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Western European Economic Indicators and Insights

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EUROZONE: GDP Stabilizes (Surprisingly)

Q1 GDP was unchanged in Q/Q terms, exceeding expectations and implying that the Eurozone economy has just about avoided recession as this stable reading came after the (unrevised) 0.3% fall of the previous quarter. As a result, the Q1 Y/Y rate fell further, the flat result being the softest in just over two years.

Resilience Even in the Peripherals

The geographical details surprisingly showed *less marked weakness among the peripheral economies alongside a continued relative resilience in France (unch Q/Q) and Germany (bouncing 0.5%).* Notably, however, what updates there were for the peripheral countries showed less weakness, with a far less marked contraction in Portugal (of 0.1% Q/Q) actually far less than most envisaged, albeit still being the sixth drop in a row. Elsewhere, data for the likes of Ireland was not made available while unadjusted numbers for Greece showed a more sizeable Y/Y fall, albeit still a momentous 6.2% decline, while Spanish GDP contracted at an unchanged pace of 0.3%. Italy, however, moved into slightly deeper recession.

Exports Hints More Encouraging

More encouraging was the less marked contraction seen in the Dutch economy, helped by an improved export performance in this very trade-orientated economy. Indeed, brighter export signs seen in Germany and to some extent France provide perhaps the main ray of hope regarding Eurozone economic outlook as well as being the main factor that could allow German and French resilience to continue.

Just as important for the ECB to assess will be the breakdown to the Q1 numbers, especially if these show fresh signs of consumer weakness, even in the likes of Germany. Possibly, *this weakness may be partly a result of extra cold weather during last quarter*, this presumed weather effect also probably having undermined construction spending. This flash estimate, however and as usual, came with no breakdown on either the output or expenditure side.

ECB Unlikely to Change Forecasts Materially

These breakdowns will be forthcoming on 6 June, ie the same day as the next ECB Council meeting, although they may come too late to be fully incorporated into the scheduled update of economic projections the central bankers every three months. However, this better-than-expected Q1 GDP result is not likely to persuade the ECB into a making any more significant a further downward revision to the growth picture for 2012 from the range with a mid-point of -0.1% seen in the March update. *The question may be the extent to which the ECB starts to pencil in a longer recession, having recently toned down its recovery rhetoric.*

DE View: Eurozone 2012 GDP -0.5%.

But Downside Risks Clearer

Of course, this DE projection comes with clear and growing downside risks some of which can be seen in the continued peripheral weakness and the likelihood that these countries may see a sharp weakening in growth in the current quarter in the manner that survey results are pointing to and recent fiscal developments imply.

Survey Data Shortcomings Highlighted

Regardless, perhaps this resilience Q1 Eurozone GDP reading should be seen as a clear indication of the shortcomings of survey data, the latter having pointed to a much worse backdrop than explicit in this GDP update. This is a reminder that *these surveys are from accurate in calibrating the pick-ups and softening in cycles, instead being more designed in establishing turning points.* The question being the extent to which clearer weakness in business surveys seen in April are evident of a further turning point to the downside: the ECB will have the benefit of a further round of such surveys by the time it meets next, with the PMI flashes and Ifo/INSEE updates for May

due on May 24, with the central bank then also (of course) getting a clearer picture of how current political risks may be turning into economic ones.

ECB Outlook

At this juncture, the ECB in June may prefer to hold fire on a further policy moves, albeit surely aware that even if economic risks have not materialized, the tightening in financial market conditions is undermining the transmission mechanism of monetary policy.