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Economic Research

Economic Briefing

Why the euro area Q3 GDP is strong

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According to preliminary estimates, the euro area economy grew unexpectedly strongly by 0.4% in the third quarter compared to the second quarter. The surprise originated mainly in Germany, France and Spain. However, this is partly due to one-off effects. The leading indicators, which have fallen since the summer, continue to suggest weak growth for the following quarters.

According to a preliminary estimate by Eurostat, the euro area economy grew by a strong seasonally adjusted 0.4% quarter-over-quarter in Q3. This is clearly above the consensus (0.2%).

Economic growth accelerated in the third quarter compared to the second quarter (0.2%). Initial indications from national statistics offices show that private consumption in the euro area may have picked up.

Among the largest economies in the euro area, Germany (0.2%), France (0.4%) and Spain (0.8%) also surprised on the upside (Chart 1). Only Italy fell short of previous quarters and expectations with its growth in the third quarter (0.0%).

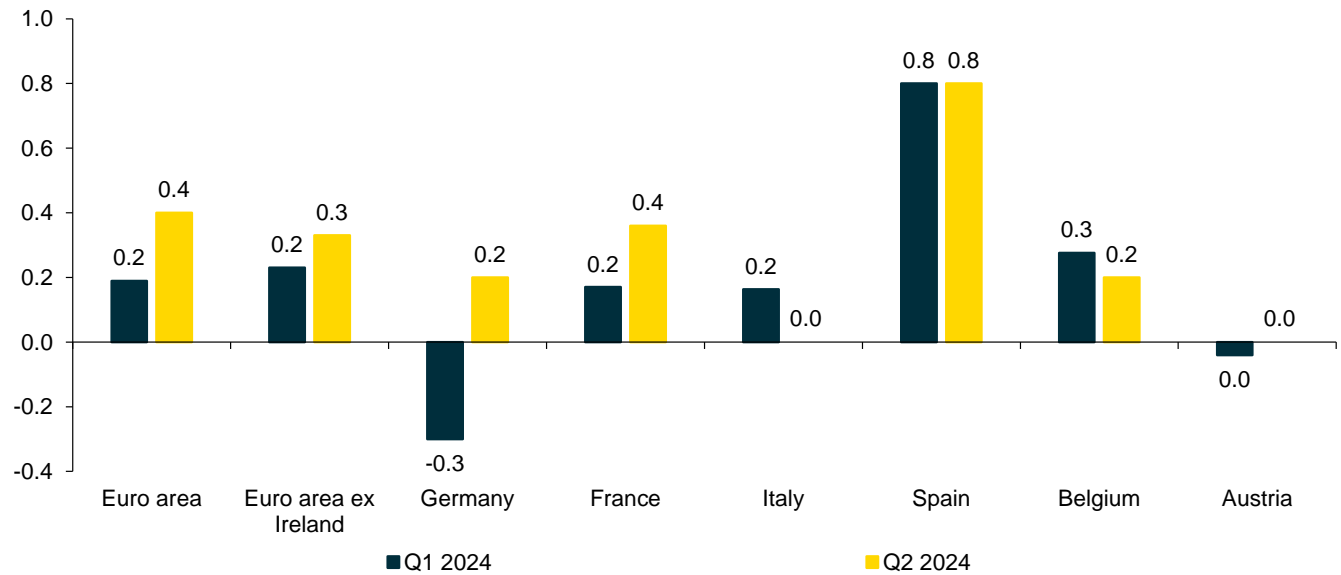


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Chart 1 - The GDP growth surprises positively in Q3

Real Gross Domestic Product, seasonally adjusted quarter-over-quarter change in %, preliminary data for Q3



Source: Eurostat, S&P Global, Commerzbank-Research

One-off effects drive GDP

However, growth in the third quarter is likely to have been driven by one-off effects. In France, for example, the Olympic Games in Paris boosted economic growth significantly in the third quarter. German GDP also surprised positively in the third quarter, but was revised downwards in the second quarter. Overall, Germany is therefore likely to have stagnated over the second and third quarters. In addition, the particularly volatile Irish GDP rose by a very strong 2.0% compared to the previous quarter. Excluding the contribution from Ireland, eurozone GDP rose by just 0.3% (Chart 1).

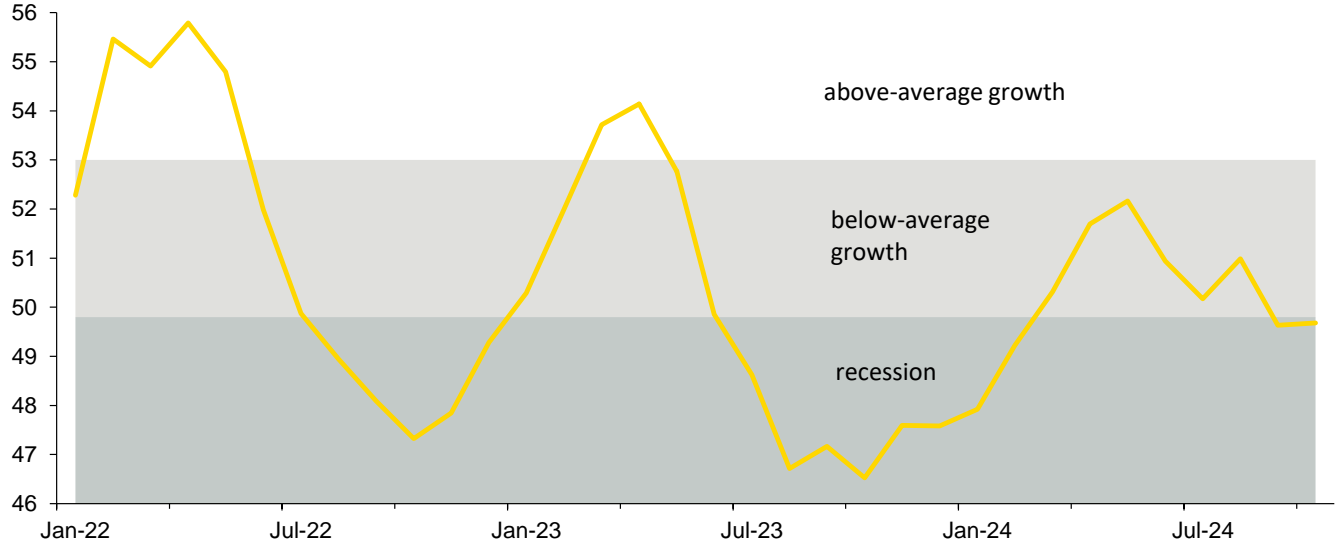
The outlook remains weak

For the coming two quarters, we do not expect a repeat of the strong growth seen in the third quarter. Leading indicators such as the purchasing managers' index in the euro area also point to a slowdown. In September and October, purchasing managers' sentiment was close to the range that in the past was associated with a shrinking economy (Chart 2). The economic sentiment also remains depressed in many partner countries such as China. Euro area exports to partner countries are therefore also likely to be weak in the fourth quarter. In the first half of the year, foreign trade had significantly boosted GDP. Overall, we only expect very low growth of 0.1% for the fourth quarter.



Chart 2 - Weak sentiment implies stagnation at most

Euro area composite PMI, seasonally adjusted monthly figures



Source: S&P Global, Commerzbank Research



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