PM Datanote: GDP and Employment, Eurozone, Q4

In one line: Very soggy in Germany and Italy, but otherwise decent.

- Real GDP in the Eurozone rose 0.2% quarter-on-quarter in Q4, the same pace as in Q3, in line with the consensus and initial estimate. The year-over-year rate fell to 1.2% from 1.6% Q3, also in line with the consensus and first estimate.
- Employment in the Eurozone increased 1.2% year-over-year in Q4, slowing slightly from a 1.3% in Q3. Bloomberg does not report a consensus on these data.

The poor German GDP headline earlier this morning was warning about a downward revision, but the EZ headline just about held on to its 0.2% growth rate, thanks to strong growth in a number of the smaller economies. We caution, however, that a downward revision is still a risk once the Irish data are fully incorporated. Such as it is though, Germany and Italy were the two big downside surprises in Q4 with quarter-on-quarter headlines of 0.0% and -0.2%, respectively, but the numbers were decent elsewhere. Growth in Spain accelerated slightly, by 0.1 percentage point to 0.7%, and it was unchanged at 0.3% in France. In the smaller economies growth also accelerated in the Netherlands and Finland, to 0.5% and 0.9% respectively, while it dipped slightly in Austria and Portugal to 0.2% and 0.3%, respectively. Looking ahead, we are optimistic that the quarter-on-quarter run-rate in the EZ as a whole will increase to 0.3%-to-0.4% in the first half of the year, though the trend in real M1 growth suggests that it will dip to 0.2-to-0.3% in the second half and into 2020.

Finally a comment on the GDP data in Germany released earlier. After having read the DESTASIS press release more closely we are now less sure about our assumption that net exports were a big drag, though the comments remain confusing. *If* domestic demand as a whole rose, it follows that net exports fell to produce a flat quarter-on-quarter GDP rate, but it is also possible that the comments referring to higher investment focus on net investment, excluding a big inventory drag. This would make sense given the 0.7pp drag from inventories in Q3. In any case, all eyes on next week's detailed report.

In the EZ labour market, we only see the headline in this advance report, but we had expected a slightly more rapid slowdown. Employment in the euro area will continue to expand this year, and unemployment will fall further, but the rate of improvement will slow as a lagged response to the slowdown in GDP growth.

The chart shows employment overlaid with GDP growth, and our assumption for the latter through 2019. If we are right that the year-over-year rate in GDP is now stable at about 1.2%, growth in employment should slow further to just under 1%.