



## Economics Group

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### Eurozone Q3 GDP Growth: Steady as She Goes

**Real GDP growth in the Eurozone fell short of expectations in Q3, but the cyclical upswing in the region remains intact. A lack of material inflationary pressures should spur further QE from the ECB.**

#### Household Consumption Leads the Way

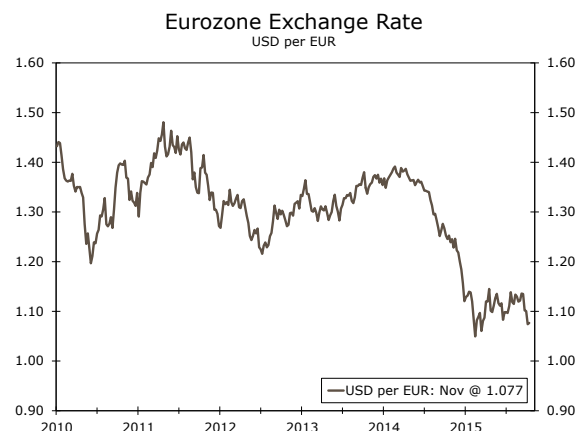
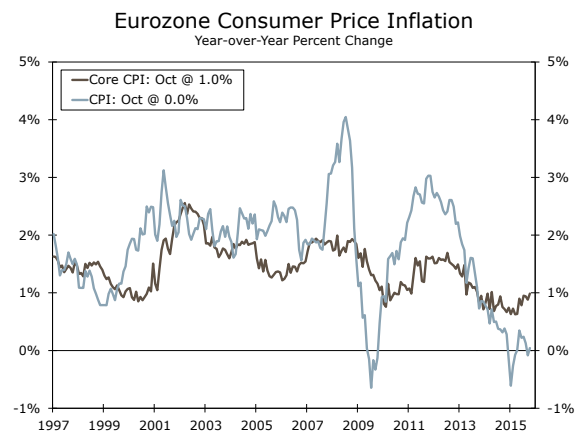
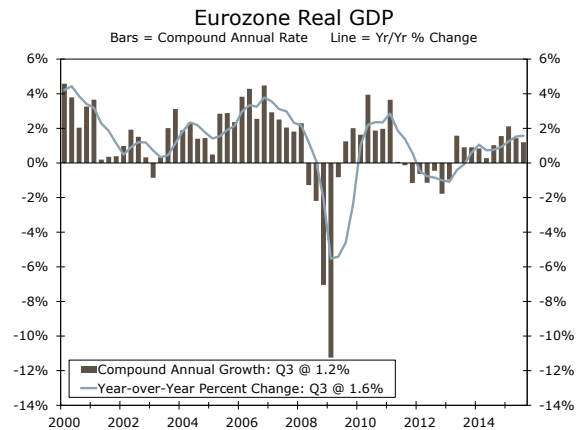
Real GDP growth in the Eurozone missed the mark in Q3, as the 0.3 percent (not annualized) sequential increase was less robust than the 0.4 percent rise most analysts had expected. That said, the year-over-year rate of growth picked up to 1.6 percent, suggesting the broader cyclical uptrend in activity remains in place. A breakdown of real GDP into its demand-side components is not yet available, but higher frequency indicators suggest real consumer spending growth remained solid in the third quarter. In particular, retail sales volumes in the overall euro area were up 0.6 percent (not annualized) on a sequential basis in Q3. Real incomes in the Eurozone have likely been boosted by lower petroleum prices, providing a key support for household consumption.

Turning to the country-by-country breakdowns, Germany posted a 0.3 percent increase in real GDP over the quarter. Precise figures on German GDP components are not available at this time, but officials indicated that real consumption expenditures rose while investment spending and net exports subtracted from overall growth. France also notched a 0.3 percent sequential growth rate, led by a commensurate 0.3 percent rise in household consumption expenditures. Elsewhere, Italy's 0.2 percent growth pace fell short of the expectations of most analysts, while Spanish real GDP increased an impressive 0.8 percent.

#### Implications for ECB Policy

While the broader expansion in euro area economic activity remains in place, the 1.6 percent year-ago growth pace in Q3 was not only below consensus but also is likely not strong enough to spur sustained inflationary pressures in the region. Indeed, overall CPI inflation is essentially flat at present and the core rate, while higher, remains well below the European Central Bank's (ECB) 2 percent target (middle chart). ECB President Draghi recently stated that "signs of a sustained turnaround in core inflation have somewhat weakened," highlighting policymakers' concerns about a sustained pickup in inflation. Moreover, ECB policymakers in recent statements have expressed concern about the downside risks to growth from the deceleration in activity in some of the region's key trading partners.

In light of these concerns, Draghi has stated that the current monetary policy stance would be reevaluated at the bank's December meeting, and that further stimulus is currently an "open question." Given the subdued inflationary environment and soft growth readings we have seen from the region recently, we expect the ECB will expand its quantitative easing (QE) program at its December meeting. With the Fed set to hike rates later this year, our currency strategists expect the euro to depreciate vis-à-vis the greenback in the coming quarters.



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