

15 May 2008

Economic news

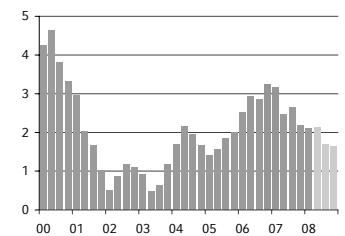
ON EUROZONE GROWTH

Growth accelerated in the eurozone

Growth in the eurozone accelerated in the first quarter, with GDP up by a seasonally adjusted 0.7% q/q. However, momentum varies significantly among the member states. While GDP growth reached its strongest level for 12 years in Germany, it dropped to a 15-year low in Spain.

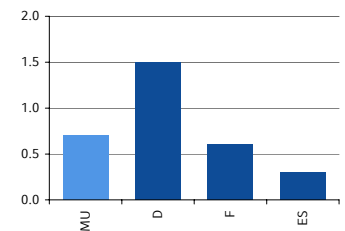
- In the **eurozone**, growth accelerated in Q1, rising by 0.7% on the quarter, up from 0.4% in Q4 2007. The financial market crisis therefore does not seem to have damaged the real economy so far. Investment and private consumption are likely to have contributed most to growth. Detailed figures will not be released until 3 June. However, momentum varies considerably among the member states. Moreover, the indicators available to date signal that growth will slow substantially in the course of the year. Accordingly, we expect growth to fall below trend later in the year.
- **Germany** experienced unexpectedly strong growth in the first quarter. GDP expanded by 1.5%, having grown only 0.3% from the third to the fourth quarter of 2007. The strongest boost was provided by investment in machinery & equipment and construction. Private consumption also continued to improve. The result probably benefited from the fact that the seasonal adjustment method did not take into account the mild weather and shift in the number of working days effectively enough. Accordingly, we anticipate a counter-movement for the current quarter. Growth is likely to lose momentum later in the year. Nevertheless, we have raised our 2008 growth forecast from 1.8% to 2.2%.
- In **France**, growth accelerated in the first quarter. GDP rose 0.6% on the quarter, continuing its comparatively robust expansion in the face of a deteriorating external environment, international financial market turmoil and the strong euro. A closer look at the details reveals that the mainspring of French growth, namely private consumption, has begun to show signs of flagging. Growth in the first quarter reached only 0.1% on the quarter, whereas investment increased at the same strong rate and foreign trade made a further positive contribution to growth. Against this backdrop, we look for softer growth in the second quarter when we expect to see increasing signs of a slowdown in investment activity owing to the deteriorating external environment.
- In **Spain**, GDP rose by only 0.3% q/q in the first quarter. Annual GDP growth declined from 3.5% to 2.7%. The bursting of the real estate market bubble in Spain has taken a heavy toll. Although no details are yet available, the Spanish Statistical Office has confirmed that the growth contribution of domestic demand has declined, whereas the trade balance has improved slightly. The downturn in Spain looks set to continue in the current quarter. We expect the economy to gradually stabilise towards the end of the year at the earliest, at which time the government's stimulus package should start to kick in. Annual average growth is expected to nearly reach 2% this year, down from 3.8% last year.

Eurozone – GDP
% y/y



Source EcoWin, WestLB Research

GDP growth in the eurozone
% q/q



Source EcoWin, WestLB Research

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