

Eurozone

GDP data confirm eurozone's gathering recovery prospects

- **GDP rose 0.3% in Q4 in broad-based economic improvement**
- **Germany +0.4%, France and Spain +0.3%, Italy 0.1%. Netherlands +0.7% and Portugal +0.5%**

Economic growth figures for the final quarter of last year add to survey evidence that the eurozone's recovery has moved up a gear. Not only has the pace of growth picked up to the fastest since the second quarter of 2011, but the recovery is also becoming more broad-based, encompassing core and so-called 'periphery' countries alike.

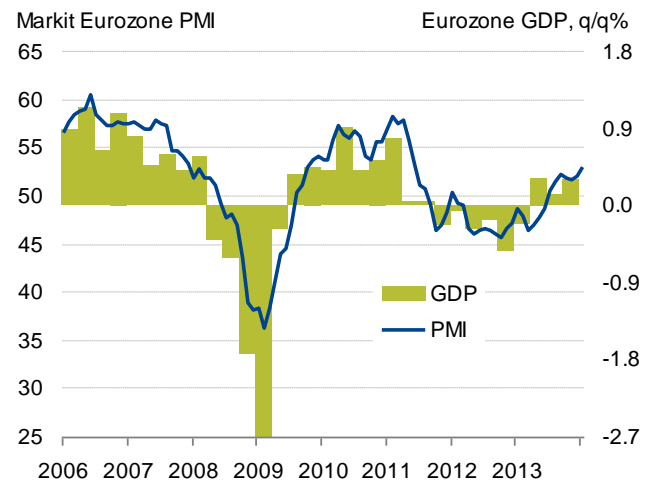
The improvement vindicates the ECB's decision to hold off on any further stimulus at its February meeting, a lack of action which disappointed many that saw a need for further policy intervention to ward off the threat of deflation. However, PMI survey data suggest that the recovery seen late last year continued to gain pace at the start of 2014 and should translate into higher price pressures as the year proceeds.

Gross domestic product for the single currency area rose 0.3% in the final three months of 2013, beating expectations polled by Reuters of a 0.2% rise and the [0.2% signal from the PMIs](#), which back in December had indicated that the region had enjoyed its best quarter for two and a half years.

Prospects for 2014 are looking increasingly good. The euro area economy has now already expanded for three consecutive quarters. Although the region still contracted 0.4% over the year as a whole, shrinking for a second year running, the official data and survey evidence point to a gathering pace of recovery which should mean GDP rises at a reasonably robust pace in 2014. Current average forecasts of 1.0% GDP growth this year could easily prove too pessimistic given the current momentum of the survey data.

The fourth quarter upturn was reassuringly broad-based, adding to recent evidence that efforts to boost competitiveness in countries such as Spain, Italy and Portugal are translating into improved economic performance.

Eurozone GDP v PMI

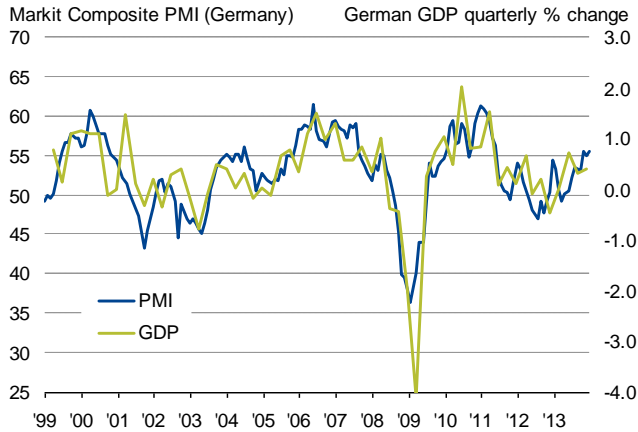


The German economy expanded a consensus-beating 0.4% and a stronger-than-expected 0.3% increase was seen in France, the latter matching the current estimate for Spain. Italy eked out a mere 0.1% increase, but that was nevertheless significant in being the first quarterly expansion since the second quarter of 2011.

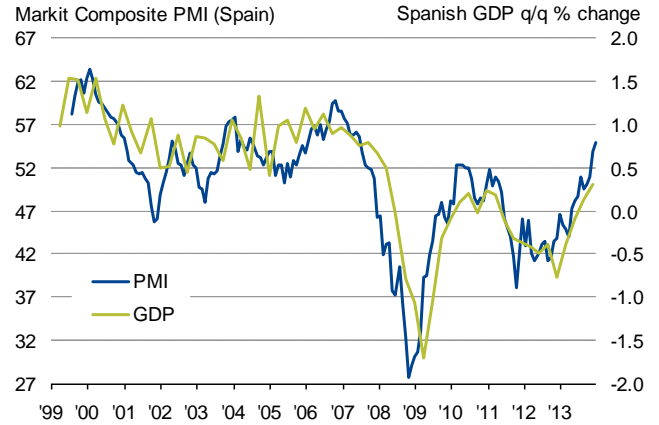
The Netherlands saw a 0.7% expansion, corroborating strong PMI readings towards the end of last year, Portugal grew by 0.5% and Austria enjoyed a 0.3% expansion.

While the growth trends were broadly in line with PMI data, which had signalled a marked turnaround in economic performances across the region over the past year, the better than expected GDP number was largely attributable to the surprisingly robust growth seen in France, where the PMI continues to signal a weaker performance than the official data. This divergence in part (but not fully) reflects ongoing strong government spending in France, which is excluded from the PMI coverage. While total GDP in France was 0.8% higher than a year ago in the fourth quarter, if government spending is excluded this falls to 0.5%. Non-government spending in France nevertheless rose almost 0.3% in the fourth quarter, according to INSEE data, suggesting the French private sector is showing signs of returning to growth.

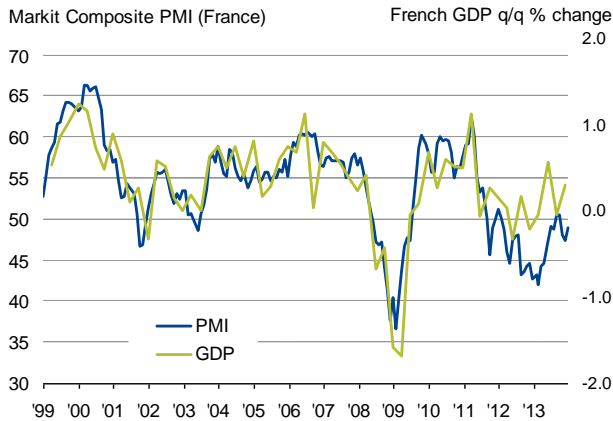
Germany GDP v PMI



Spain GDP v PMI



France GDP v PMI



Italy GDP v PMI



Germany's economy is now 3.0% larger than its pre-crisis peak, and France's GDP has edged 0.1% higher than prior to the crisis. However, Italy and Spain remain some 9.0% and 7.1% smaller respectively. The UK, by comparison is 1.3% smaller while the US some 6.5% larger. Japan, for which GDP data are only available up to the third quarter, remained 0.5% smaller than its pre-crisis peak.

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