3% in Q1) contracted for the first time Q3 2016. That said, Spanish economy is still outperforming its euro area peers.

Chart 3: Spain and Italy real GDP growth (index at 100 at peak of previous cycle)



Source: Pictet WM – AA&MR, Eurostat

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