

Eurozone: Q4 2018 GDP Nowcasts

Eurozone economy growing at underlying rate of 0.3% in Q4 2018

Based on data up to early December, the Q4 2018 Eurozone GDP nowcast points to economic expansion of 0.3% q/q, a level slightly below the post-financial crisis trend rate (0.36%). However, given the prior distortion to growth from the auto sector emissions-related drag on German output, IHS Markit currently anticipates the economy will grow by 0.4% q/q.

Survey data continue to soften heading into year end. The [Eurozone Composite PMI](#) dropped in November to its lowest level for over two years, dragged down by worries over global trade trends and political worries around Brexit. Business confidence was at its lowest in nearly four years, whilst separate figures show consumer confidence at a 20-month low. Although our EZ Economy Tracker (which uses principal components analysis (PCA) to estimate a single 'factor' index from the 36 variables used to nowcast EZ economic output) improved slightly in November, it remains close to October's 26-month low.

Whilst survey data continue to show a slowdown in *underlying* growth, we are keen to see official data updates for the start of Q4 (especially industrial production) to assess whether the weakness related to autos production that impacted on Q3 data proves to be transitory.

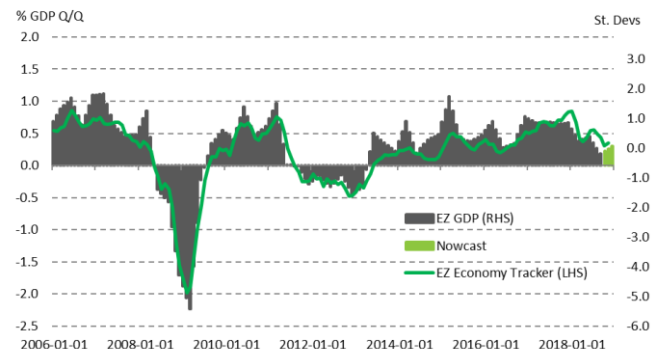
Indeed, when observing similar-sized model 'surprises' to the one seen in the third quarter, growth in the following three-month period has tended to overshoot the respective nowcast (see chart bottom right).¹

And with German car production figures for October showing strong year-on-year expansion, GDP growth may well be firmer than is currently being implied by the current nowcast.

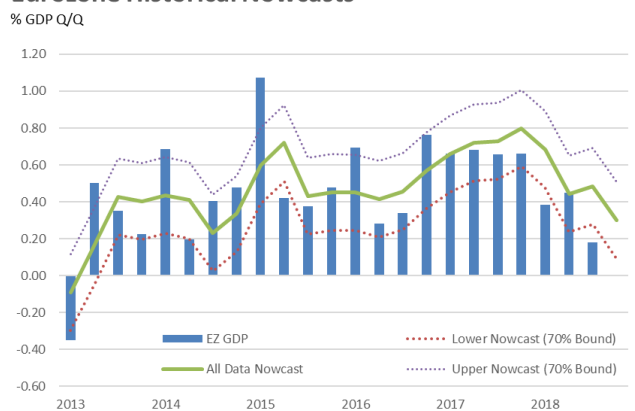
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	All Data	'Soft'	'Hard'
Eurozone	0.30%	0.31%	0.29%
Germany	0.21%	0.32%	0.09%
France	0.29%	0.35%	0.23%
Italy	-0.06%	-0.10%	-0.02%
Spain	0.58%	0.56%	0.59%

Eurozone Economic Growth



Eurozone Historical Nowcasts



¹ An exception here was the first-quarter of 2018, when the expected "bounce-back" from the weather-related disruptions underwhelmed (a reflection of additional German bank holidays in Q2).

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However, based on survey data and anecdotal evidence from PMI panellist respondents, the potential for a strong rebound in the autos sector is unconvincing. If anything, the underlying growth trajectory for the industry remains downward: German manufacturers reported a near stagnation of output in November, the sharpest reduction in total new orders for four years and a fall in exports not seen since mid-2013. Moreover, Czech goods producers, who are sensitive to developments in the autos sector, again commented on major disruption, with optimism about the future falling to its lowest level for six years. Panellists also signalled an increasing likelihood of (previously unexpected) plant shutdowns of major manufacturer car plants in January.

All of this adds to the uncertainty around the Q4 growth nowcast for Germany. Whilst currently at 0.2% q/q, IHS Markit estimates that the autos drag on Germany was around -0.3 pts on GDP in Q3 leading to considerable upside risk to the current estimate.

Factory orders and industrial production figures out later in the week will therefore be crucial in better understanding the potential outcome here (and given the size of the German economy, at the wider Eurozone level).

Elsewhere, Italian economic output is on course to contract by -0.1% in the fourth quarter. That would push the country into technical recession. Weakness remains most concentrated in the manufacturing economy, where operating conditions are deteriorating to the greatest degree for just under four years. Political uncertainty is exacerbating underlying demand weakness, according to PMI panellists.

By comparison, PMI data in France and Spain are holding up relatively well, with the implied rates of expansion for 'soft' data little changed from Q3's respective official estimates (0.4% and 0.6% respectively).

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[Click here](#) for more PMI and economic commentary.

Methodology Notes

The EZ GDP Nowcasts are based on error-weighted averages of individual AR-MIDAS regressions (Auto Regressive – Mixed Data Sampling). Such regressions have gained increasing popularity in recent years in a variety of econometric applications and provide a particularly flexible framework to deal with the two inherent problems in nowcasting (widely referred to in the academic literature as mixed-time frequencies and dataset jagged edge structures).

Two main tranches of data are included in our models: data from survey providers ('soft'), the other from official data ('hard'). For comparison, we subsequently choose to provide an overall 'nowcast' based on all model data, plus nowcasts based purely on 'soft' and 'hard' data.

The inclusion of survey data in the model provides timely, monthly data sets. These are directly comparable with official data relating to economic growth, employment and inflation, and crucially are not revised after first publication. These indicators therefore provide play a vital role in understanding how economic activity is currently shaping up. See here for a discussion <https://cdn.ihsmarkit.com/www/pdf/Nowcasting-Eurozone-GDP.pdf>

The official data included in the models are published with a lag compared to the surveys, with the latter generally published between 4 and 10 weeks in advance of the official data release.

However, official data such as industrial production figures are crucial in understanding economic growth outcomes due to their widespread use in creating official GDP statistics. As such, these indicators provide a key role in understanding first estimates of GDP, arguably adding greater quantitative colour to the nowcasts compared to more directional indications provided by survey data.