

# European Economic Comment

## Eurozone: Steady Q3 growth and higher inflation

### Economics

Europe including UK

#### Flash Q3 GDP growth held steady at 0.3% q/q

Today's flash Q3 GDP estimate showed more evidence for a resilient, but moderate growth recovery in the Eurozone. According to Eurostat, GDP was up 0.3% q/q (1.6% y/y) in Q3 – unchanged from Q2 and in line with consensus. Full cross-country details will only be available on 15 November. France (0.2% q/q, slightly below expectations of 0.3%), Spain (0.7% q/q, in line with consensus) and Belgium (0.2% q/q after 0.5%) already released Q3 flash estimates separately last Friday.

#### October inflation flash estimate up 0.1pp to 0.5% y/y, but core down

Headline inflation rose to 0.5% in October, in line with consensus and driven again by a smaller drag from energy prices. The only surprise was a slight drop in core inflation by 0.1pp to 0.7% due to slower price increases for unprocessed food (0.2% after 1.1%). Services inflation was unchanged at 1.1%. Last Friday, Germany inflation showed an increase in October inflation to 0.7% – up from 0.5% and slightly above consensus.

#### Growth and inflation broadly in line with ECB expectations

Overall, today's flash Q3 GDP is broadly in line with the ECB's expectations of an ongoing, but moderate recovery. However, its own staff forecasts from September foresaw annual growth of 1.7% for 2016, which looks high from today's point of view as it would imply growth in Q4 increasing substantially to at least 0.5% q/q. The continued increase in headline inflation driven by energy base effects is what the ECB expects and today's release is in line with inflation rising towards around 1.0% in December, in our view. We continue to project that the [ECB will decide in December on a prolongation of its QE purchases](#) for another six months at €80bn beyond March 2017.

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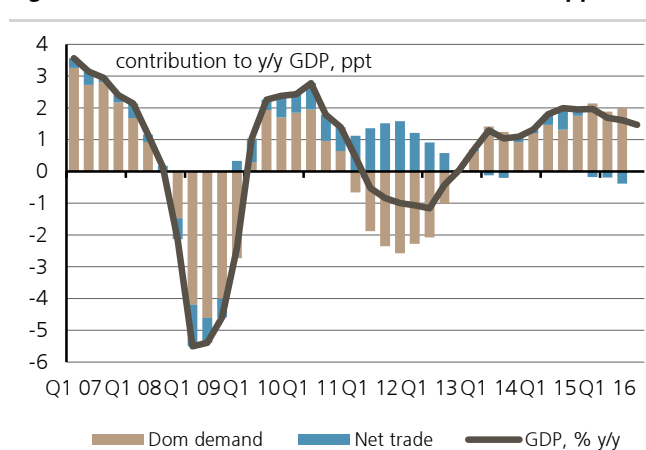
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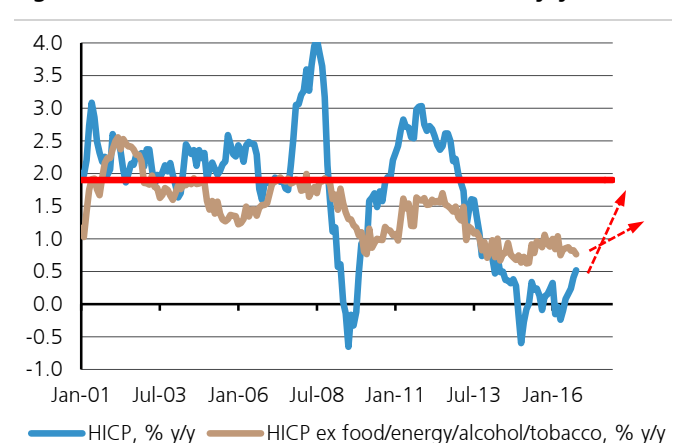
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**Figure 1: Eurozone real GDP and contributions in ppt**



Source: Haver, UBS estimates

**Figure 2: Eurozone headline and core HICP, % y/y**



Source: Haver, Markit, UBS

Please see next page for details.

**Figure 3: Eurozone real GDP growth, % y/y**

	Q1-2014	Q2-2014	Q3-2014	Q4-2014	Q1-2015	Q2-2015	Q3-2015	Q4-2015	Q1-2016	Q2-2016	Q3-2016
Euro area, % q/q	0.3	0.2	0.4	0.4	0.8	0.4	0.3	0.5	0.5	0.3	0.3
Euro area, % y/y	1.3	1.0	1.1	1.3	1.8	2.0	2.0	2.0	1.7	1.6	1.6

Source: Eurostat, Haver, UBS

**Figure 4: Euro area inflation and its components, % m/m and % y/y**

		% m/m			% y/y		
	Weight, %	Aug-16	Sep-16	Oct-16	Aug-16	Sep-16	Oct-16
All-items HICP	100.0	0.1	0.4	0.3	0.2	0.4	0.5
All-items <i>excluding</i> :							
energy	89.3	0.2	0.3	0.1	0.9	0.8	0.7
energy, unprocessed food	81.9	0.2	0.4	0.1	0.8	0.8	0.7
energy, food, alcohol & tobacco (CORE)	69.6	0.3	0.5	0.1	0.8	0.8	0.8
Food, alcohol & tobacco	19.7	0.0	-0.3	0.0	1.3	0.7	0.4
processed food, alcohol & tobacco	12.2	0.0	-0.1	0.1	0.5	0.5	0.5
unprocessed food	7.5	-0.1	-0.6	0.0	2.5	1.1	0.2
Energy	10.7	-1.0	1.0	1.6	-5.6	-3.0	-0.9
Non-energy industrial goods	26.2	0.3	3.1	0.7	0.3	0.3	0.3
Services	43.4	0.2	-1.0	-0.2	1.1	1.1	1.1

Source: Eurostat, Haver, UBS.

**Figure 5: Euro area inflation and its components, *contributions* to m/m and y/y inflation**

		% m/m			% y/y		
	Weight, %	Aug-16	Sep-16	Oct-16	Aug-16	Sep-16	Oct-16
All-items HICP	100.0	0.1	0.4	0.3	0.2	0.4	0.5
Food, alcohol & tobacco	19.7	0.0	-0.1	0.0	0.2	0.1	0.1
processed food, alcohol & tobacco	12.2	0.0	0.0	0.0	0.1	0.1	0.1
unprocessed food	7.5	0.0	0.0	0.0	0.2	0.1	0.0
Energy	10.7	-0.1	0.1	0.2	-0.6	-0.3	-0.1
Non-energy industrial goods	26.2	0.1	0.8	0.2	0.1	0.1	0.1
Services	43.4	0.1	-0.4	-0.1	0.5	0.5	0.5

Source: Eurostat, Haver, UBS.

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Risks include macroeconomic variables (such as GDP growth rates and inflation), economic slowdown, a weakening currency, global economic events, and government policy changes.

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