

Global Futures alert service

Eurozone GDP: Final estimate and full breakdown for 2010q3
January 2010



Fears of a sharp slowdown or even a 'double-dip' recession in western Europe gripped markets over the summer but were alleviated by the GDP data for 2010q3. Eurozone growth in real terms did slow (and was downgraded slightly), but was still respectable at 0.3% on the quarter, according to Eurostat's recently released final estimate. Consumer and government spending, along with foreign trade, were modest growth drivers. The EU27 figure was unchanged at 0.5%. On the year, growth in both the eurozone and the EU27 has been running at around 2% the last couple of quarters.

Growth was particularly strong in the Nordics and central Europe. All of the Nordics saw their economies grow quite strongly in q3, a major downward revision to Finland's final outturn notwithstanding. Germany continued its strong run of form, recording growth of 0.7%. This marked the second consecutive quarter that domestic demand played a significant role in Germany's growth story, an encouraging sign given the turmoil raging on the eurozone's periphery. Indeed, the first estimate of 2010 released today by the Federal Statistical Office shows that of the 3.6% growth recorded in the year, more than two-thirds came from domestic demand. Austria is also tapping into the solid recovery in 'Mitteleuropa', with its economy expanding by 0.9% quarter on quarter.

As for laggards, there were the usual suspects, with Greece contracting by

another 1.3% and Spain stagnating. Ireland managed to eke out growth 0.5%, owing to a strong contribution from foreign trade as all other components of demand contracted, particularly investment. But the bail-out and subsequent austerity programme will be taking their toll in the months ahead. A similar story is likely in Portugal, where growth of 0.3% surprised on the high side but where fiscal cuts are on the cards.

If the most recent data release has a sting in the tail, it is the figure for investment, which contracted in the eurozone by 0.3% after a strong rebound of 2% in q2. But here the differences are stark. Investment activity was quite strong in western European countries that have avoided domestic asset bubbles and fiscal profligacy and have tapped into the global recovery. These included Austria, Finland, Germany and

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Sweden. An encouraging sign was the strong investment figure in Italy. At the other end of the spectrum were most of the periphery eurozone countries as well as the Netherlands.

The dichotomy between markets and performance in the 'real' economy was even starker, especially towards the end of the year. With the Irish bailout and widening bond spreads in the periphery countries, questions about the viability of the euro have returned. But survey data show a far different picture, with activity in manufacturing and services accelerating strongly in q4. Sentiment indicators in industry as well as in the household sector are again on an upward trend, making their slow return to pre-recession levels. Whether these can withstand the wave of bad news emanating from the eurozone's periphery will go a long

way to determining if 2011 is to be a 'good' or 'bad' year for the rest of the single currency area.

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