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Euro area Q1 GDP confirmed at 0.4% QoQ, with domestic demand the main pillar of growth

- According to the final estimate published by Eurostat earlier today,¹ real GDP growth came in at 0.4% QoQ sa in the euro area (EA19) in Q1 2015, in line with the growth rate marked in the previous quarter (revised upwardly from 0.3% QoQ previously). The highest rates of growth were recorded in the Czech Republic (+3.1%), Cyprus and Romania (both +1.6%), while negative rates of growth were registered in the following four countries: Lithuania (-0.6%), Estonia (-0.3%), Greece (-0.2%) and Finland (-0.1%).
- Final domestic demand remained the main contributor to euro area growth (Figure 1). Household final consumption expenditure increased by 0.5% after a 0.4% rise in the previous quarter, contributing 0.3pps to real growth. Gross fixed capital formation also provided a positive contribution (+0.2pps), with the pace of quarterly increase having doubled in Q1 (+0.8% from 0.4% in Q4 14). As far as external demand is concerned, real imports growth rebounded to 1.2% from 0.8% in Q4, while real exports growth decelerated for the second consecutive quarter to 0.6% from 0.8% in the previous quarter, pushing the net trade contribution into negative territory once again (-0.2pps from +0.1pps in the previous quarter).
- Within domestic demand, private consumption was probably underpinned by lower oil prices and weak inflation which lifted households' purchasing power. Moreover, private investment surprised on the upside, recording its strongest rate of growth since Q2 2013. Although investment has remained notably weak since the onset of the global financial crisis partly due to high corporate debt and borrowing constraints, the ECB's QE has pushed interest rates lower and triggered an upward momentum in private sector credit, having started to provide a positive impact on firms' investment plans. On the flipside, the slowdown in global economic activity, particularly in the US and China, has probably taken its toll on net trade.

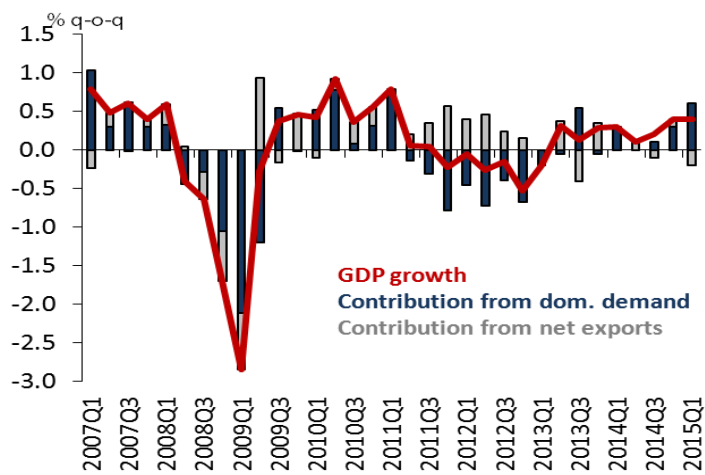
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¹ <http://ec.europa.eu/eurostat/documents/2995521/6870823/2-09062015-AP-EN.pdf/415a882c-7d7b-4131-bacc-8ddca81d305a>

- Overall, real GDP growth is projected at c. 1.4% in 2015 and c. 1.7% in 2016, from 0.8% in 2014, supported by the weaker EUR, improving financial conditions and a lessening impact stemming from fiscal consolidation measures. Further improvement in gross fixed capital formation will probably be crucial to lift the euro area economy to a higher growth trajectory over the next couple of years.

Figure 1: Contribution to real GDP growth, Euro area-19



Sources: Eurostat, Eurobank Economic Analysis and Financial Markets Research

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