

Euro area GDP grows by 0.4% QoQ in Q1 as expected

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- According to the flash estimate published by Eurostat,¹ real GDP growth rose by 0.4% QoQ in the euro area (EA19) in Q1 2015 from 0.3% QoQ in the final quarter of 2014, in line with consensus expectations (Figure 1). More closed economies, that rely primarily on domestic demand (e.g. France, Italy, Spain), surprised to the upside in the first quarter of the year. On the other hand, countries more dependent on external demand (e.g. Germany) disappointed expectations.
- A detailed breakdown of the data is not yet available. Nevertheless, as suggested by most recent higher frequency indicators, domestic demand was most likely the main contributor to GDP growth. In our view, private consumption must have strengthened further in Q1, supported by lower oil prices and weak inflation which lifted households' purchasing power. The slowdown in global economic activity, particularly in the US and China, has probably taken its toll on net trade.
- Germany's GDP decelerated to 0.3% QoQ in Q1 (consensus 0.5% QoQ) from 0.7% QoQ in Q4 2014. According to Germany's statistical office (Destatis), domestic demand contributed positively to activity, while net exports were a negative contributor to GDP as imports increased more than exports.
- France's real GDP grew by 0.6% QoQ in Q1 (consensus: 0.4% QoQ), reporting the largest quarterly GDP increase since Q2 2013. Recent data released by France's statistical office (INSEE) suggest that private consumption was the main growth driver, accelerating to 0.8% QoQ in Q1 from 0.1% QoQ in Q4 14. Investment declined by 0.2% QoQ, dragged down by a further drop in housing investment.
- Italy's GDP growth came in at 0.3% QoQ in Q1 (consensus 0.2% QoQ) from 0.0% QoQ in the previous quarter, recording the highest rate of growth since Q1 2011. The Italian economy probably exited recession in Q1, with private consumption benefiting from higher real disposable income and a neutral fiscal policy stance.

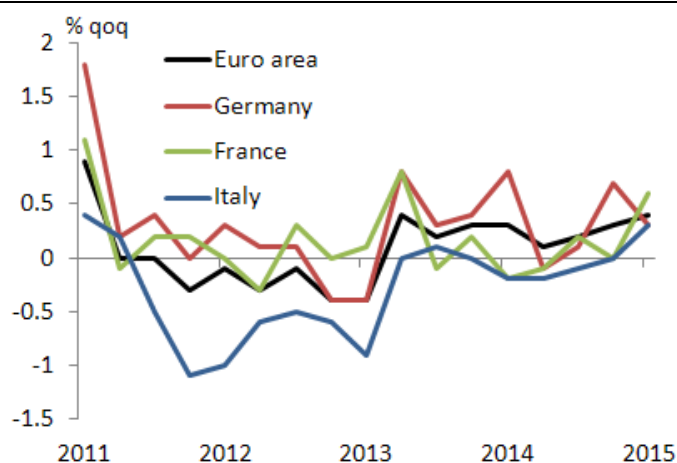
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¹ <http://ec.europa.eu/eurostat/documents/2995521/6829212/2-13052015-BP-EN.pdf/1444bdf1-65ba-457d-829b-dee843b0c861>

- Looking ahead, we expect a larger positive contribution from net exports in Q2, as foreign demand particularly from the US and China recovers. Nevertheless, private consumption growth may decelerate somewhat as the recent increase in oil prices may weigh on real disposable income. Overall, real GDP growth is projected at c. 1.4% in 2015 vs. 0.8% in 2014, supported by the weaker EUR, improving credit conditions and a lessening fiscal drag.

Figure 1: Euro area GDP growth (2010 prices, % QoQ)



Sources: Eurostat, Eurobank Economic Analysis and Financial Markets Research

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