

## Eurozone

### Eurozone economic growth falters to just 0.1% in third quarter

- **GDP up 0.1% compared with second quarter**
- **Growth in Germany and Spain contrasts with downturns in France and Italy**
- **PMI points to slightly better growth at start of fourth quarter**

Economic growth ground to a near standstill in the euro area in the third quarter, reflecting a renewed downturn in France and a near halving of growth in Germany. However, the region's periphery continues to show signs of reviving, and the region is on course to expand at a slightly stronger, though still modest, pace in the fourth quarter.

The data go a long way to vindicate the ECB's decision to cut interest rates to re-stimulate growth across the single currency area.

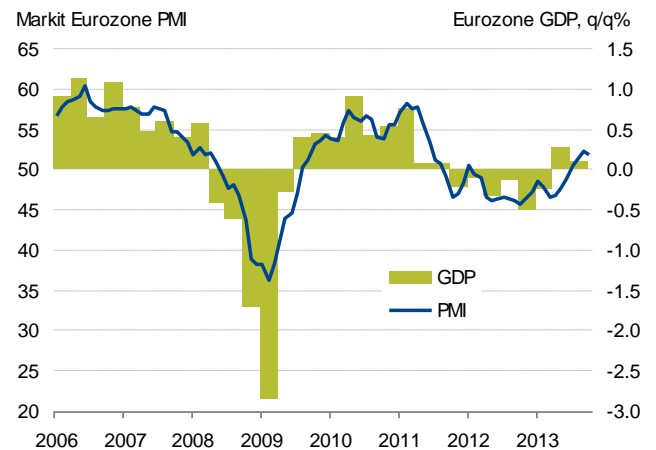
#### Pay-back from strong second quarter

The euro area economy grew just 0.1% in the third quarter, weaker than expected, according to official data compiler Eurostat. The easing was in some ways to be expected, as the second quarter had shown a surprisingly strong upturn. GDP rose 0.3% in the three months to June, contrasting with the PMI business surveys which had signaled an ongoing downturn.

Reassuringly, the business surveys, which often show a smoother underlying trend compared to the relatively noisy official data, suggest that the region's recovery remained on track at the start of the fourth quarter, although the upturn continues to look both fragile and weak. The October Markit Eurozone PMI remained at a level consistent with just 0.2% quarterly GDP growth, though most importantly it has signaled a marked turnaround in the region's economic health compared to the start of the year.

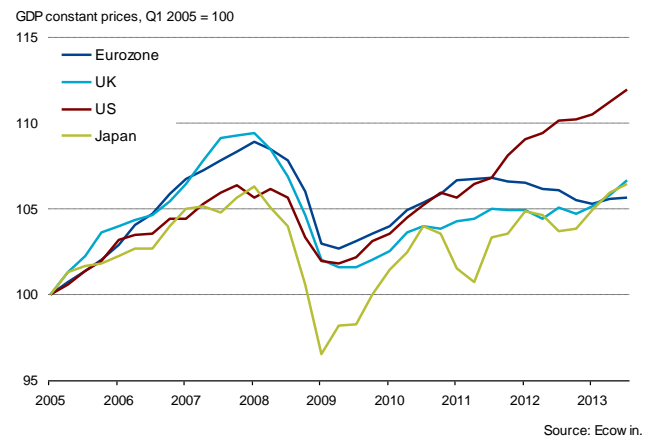
The surveys suggest that we should not read too much into these GDP numbers in terms of growth slowing. More likely, the second quarter numbers overstated growth from which we are seeing some third quarter pay-back, and that we are looking at an ongoing but very modest recovery.

#### Eurozone GDP and the PMI

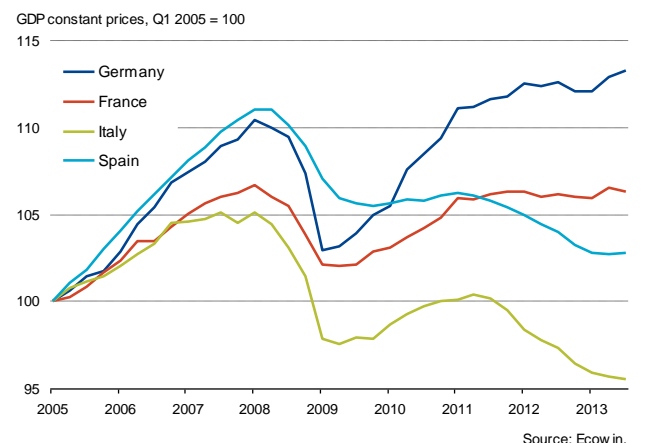


Sources: Markit, Ecowin.

#### GDP levels



Source: Ecowin.



Source: Ecowin.

Trends varied markedly within the region. Looking at the largest member states, [Germany grew 0.3%, down from 0.7% in the second quarter](#), and Spain is estimated to have grown by 0.1%, pulling out of a recession that started in the first quarter of 2011. However, both France and Italy saw GDP fall 0.1%. The drop in Italian GDP was the ninth successive quarterly decline, but was notably the smallest quarterly fall seen over this period. The downturn in France contrasted with a 0.5% expansion in the second quarter, an upturn that had always looked like an anomaly according to the more downbeat survey data.

In terms of GDP levels, the Eurozone economy is still 3.0% smaller than its pre-crisis peak. Of the largest member states, only Germany has exceeded its prior peak, with GDP up 2.6%. The French economy remains 0.3% smaller, while Spain and Italy are 7.4% and 9.1% smaller respectively. By comparison, the UK economy is still 2.5% smaller than its pre-crisis peak while the US is 5.3% larger. Japan has edged up 0.1% on its prior peak.

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