

Eurozone

Economic growth rate halves (as expected) in second quarter

- **GDP rose 0.3% in Q2 according to first official estimates after 0.6% rise in Q1**
- **PMI surveys point to chance of further weakening in Q3**
- **ECB on watch for need for further stimulus**

The pace of eurozone economic growth halved between the first and second quarters of the year. After a 0.6% expansion of GDP in the first three months of the year, the second quarter saw the economy grow by just 0.3%. That's a rate comparable with the second quarter signal from [IHS Markit's PMI surveys](#), so is therefore a reading that we feel more accurately reflects the true underlying pace of growth in the single currency area than the surprisingly sprightly picture seen at the start of the year.

It looks like this slower pace of expansion has persisted into the third quarter, albeit with downside risks to suggest that growth is slowing slightly. The flash PMI for July dipped to an 18-month low of 52.9, but we would need to see further falls in the survey data in coming months to get a GDP growth signal weaker than 0.3% for the third quarter.

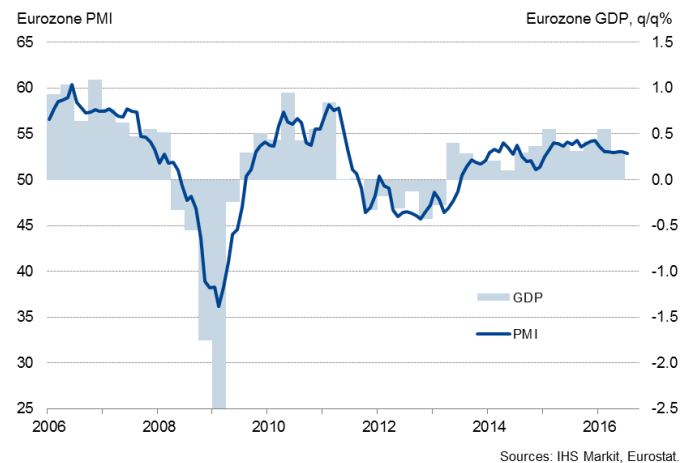
Further slowdown risk

Unfortunately, a further slowing looks highly likely. The flash PMI surveys have added to suspicions that the 'Brexit' vote has exacerbated political uncertainty across Europe and aggravated banking sector vulnerabilities, notably in Italy. Business confidence about the outlook in the service sector has deteriorated to the worst for just over one-and-a-half years. Growth also looks all-too-dependent on Germany, with France stagnating and signs from the PMIs of weakening growth outside of the core. More detail will be known with next week's final PMIs.

The European Central Bank will not have been surprised by the slippage in the GDP growth rate, not least because the first quarter's strong expansion had always looked something of an anomaly. Instead, policymakers seek some solace in the relative resilience of the economy in the face of the 'Brexit' vote, especially as indicated by the flash July PMI.

However, any further material weakening in the economy's growth momentum will no doubt fuel speculation that more stimulus will be forthcoming.

Eurozone economic growth and the PMI



Sources: IHS Markit, Eurostat.

Note: chart uses flash PMI for July.

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