Eurozone

Summer's end

- **GDP rose 0.3% q/q in Q2 2016. On a year-on-year basis, growth held at about 1.6% for the fifth consecutive quarter.**
- **Survey data for the third quarter suggest that the UK's prospects of exiting the EU have not yet had a significant impact on activity.**
- **At this point, our forecast that eurozone growth should slow to about 1% in 2017 – which was made in the wake of the UK's Brexit vote – seems conservative, in line with the most recently available information.**
- **Inflation is still very low (0.2% in August) and the core component has failed to pick up.**

In Europe, as elsewhere, the summer holidays proved to be much calmer than feared at the start of season[1]. Based on economic and survey data, the news is mildly positive.

Eurostat recently confirmed its preliminary GDP growth estimate of 0.3% q/q in Q2 2016, after 0.6% in Q1. This fall back was expected and should not be over-interpreted. On a year-on-year basis, growth held at about 1.6% for the fifth consecutive quarter (see chart), which is much higher than current estimates of potential growth. This clearly seems to be the catching-up pace that the economic and monetary union (EMU) strikes up as soon as member states' budget policies are virtually neutral for the Eurozone as a whole, which has already been the case for several quarters.

For the moment, we do not have any information on the estimated breakdown of European growth in Q2[2], although the figures are available for Germany and France. Despite different growth rates (+0.4% q/q for Germany, vs. 0% in France; see on page 6), some factors were the same, including sluggish household consumption and especially the slump in investment spending. It is highly probable that these trends will be confirmed for the eurozone as a whole, in which case, the lack of an upturn in private investment is bound to create some disappointment, especially since it occurs after a rather dynamic Q1 for both France and Germany. In Italy, the stagnation of Q2 growth was disappointing and augurs poorly for the country's economic performance through the end of the year. In Spain, in contrast, growth barely slowed (+0.7% q/q after +0.8%) and remains in a rapid recovery phase (+3.2% y/y). All in all, the eurozone as a whole staged a rather strong H1 performance, and at the end of Q2, acquired growth was 1.3% for 2016.

The impact of the UK's Brexit vote on survey data is only just beginning to be felt

At this point, the Q3 survey data available so far are rather reassuring. The flash composite PMI held virtually flat in August at 53.3 points, compared to 53.2 in July. This is a very slight increase on the H1 average of 53.1. Although it masks divergent trends between France and Germany (PMI increased in France from a very low level, and declined in Germany from a very high level), the stable business climate suggests that for the eurozone, the short-term effects of the UK's Brexit vote will not really be seen until after Q3. Surely it will take a few more weeks before the sudden slowdown in activity that is beginning to be felt in the UK carries over into a significant slowdown in eurozone trade with the UK, under the double impact of a dip in UK demand and higher GBP prices for eurozone goods.

Yet other surveys tend to tone down our optimism. In Germany, the IFO business climate index fell more than 2 points in August to 106.2. The European Commission's surveys also call for caution. After levelling off for several months, the economic sentiment index shed one point in August. This downturn could be seen in all economic sectors and in most of the big eurozone countries (Germany, Italy,

Eurozone forecasts

Annual growth, %	2015	2016 e	2017 e
GDP	**1,6**	**1,5**	**1,0**
Private consumption	1,7	1,6	1,1
Gross Fixed Capital Formation	2,7	2,4	0,9
Exports	5,1	2,2	2,4
Consumer Price Index (CPI)	0,0	0,2	1,1
CPI ex food and energy	0,8	0,8	0,8
Unemployment rate	10,9	10,1	9,9
Current account balance	3,2	2,9	2,7
Gen. Govt. Balance (% of GDP)	-2,1	-2,1	-1,9
Public Debt (% GDP)	90,8	90,3	89,9

Table 1 Sources: Eurostat, BNPParibas

Cruising speed

GDP growth (y/y, %) and contribution (% of GDP) Private consumption; Investment; Foreign trade; Change in inventory; Public consumption; — GDP

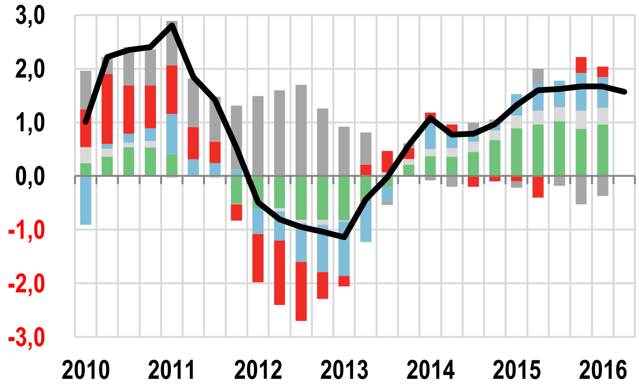

Chart 1 Source: Eurostat

[1] See "A midsummer month's dream", A. Estiot, Ecoweek of 29/07/2016.

[2] Eurostat will release these figures on 6 September.

Spain and the Netherlands), with the exception of France, where the index rebounded slightly after dropping off in July. The index declined to 103.5, the lowest level since March 2016, and if it continues to slide in the months ahead, it would foreshadow a downturn in activity in the year-end period.

Sluggish core inflation

For the ECB Governing Council meeting on 8 September, the most recently available economic data is on eurozone inflation, which held at +0.2% in August (+0.07 pt), although the overall tendency has still been slightly upwards since May. Unless oil prices drop off sharply again, energy prices will naturally lift inflation in the months ahead, driving it above 1% towards the end of the year. Looking beyond these base effects, core inflation remain anaemic, at 0.8% in August -0.04 pt). Although this mild decline does not necessarily constitute a trend, on the whole, core inflation has been holding just a little below 1% for the past 3 years (see chart 2), and has obviously failed to regain any upward momentum. Under these conditions, we continue to expect the ECB to eventually announce another extension of its securities purchasing programme before the end of the year.

Still too low

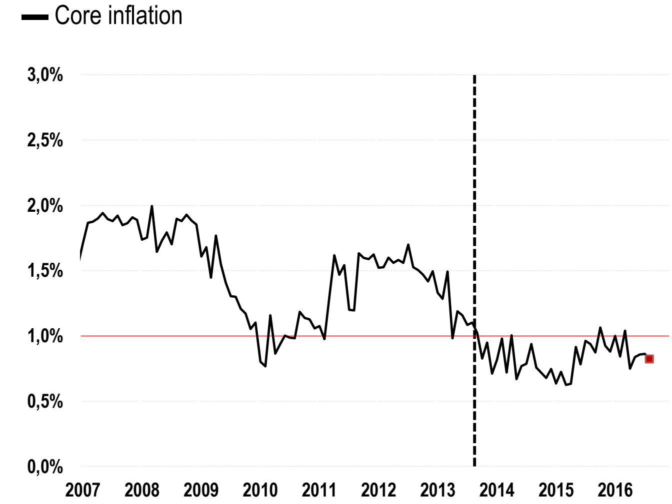

Chart 2 Source: Eurostat