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Eurozone: GDP Contracts Modestly, Exports Hold Up

by Andrew Wroblewski

As in previous quarters, Q3 Eurozone GDP numbers failed to echo the very downbeat messages from business survey data seen in the last year or so, instead suggesting that while the Eurozone economy contracted further, it did so only modestly. Indeed, updated numbers showed that GDP fell 0.1% in Q/Q terms, matching the flash estimate, albeit *confirming that the Eurozone is back in formal recession given that this is a second successive fall, a conclusion echoed by the slightly more negative Y/Y rate of -0.6%, the latter being the softest since end-2009*.

Peripherals Largely Better. As with the flash numbers, *the geographical details showed no greater weakness among the peripheral countries.* Indeed, unadjusted numbers for Greece showed no markedly more sizeable Y/Y fall than seen of late, albeit still a momentous 7.2% decline, while Spanish GDP contracted at a little-changed pace of 0.3% Q/Q. Italy, however, while seeing continued clear recession, saw the rate of fall easing clearly to -0.2% Q/Q. Portuguese numbers were less negative too.

Core Mixed? More notable, given the very downbeat business survey readings for the core countries, was *the continued and unexpected relative resilience in France (0.2% Q/Q) and Germany (slowing to 0.2%). In contrast, and certainly more depressing, was the fresh and marked contraction seen in the Dutch economy*, a result that had not been flagged either by the limited official monthly data from the country or surveys.

Export Rays of Hope. From the breakdown provided for the first time with this release, *resilient export signs were perhaps the most reassuring aspect of these Q3 numbers, the 0.9% Q/Q rise being the third successive increase*. The obvious question being is whether such resilience can continue. The net trade side may be providing an added support to GDP from the weakness in imports too, the impact of the latter partly tempered by the inter-related weakness in inventories (which knocked 0.2 percentage point off the Q3 GDP outcome).

Surveys Remain Too Downbeat? Perhaps this relative resilient Q3 Eurozone GDP reading should be seen as a further indication of the shortcomings of survey data, the latter having pointed to a much worse backdrop than officially recorded for the last year or so. *This is a reminder that these surveys are far from accurate in calibrating the pick-ups and softening in cycles, instead being more designed in establishing turning points.*

DE View: Even so, the fact that the business surveys once again proved too pessimistic in gauging overall Eurozone activity in Q3 does not mean that their message can or should be ignored, especially given the clear and fresh marked output weakness seen late in the quarter, alongside mounting signs of fresh consumer weakness (NB: DE sees a deeper GDP slide of 0.3% in Q4). Indeed, these *surveys are clearly pointing to clear and continuing downside risks* *to activity as well as the fact that while the contraction in the economy overall may be modest there is still no end in sight to the (modest) recession.*