

## Euro area Q1 GDP growth upwardly revised at 0.6%QoQ driven by domestic demand

**Olga Kosma**  
 Research Economist  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

- According to the final estimate published by Eurostat,<sup>1</sup> real GDP growth on a seasonally adjusted basis (sa) came in at 0.6%QoQ (1.7%YoY) in the euro area (EA19) in Q1 2016, accelerating from 0.4%QoQ in the previous quarter. The highest rates of growth in core EA countries were recorded in Spain and Austria (both +0.8%) and Germany (+0.7%), while a negative rate of growth was registered in Greece (-0.5%).
- Domestic demand remained the main contributor to euro area growth (Figure 1). Household final consumption expenditure rebounded to 0.6%QoQ, doubling its Q4 2015 growth rate which was dampened by temporary factors such as the Paris terrorist attacks and mild weather. Government consumption growth remained robust across the board, with migrant related expenditures exerting upward pressure on total public spending increasing in Germany, Austria Italy, Spain and Portugal. Furthermore, gross fixed capital formation remained firm in Q1 and rose by 0.8%QoQ following a surge by 1.7%QoQ in the previous quarter. On the flipside, net exports were again a drag on growth albeit slightly a lesser one than in the prior quarter, as imports halved their rate of growth (to 0.7%QoQ from 1.4%QoQ) and exports growth decelerated significantly to 0.4%QoQ from 1.7%QoQ in Q4 amid weak global demand and a stronger EUR.
- The latest high-frequency activity and confidence indicators suggest that the economic recovery should continue in the coming quarters although at a more moderate pace than in Q1. Although Euro area May final composite PMI index increased marginally to 53.1 from 52.9 in the previous month, forward-looking sub-indices moderated somewhat with new orders plunging to a 16-month low. Furthermore, consumer confidence indicator increased markedly in May by 2.3 points to -7.0 compared to April, rebounding from the March trough of -9.7, but this improvement reflected improved expectations with respect to the general economic situation while other sub-indices, including major purchases or unemployment expectations, continued to decline.

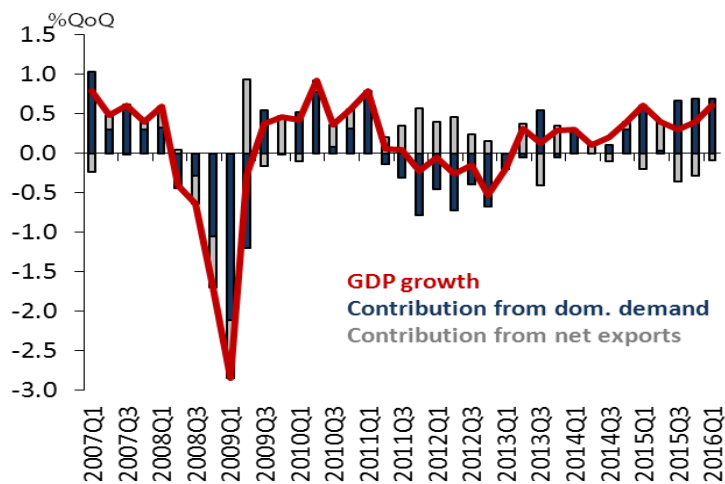
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<sup>1</sup> <http://ec.europa.eu/eurostat/documents/2995521/7436158/2-07062016-AP-EN.pdf/3ad9ea20-f430-448b-94f5-af823509dee6>

- Overall, full year real GDP growth is projected at ca. 1.6% in 2016 and ca. 1.7% in 2017, up from 1.5% in 2015, supported by robust private consumption growth, improving labor market conditions, and a gradual pick-up in investment growth albeit at a slower pace compared to past recoveries dampened by policy uncertainty. The expected decline in real interest rates and higher profit margins should also have a positive impact. Domestic demand will also capitalize on some fiscal easing in the short to medium- term, while the ECB's accommodative monetary policy stance will continue to be transmitted to the economy.

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



Sources: Eurostat, Eurobank Economic Analysis and Financial Markets Research

## Eurobank Economic Analysis and Financial Markets Research

**Dr. Platon Monokrousos:** *Group Chief Economist*  
pmonokrousos@eurobank.gr, + 30 210 37 18 903

**Dr. Tassos Anastasatos:** *Deputy Chief Economist*  
tanastasatos@eurobank.gr, + 30 210 33 71 178

### Research Team

**Anna Dimitriadou:** *Economic Analyst*  
andimitriadou@eurobank.gr, + 30 210 37 18 793

**Ioannis Gkionis:** *Research Economist*  
igkionis@eurobank.gr, + 30 210 33 71 225

**Stylios Gogos:** *Economic Analyst*  
sgogos@eurobank.gr, + 30 210 33 71 226

**Olga Kosma:** *Research Economist*  
okosma@eurobank.gr, + 30 210 33 71 227

**Arkadia Konstantopoulou:** *Research Assistant*  
arkonstantopoulou@eurobank.gr, + 30 210 33 71 224

**Paraskevi Petropoulou:** *G10 Markets Analyst*  
ppetropoulou@eurobank.gr, + 30 210 37 18 991

**Galatia Phoka:** *Research Economist*  
gphoka@eurobank.gr, + 30 210 37 18 922

**Theodoros Stamatou:** *Senior Economist*  
tstamatou@eurobank.gr, + 30 210 33 71 228

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [EurobankGlobalMarketsResearch@eurobank.gr](mailto:EurobankGlobalMarketsResearch@eurobank.gr)

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