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# **THE EUROZONE ECONOMY IS GETTING BETTER** ...BUT GREECE COULD STILL SPOIL THE PARTY

**EUROZONE ECONOMIC CHARTBOOK, FEBRUARY 2015**

DATA AS AT FEBRUARY 5TH | CLAUS VISTESEN, CHIEF EUROZONE ECONOMIST  
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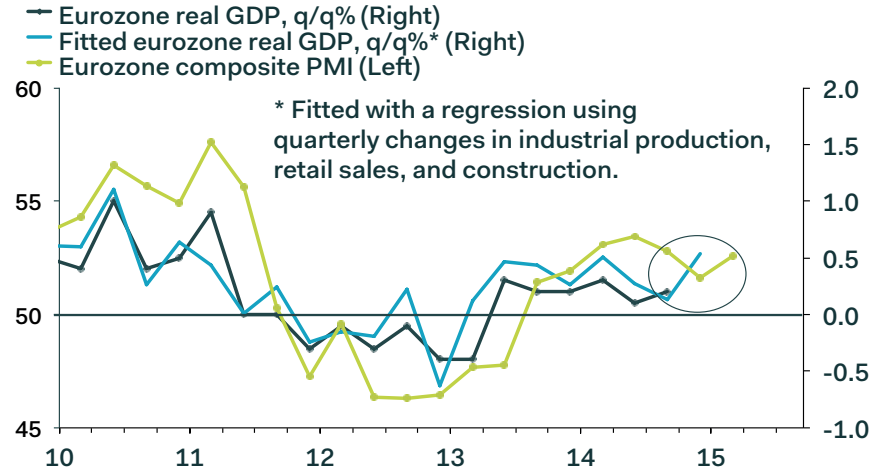


## DANGEROUS NEGOTIATIONS AHEAD, BUT NO GREXIT THIS YEAR

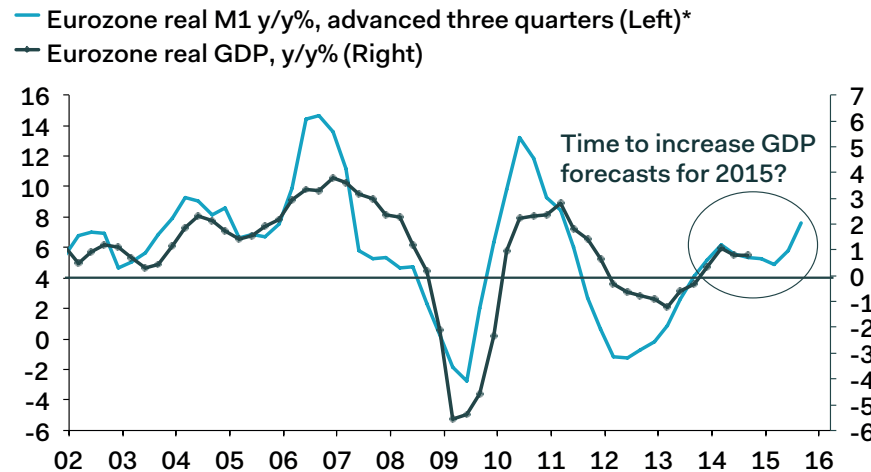




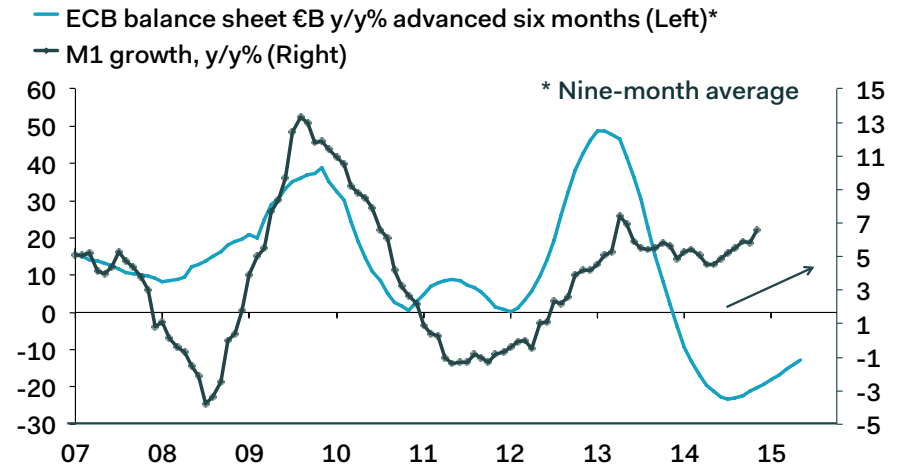
1. DID THE EUROZONE ECONOMY ACCELERATE IN Q4?



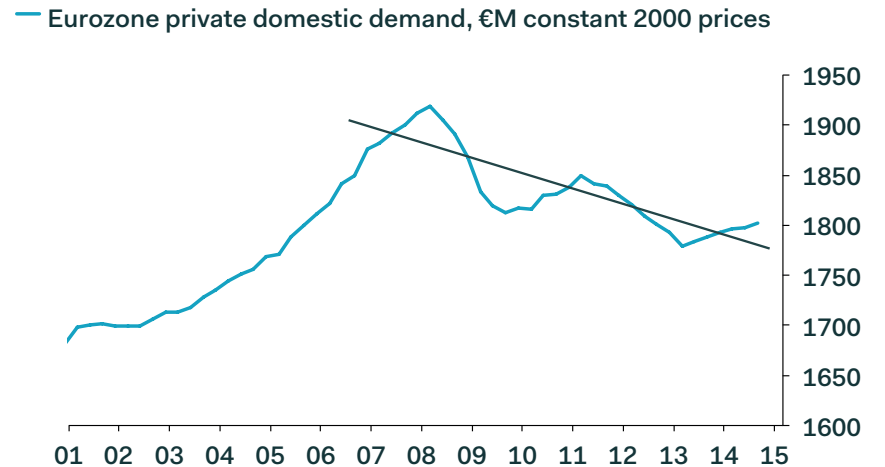
2. NARROW MONEY GROWTH STILL POINTING TO UPSIDE RISKS THIS YEAR



3. ...HELPED FURTHER BY THE NEW QE PROGRAM

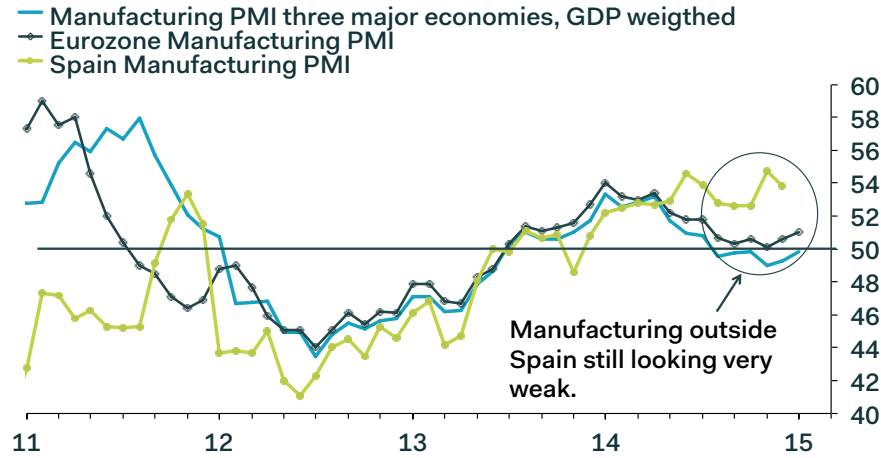


4. BUT STILL A LONG WAY TO GO FOR A RECOVERY IN DOMESTIC DEMAND

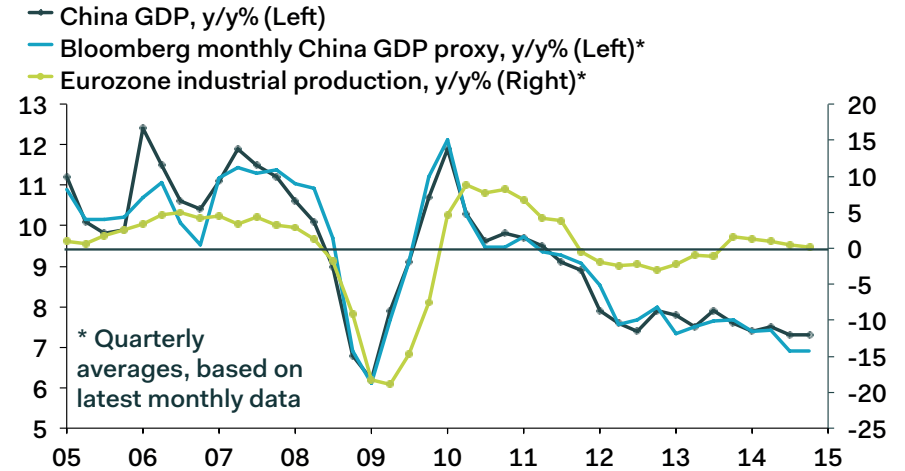




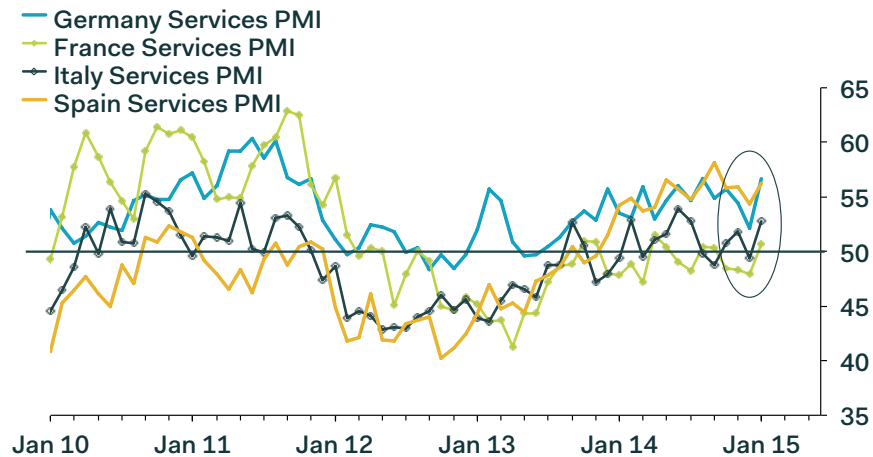
5. THE MANUFACTURING SECTOR IS STILL STRUGGLING...



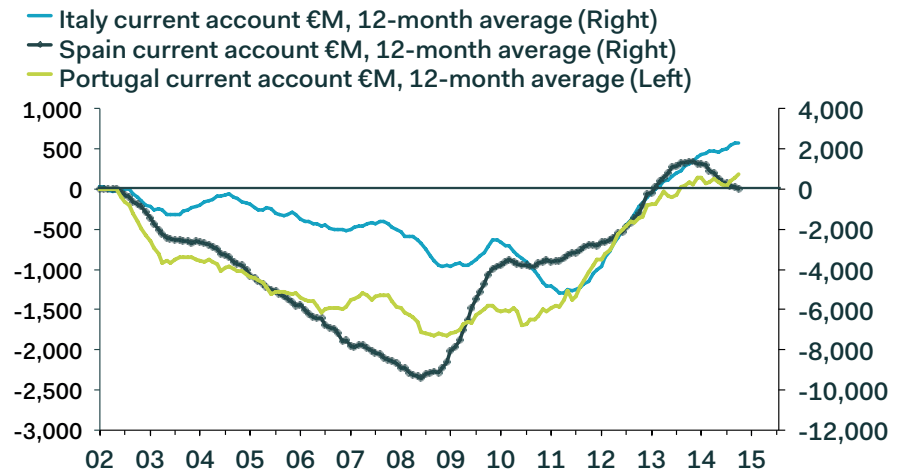
7. THE SLOWDOWN IN CHINA IS A RISK FACTOR THIS YEAR...



6. ...BUT LOOKING SLIGHTLY BETTER FOR SERVICES PROVIDERS

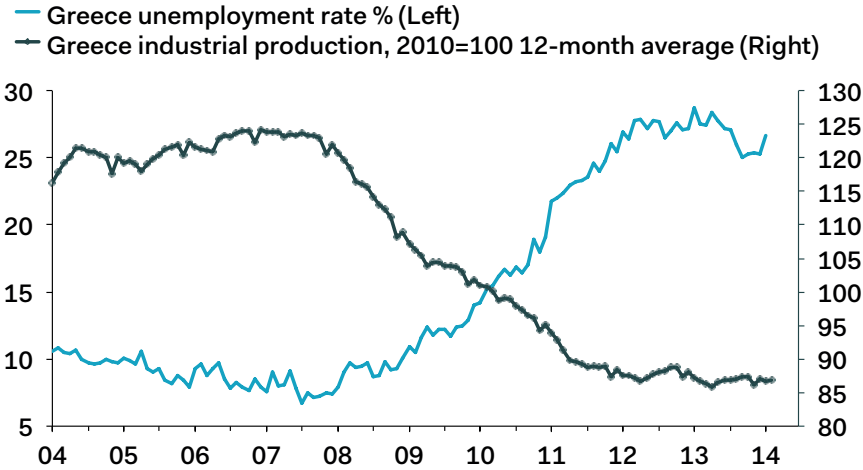


8. ...AND WATCH A LOOMING CURRENT ACCOUNT DEFICIT IN SPAIN

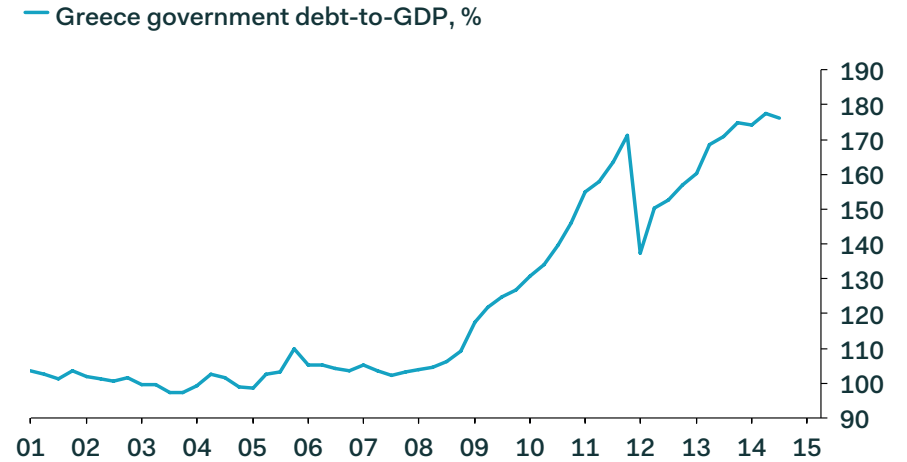




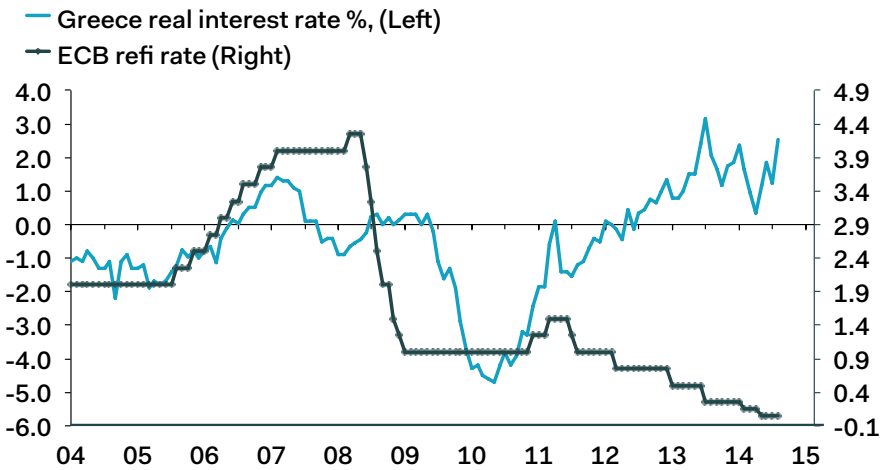
9. THE GREEK ECONOMY IS STILL MIRED IN DEPRESSION...



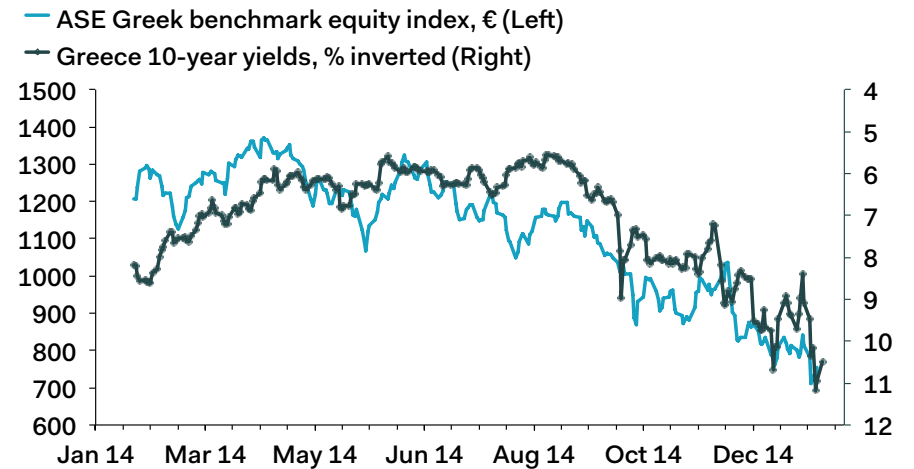
11. SYRIZA WILL AGGRESSIVELY SEEK CONCESSIONS FROM THE EU...



10. ...AND ECB POLICY IS NOT BEING TRANSMITTED EFFECTIVELY

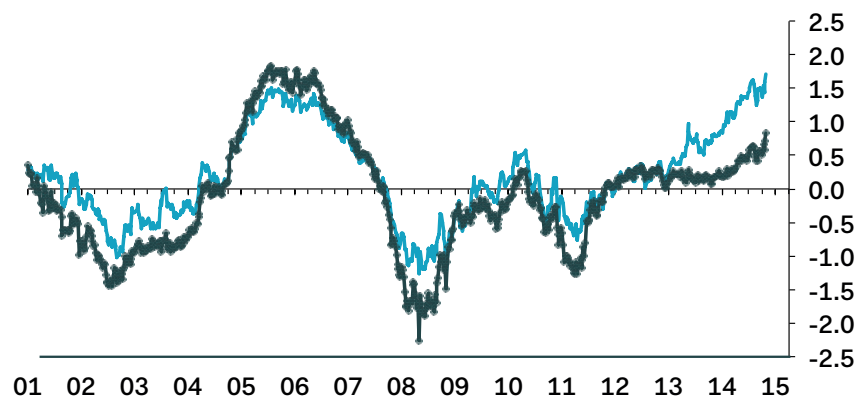


12. ...BUT AN EXIT WOULD BE CATASTROPHIC FOR THE COUNTRY



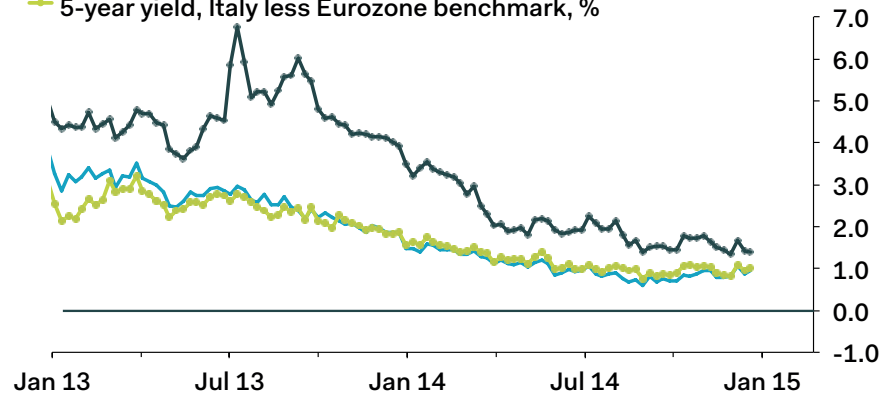
13. LOOK FOR RATES IN THE U.S. TO DRIVE SPREADS HIGHER NEXT YEAR

- 5 year yield US less Eurozone, %
- 2 year yield US less Eurozone, %



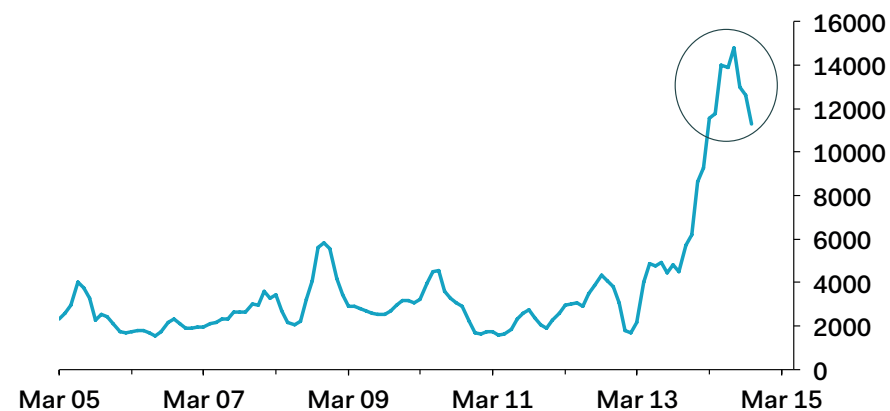
14. IT IS STILL POSSIBLE TO FIND YIELD, BUT IT IS GETTING EXPENSIVE...

- 5-year yield, Spain less Eurozone benchmark, %
- 5-year yield, Portugal less Eurozone benchmark, %
- 5-year yield, Italy less Eurozone benchmark, %



15. ...AND SOME FOREIGN INVESTORS ARE STARTING TO TAKE NOTE

- Japan portfolio outflows, euro bonds and notes, in ¥B

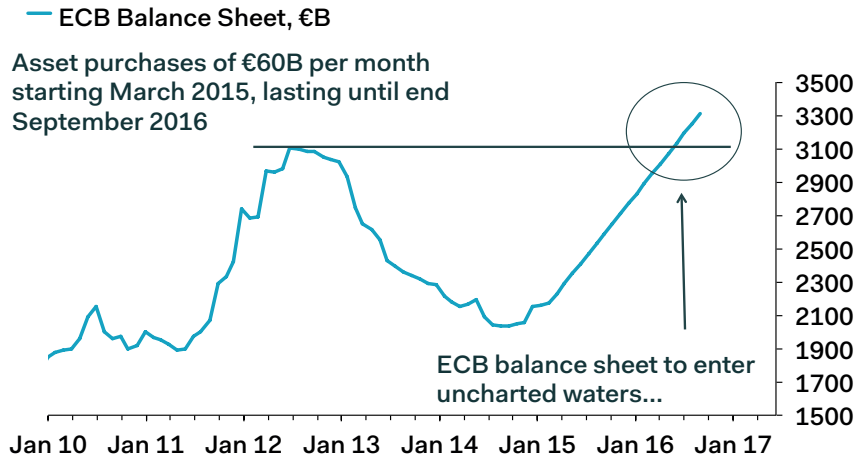


16. THE YIELD CURVE SHOULD STEEPEN AS QE STARTS TO WORK

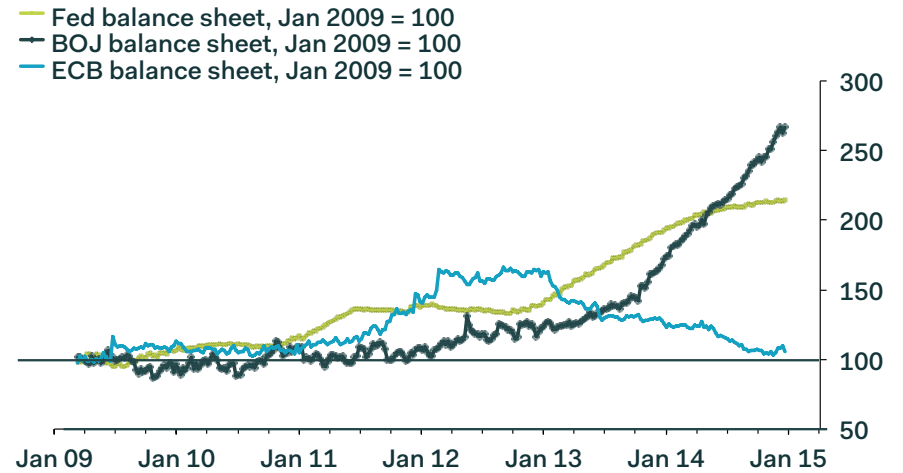
- Eurozone benchmark 10-year yield less 5-year yield, %



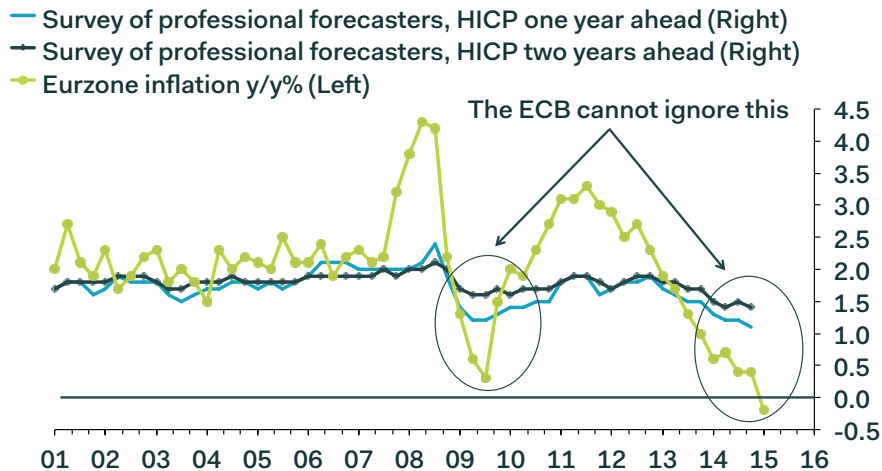
17. A BOLD SOVEREIGN QE PROGRAM BY THE CENTRAL BANK...



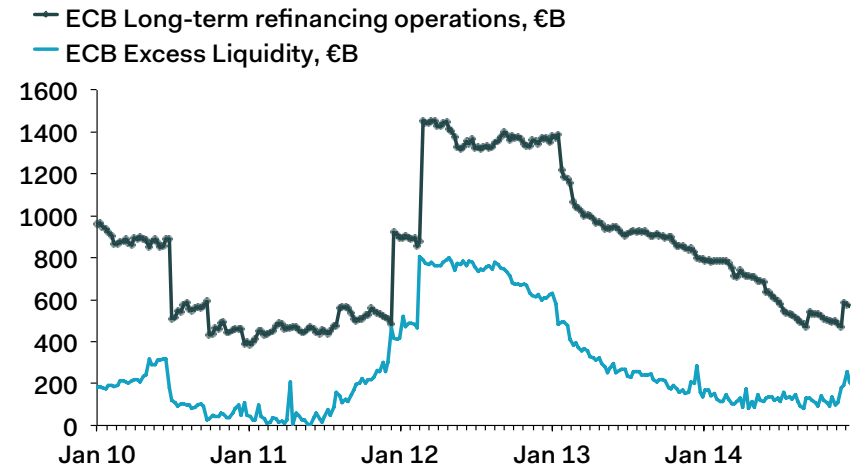
19. SOVEREIGN QE IS NEEDED TO BOOST THE ECB'S BALANCE SHEET...



18. ...FORCED UPON IT BY A STEEP PLUNGE IN INFLATION

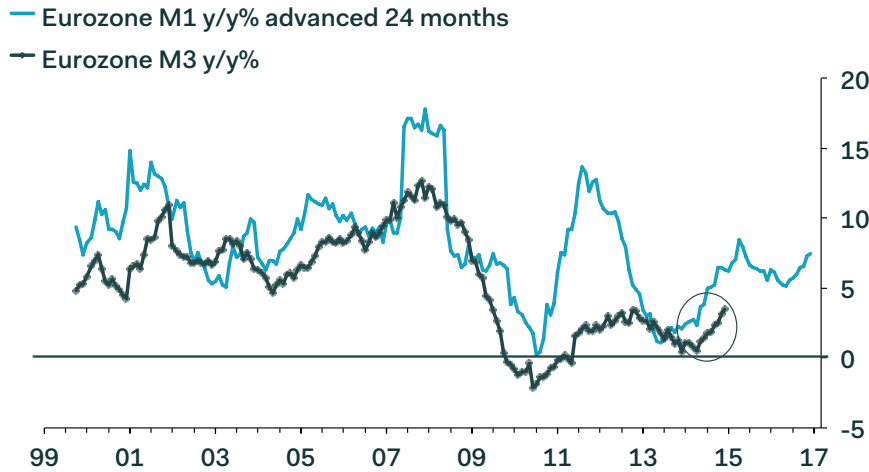


20. ...THE TLTROS SHOULD HELP TOO

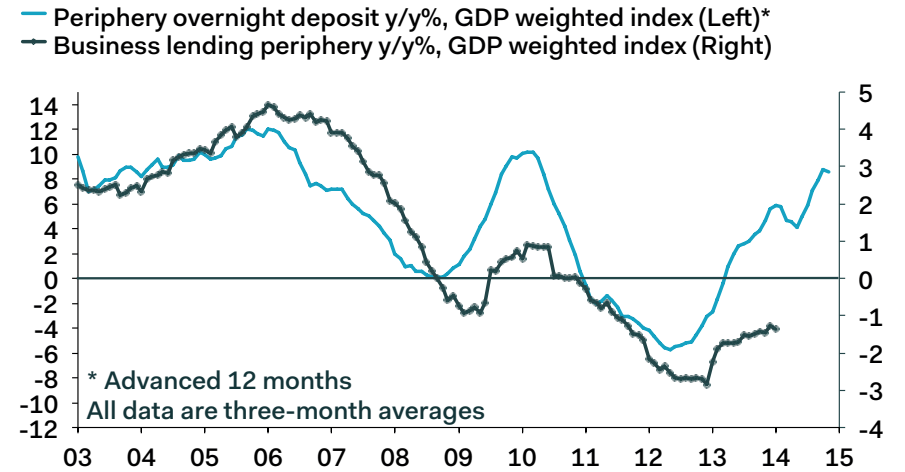




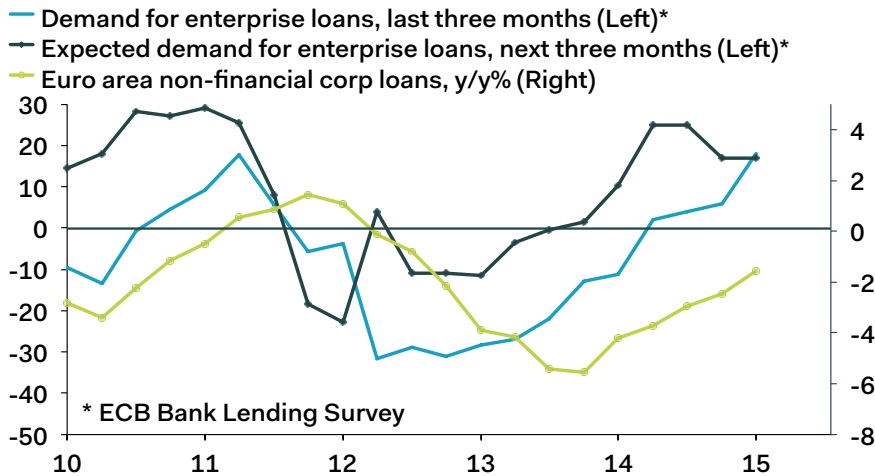
**21. MONEY DYNAMICS CONTINUE TO IMPROVE IN THE EUROZONE.**



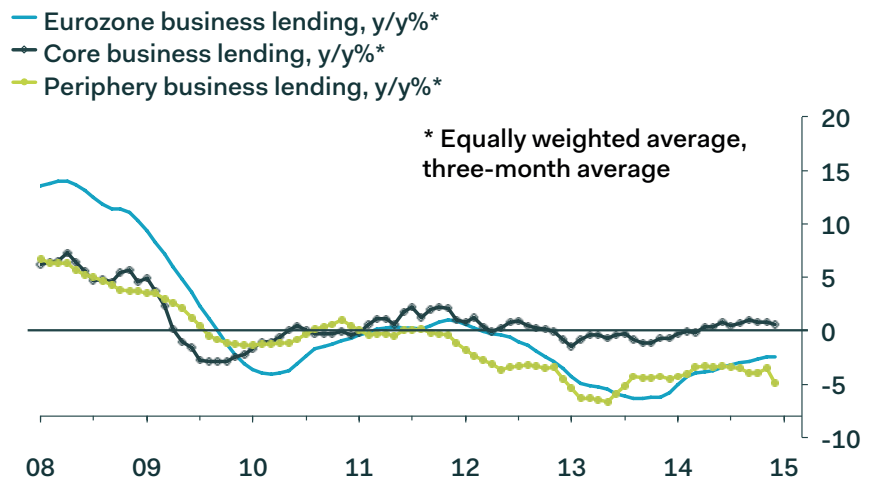
**23. STRONG NARROW MONEY IN THE PERIPHERY IS STILL A KEY STORY...**



**22. ...AND CREDIT DEMAND IS SHOWING SIGNS OF REVIVAL**



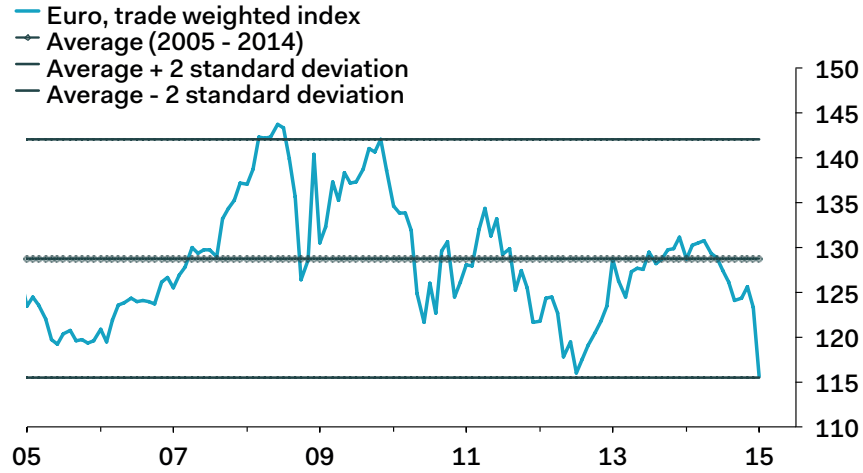
**24. ...BUT CREDIT MARKETS REMAIN FRAGMENTED IN THE EURO AREA**



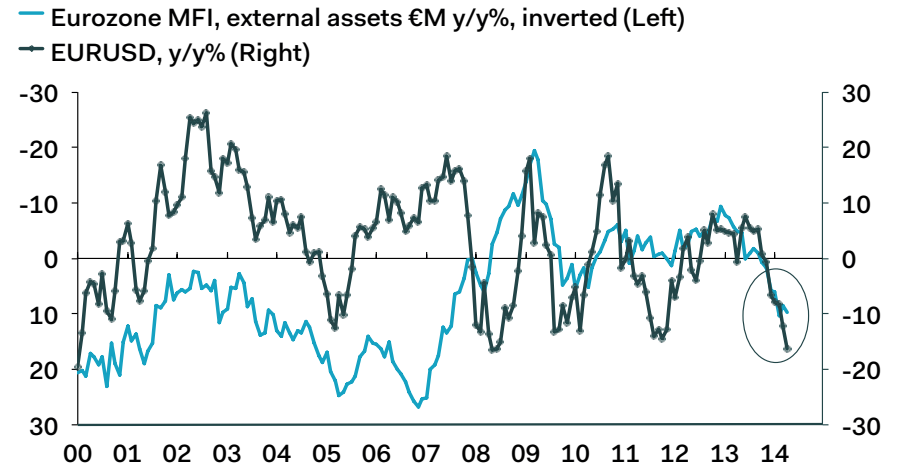




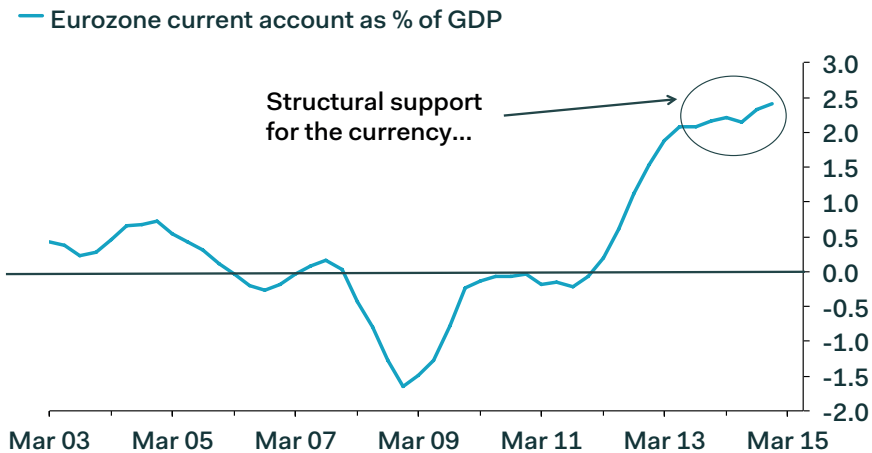
25. HOW MUCH MORE DOWNSIDE FOR THE EURO?



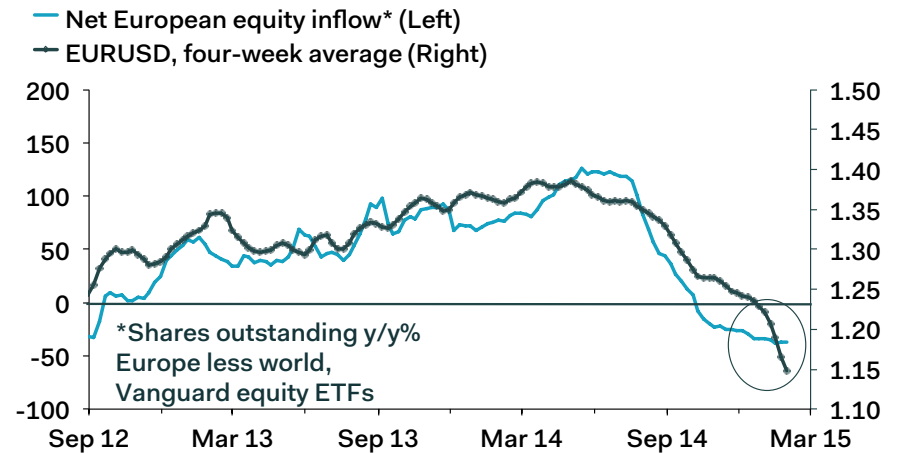
27. BUT EXTERNAL LENDING IS DEPRESSING THE SINGLE CURRENCY



26. ...AND THE EXTERNAL BALANCE REMAINS A STRUCTURAL SUPPORT

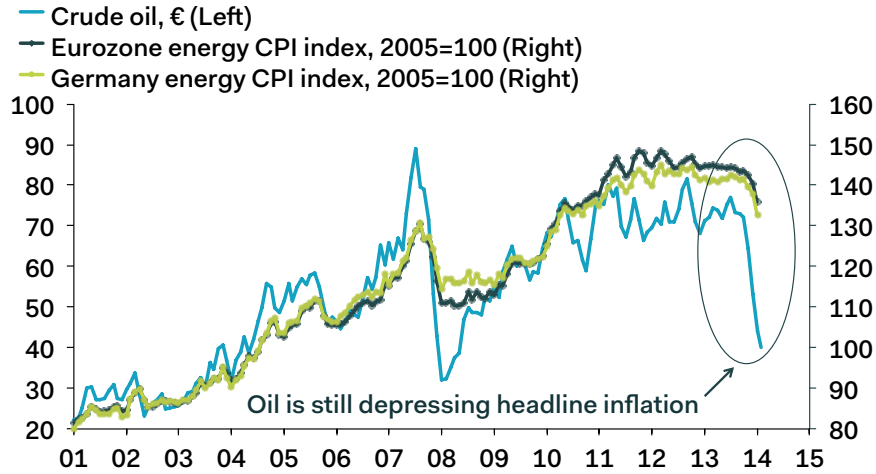


28. ...AND EQUITY PORTFOLIO FLOWS HAVE NOT TURNED YET

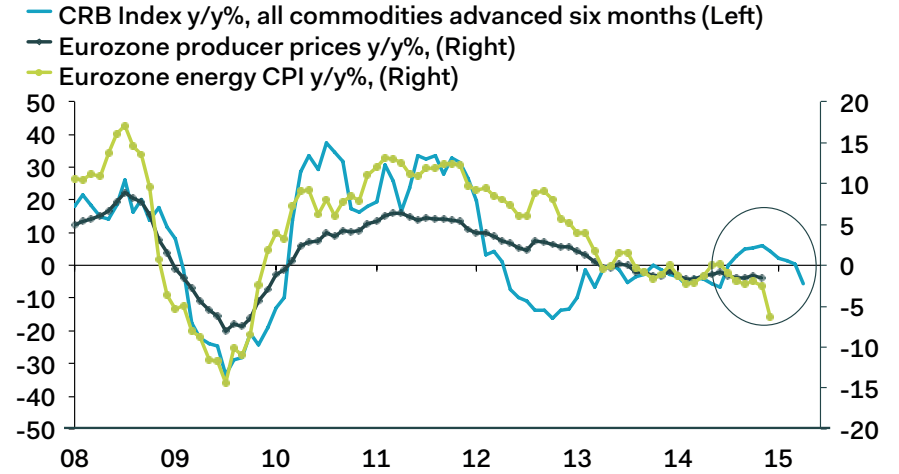




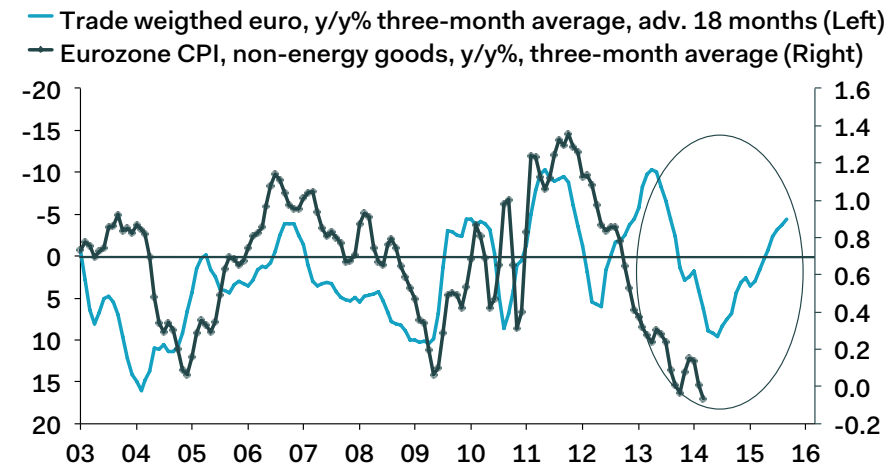
**29. PLUNGE IN ENERGY PRICES IS STILL THE KEY INFLATION STORY...**



**31. ...EVEN AS COMMODITIES POINT TO DOWNSIDE RISKS**



**30. ...BUT THE WEAKER EURO COULD PUSH UP CORE INFLATION**

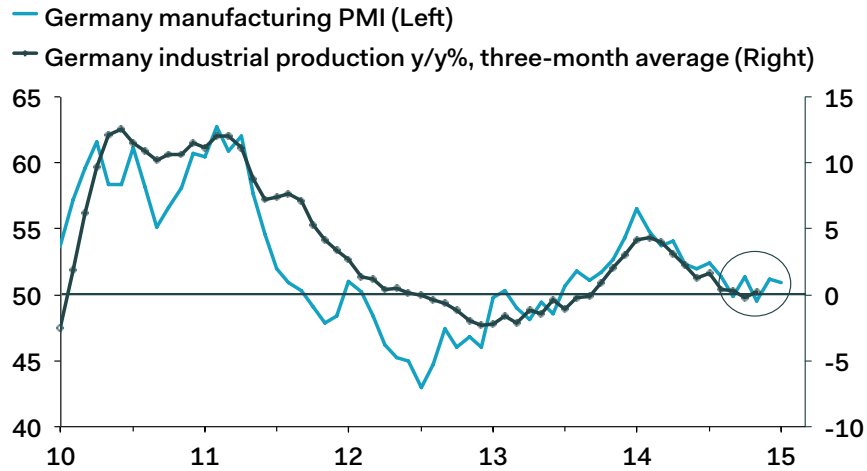


**32. UNDERLYING PRICE PRESSURES ARE STILL WEAK OUTSIDE GERMANY**

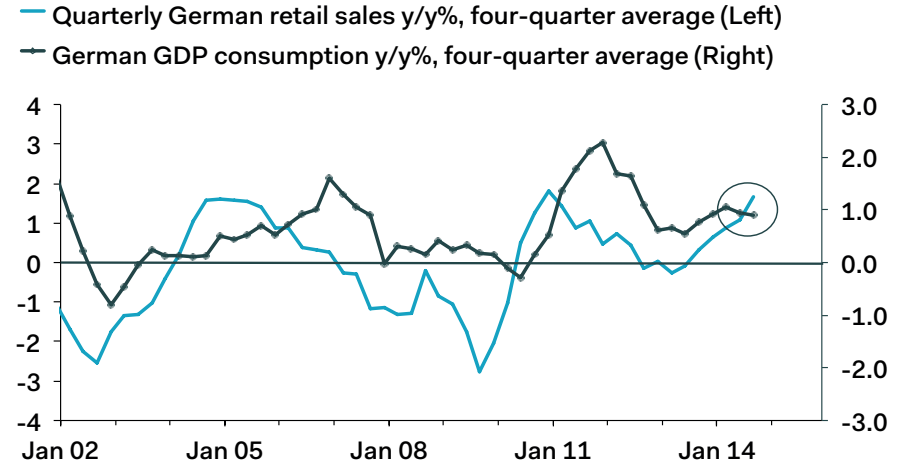




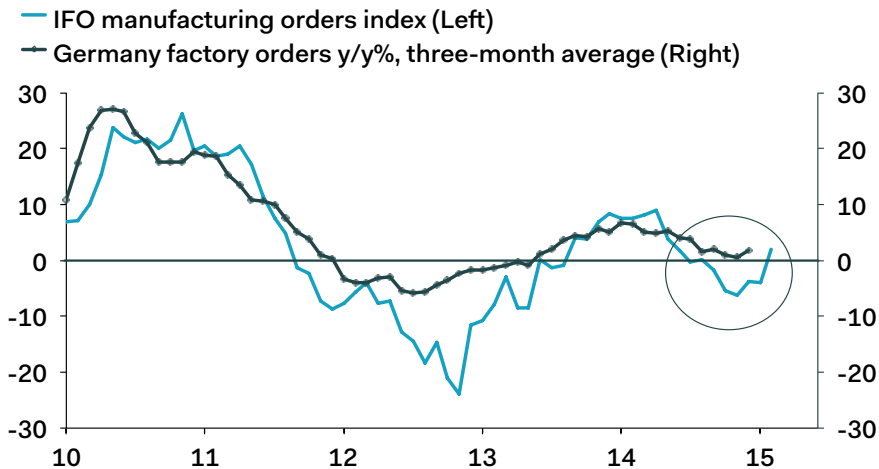
**33. STABILISATION IN THE GERMAN MANUFACTURING SECTOR...**



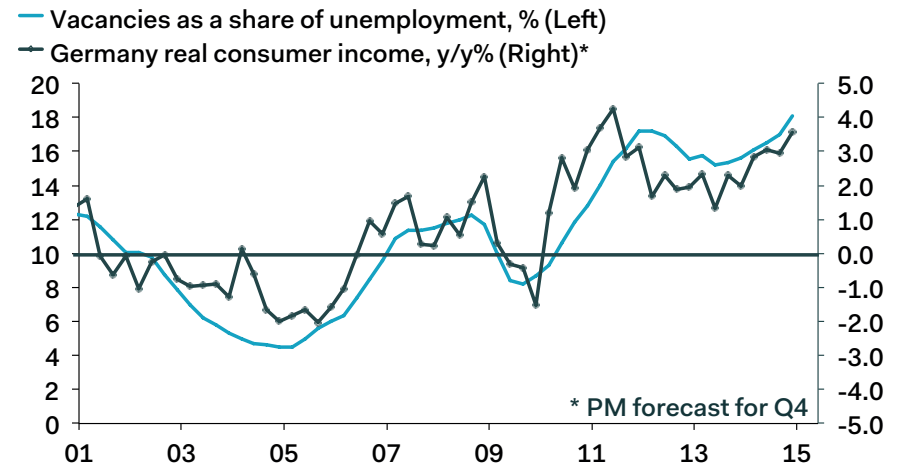
**35. AND THE CONSUMER IS DOING VERY WELL**



**34. ...ARE NEW ORDERS ABOUT TO TURN UP?**

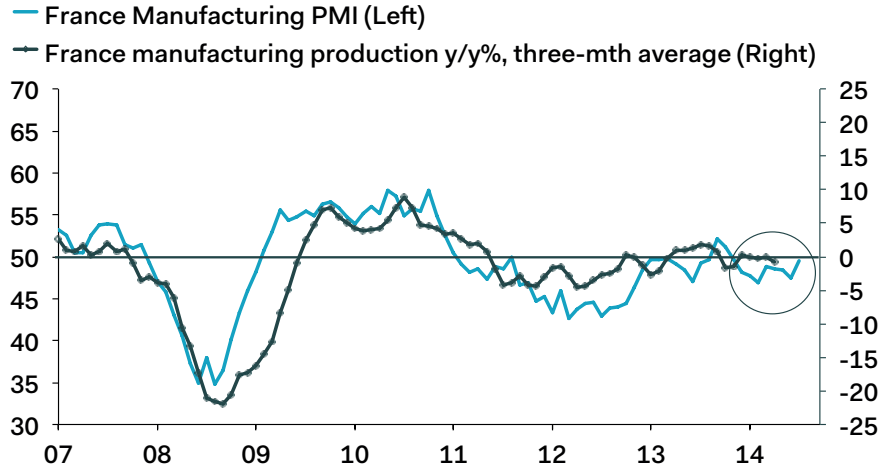


**36. ...DUE TO SOLID LABOUR MARKET DYNAMICS**

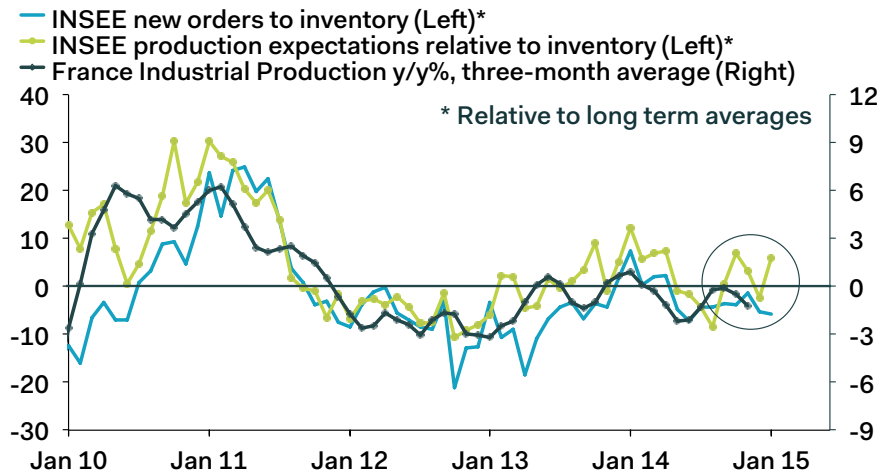




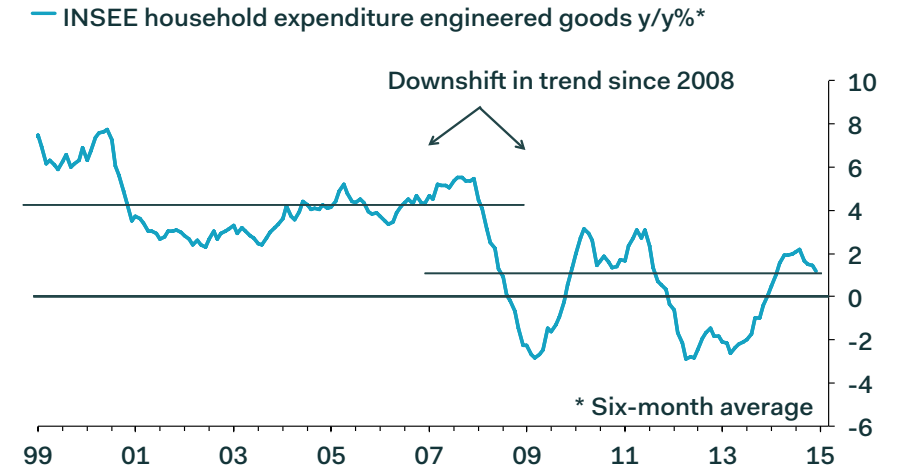
**37. THE FRENCH MANUFACTURING SECTOR IS STILL STRUGGLING...**



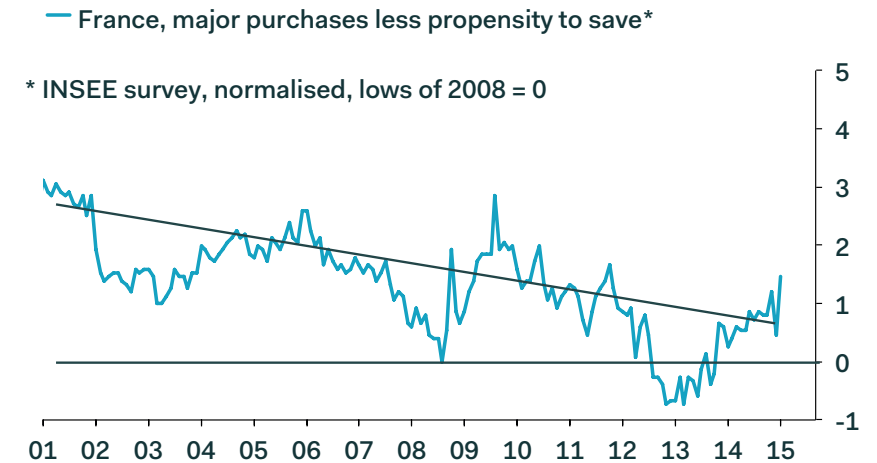
**38. AND LEADING INDICATORS ARE STILL NOT TURNING UP DECISIVELY**



**39. CONSUMPTION HAS MOVED DOWN A NOTCH SINCE THE CRISIS**



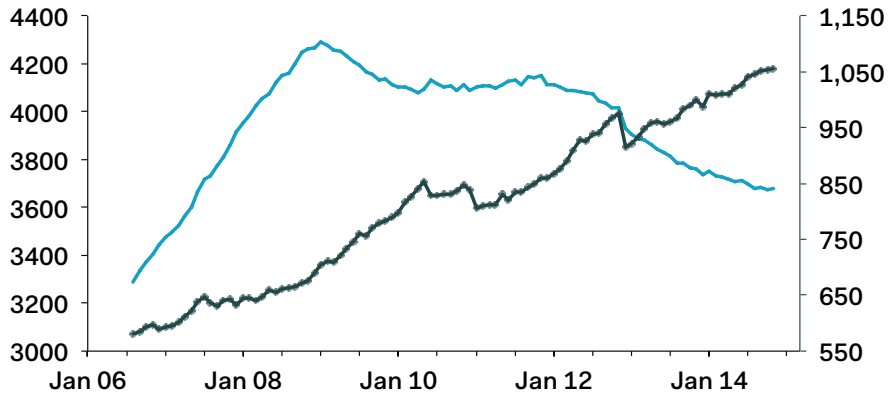
**40. THE SAVINGS RATE HAS SURGED, BUT CAN THE TREND BE BROKEN?**





**41. DISCONNECT BETWEEN BANK LOANS AND DEBT CONTINUES**

- Eurozone non-financial corporates bank loans €B, (Left)
- Eurozone non-financial corporates total debt issuance €B, (Right)



**43. DRIVEN MAINLY BY ISSUANCE OF LONG DURATION BONDS**

- Eurozone short-term corporate debt y/y%, three-month average
- Eurozone long-term corporate debt y/y%, three-month average



**42. ...AND HIGH YIELD IN THE EUROZONE IS PUSHING AHEAD**

- Bloomberg high yield credit index, Euro less the U.S. dollar



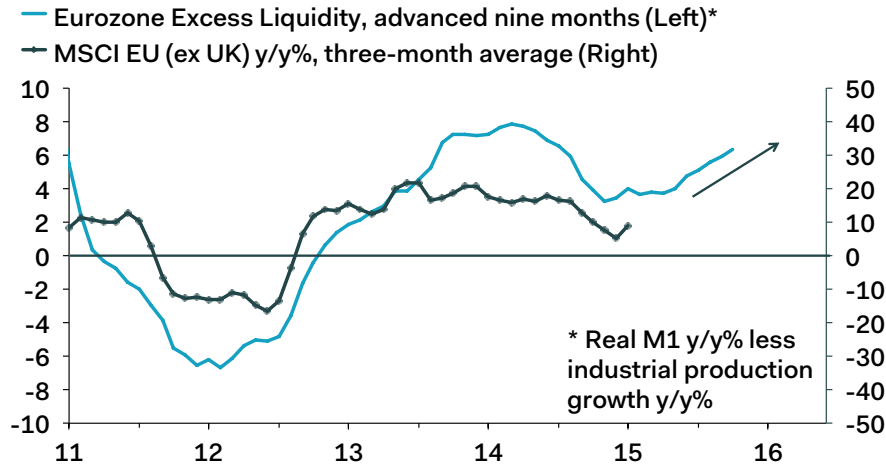
**44. ...AND NEW DEBT ISSUANCE SHOULD START INCREASING AGAIN**

- Net debt issuance non-financials, €B 12-month average (Right)
- Eurozone M1 y/y% (Left)

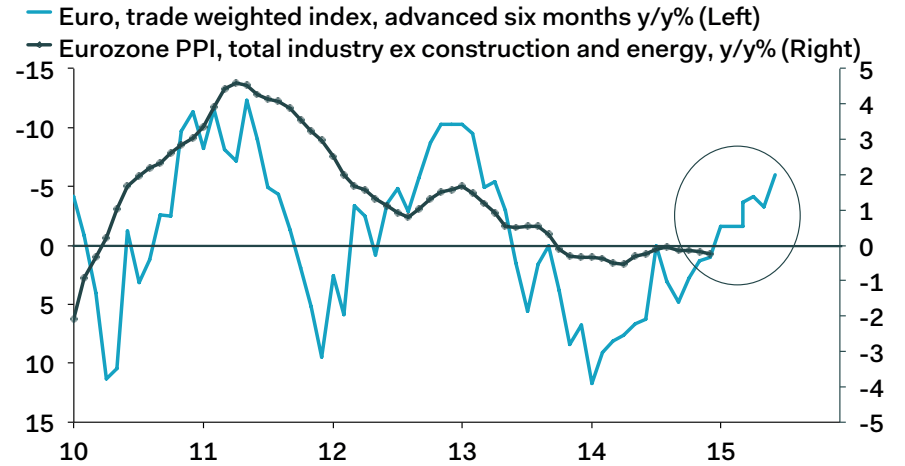




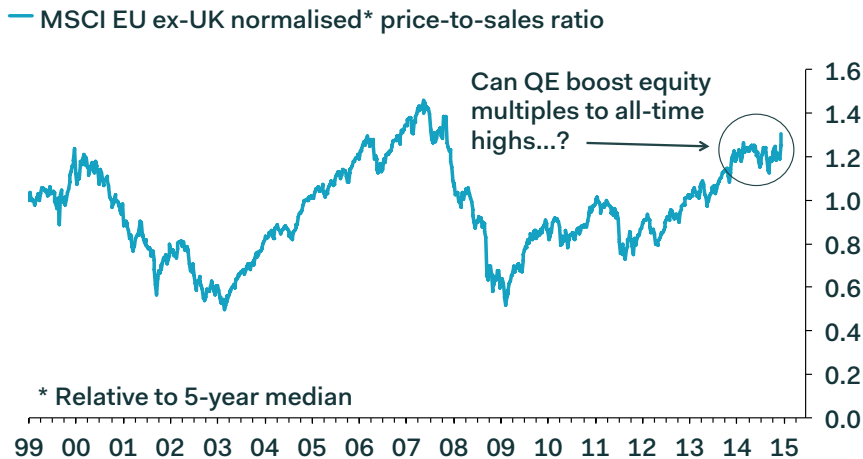
45. LEADING INDICATORS WILL BE BOOSTED FURTHER BY QE...



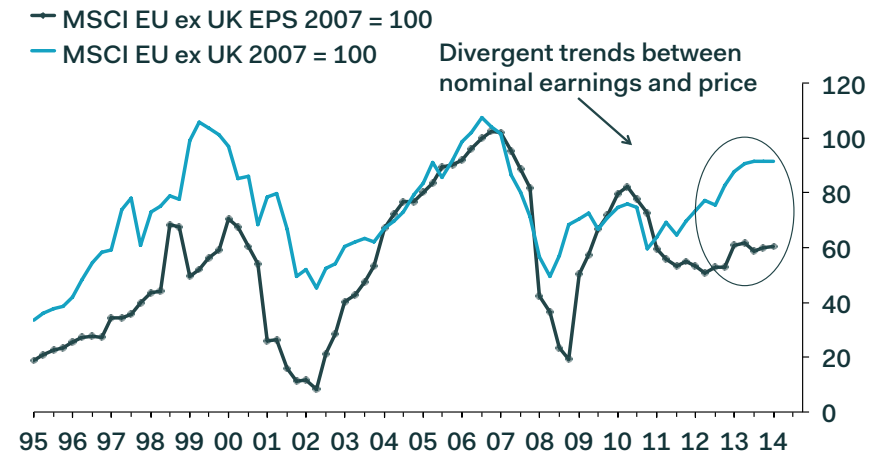
47. A WEAKER EURO SHOULD HELP EARNINGS THIS YEAR...



46. ...BUT VALUATIONS ARE STRETCHED TO BREAKING POINT



48. ...BUT NOT ENOUGH TO CHANGE THE BIG PICTURE





<b>Economic Activity (y/y%)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Eurozone GDP	0.5	0.8	1.2	1.2	0.8
Contribution of Household Consumption	0.3	0.4	0.5	0.4	0.4
Contribution of Government Consumption	0.1	0.1	0.3	0.1	0.0
Contribution of Investment	-0.1	0.2	0.3	0.5	0.2
Contribution of Net trade	0.3	0.1	0.1	0.2	0.3
Germany GDP	1.1	0.8	1.3	1.1	0.9
France GDP	0.8	0.7	0.8	0.7	0.6
Italy GDP	-1.1	-0.1	0.5	0.5	0.3
Spain GDP	-0.2	1.6	1.7	1.2	0.8

### **Labor Market and Prices**

Eurozone unemployment (end of year)	11.8	11.4	11.2	11.0	11.0
Eurozone CPI y/y% (end of year)	0.8	-0.2	0.6	0.9	1.1
Eurozone labour productivity growth y/y%	0.7	0.8	0.9	0.7	0.7

### **Other**

Eurozone current account, % GDP	2.2	2.5	2.7	2.3	2.1
Eurozone budget deficit, % GDP	-2.9	-2.8	-2.6	-2.9	-3.0
Government debt, % GDP	90.9	92.0	95.0	97.0	99.0
ECB refi rate, Q4 average	0.25	0.05	0.05	0.05	0.05
10-year benchmark rate, Q4 average	1.6	0.7	1.3	1.3	1.1
Eurostoxx, Q4 average	3109	3170	3900	4000	3850