In, On and For Emerging Markets

A CEIC Insights Report

Euro Area Economy in a Snapshot Q2 2019

Executive Summary

Key Highlights

- The Euro Area has not managed to rebound from the prolonged slowdown since 2018 and Q1 2019 data revealed almost no acceleration of GDP growth compared to the previous quarter. The manufacturing sector continues to contract due to weak external demand and global uncertainties.
- Weak inflation has been plaguing the eurozone growth prospects since the beginning of the year. This has prompted the European Central Bank (ECB) to cut interest rates and keep the refinancing rate at 0%. A new round of ECB's bond-buying programme is also being considered.
- After a period of intense negotiations, the nominations for the chief European positions were announced, with Ursula von der Leyen, Christine Lagarde and Charles Michel being nominated for head of the European Commission, ECB president and president of the European Council, respectively. The staunchly pro-EU candidates will give the bloc some much needed political stability against the backdrop of rising Euroscepticism and internal squabbles.
- Despite the slowdown, some key fundamentals remain strong. Unemployment rate is reaching pre-crisis levels and fixed investment has kept a robust performance.

Economic Outlook

According to preliminary data, the smoothed CEIC Leading Indicator for the eurozone economy fell to 84.6 in June 2019, losing 1.3 points compared to the previous month. The indicator has been declining since August 2017, thereby anticipating the eurozone's weak economic performance throughout 2018 and coinciding with the lukewarm forecasts for 2019. While the first quarter of the year saw some positive signs, during the April-June period the indicator's performance weakened again, signifying that the slowdown in the eurozone would likely persist throughout the year. The Markit Purchasing Managers' Index (PMI) has somewhat recovered from the freefall in late 2018, but remains far from robust, especially in the case of manufacturing PMI, which has been struggling between 47.5 and 48 for the past four months, way below the threshold value of 50.

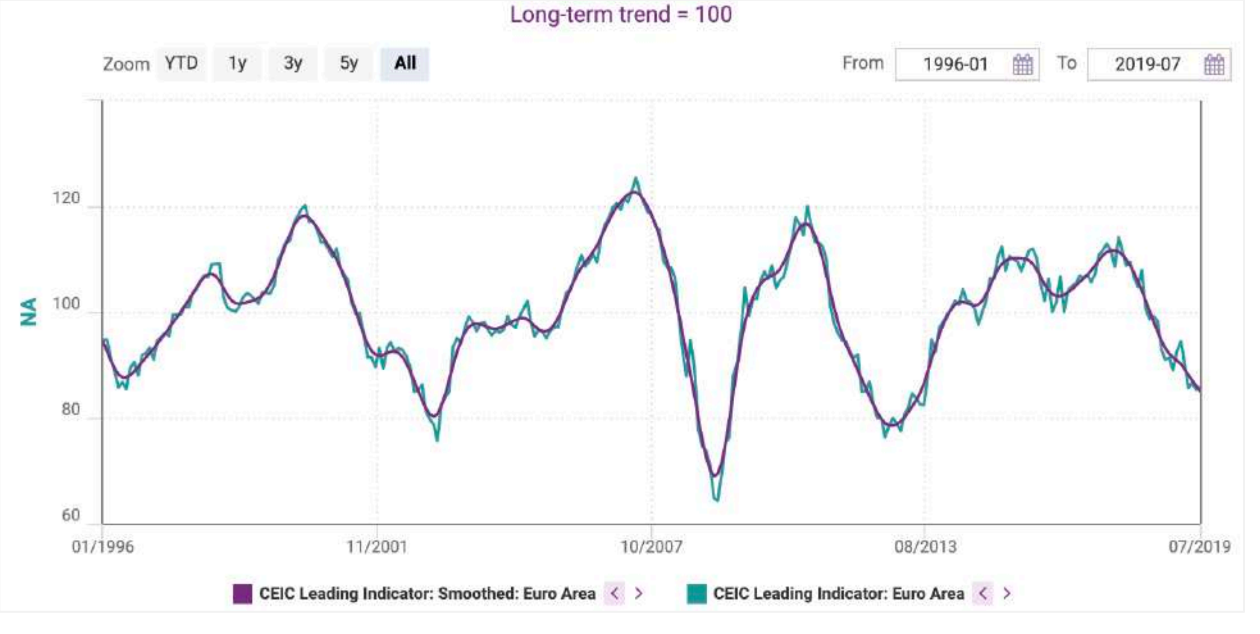
Halfway through 2019 the Euro Area growth outlook is worsening, although the risk of recession remains low. ECB President Mario Draghi, who is at the last months of his tenure, announced that the central bank would increase the stimulus by cutting interest rates even lower and possibly restart the quantitative easing programme by September 2019. According to Draghi, the Euro Area growth is plagued by the presence of uncertainties related to "geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets". Nevertheless, some economic fundamentals remain strong, especially the labour market condition, private consumption, and investment.

The manufacturing sector remains the chief issue of concern for the Euro Area economy. Losses of output and new orders are severely hampering the sector, not least due to global uncertainties. Contractions have been observed across the major economies and especially the eurozone economic engine Germany where manufacturing is experiencing its worst performance since the 2007-2009 financial crisis. Since the sector is driven by export orders, it is strongly affected by the global economic slowdown, despite the fact that overall Euro Area exports remain robust.

Another source of concern is the political environment, where struggles have been more external than internal. One of the most alarming developments came from the UK where Boris Johnson succeeded Theresa May as Prime Minister in July. Johnson, one of the most prominent Brexit supporters, promised to lead the country out of the EU on October 31 “at all costs,” meaning that a no-deal Brexit might still occur, despite the UK government’s vote forbidding it. On the other side of the Atlantic, US President Trump has once again been vocal about his discontent with the EU’s trade policy, arguing that the weak euro is giving the EU an unfair advantage. On the home front, the European institutions’ chief positions were finally distributed meaning that relative stability is expected at least in the short term.

The International Money Fund (IMF) predicts a modest 1.3% growth in 2019, while the ECB projection stands at 1.2%. According to the FocusEconomics consensus forecast, real GDP will grow by 1.1% annually and by 1% in Q2 2019.

CEIC Leading Indicator



Source: CEIC Data

Purchasing Managers' Index

Source: CEIC Data

Consumer Confidence and Business Climate

Source: CEIC Data

Summary

Although the Euro Area has been growing on annual terms for 23 consecutive quarters since Q2 2013, its economic development has showed signs of severe deceleration in the past 12 months and is expected to continue struggling throughout the rest of 2019. Government spending and household consumption have both increased moderately and while fixed investment keeps on being robust, net exports have contributed once again negatively to overall growth. Among the major economies, only Spain has managed to keep up with a decent pace of over 2%, with Germany and France experiencing a sharp deceleration and Italy showing some benign signs of recovery after falling into technical recession at the end of 2018.

Seasonally-adjusted **real gross domestic product (GDP)** growth, as announced by Eurostat, remained flat in Q1 2019, mirroring its Q4 2018 performance at 1.2% y/y, although it also marked the first quarter since Q3 2017 when it did not decelerate. In q/q terms, the growth was slightly higher than the 0.2% at the end of 2018 - 0.4% - but still far from its 2017 performance.

Industrial production index (IPI) growth fell back to negative figures in March and as of May shrank at 0.5%. Both the mining and quarrying and the manufacturing sectors are struggling, while energy and consumer goods have shown positive developments. The decline in manufacturing, especially in major economies such as Germany, has been identified as a major reason for the slowdown in the euro zone.

Euro Area inflation has been rapidly declining since October 2018 and **the harmonized index of consumer prices (HICP)** stood at 1.3% in June, below the ECB's 2% target. Core inflation – which does not take into account energy, food, alcohol and tobacco prices – has been rather volatile since the beginning of the year and stood at 1.1% in June, close to the long-term average. This result, combined with the falling orders in manufacturing, signifies that the recovery process of the Euro Area has hit a bump.

With the recent developments at hand, the ECB decided to keep the **policy rate** at 0% as well as to maintain negative deposit rates for the foreseeable future. ECB president Draghi will be succeeded by IMF chief Christine Lagarde in October, with analysts expecting no significant changes to the central bank policies and strategy. What is to be expected is the resuming of the quantitative easing programme in order to boost the Euro Area performance.

According to Eurostat's seasonally adjusted data, the Euro Area ran a **trade surplus** of EUR 20.2bn in May 2019, mirroring the year-high performance of February. In addition to this, after two months of decline, trade balance rebounded soundly and increased by 22.5% y/y. The annual growth of exports surpassed that of imports for the second time this year after February (4.2% and 2.4%, respectively). After a strong start of the year, trade with the UK plummeted again in April and May, following the renewed possibility of a no-trade Brexit.

EA Economy: Statistics at a Glance

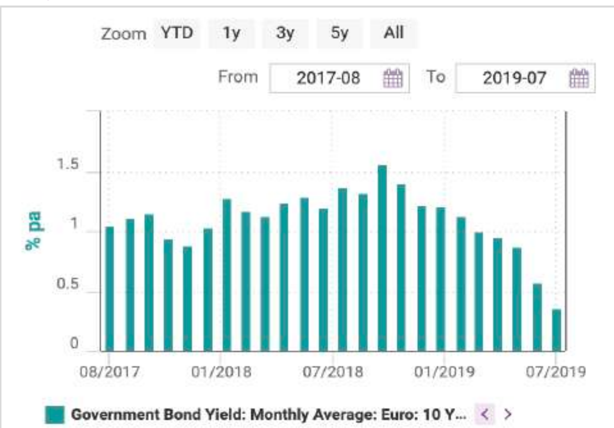
	Unit	07.01.2019	06.01.2019	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019
Industrian Production Index: YoY	%			-0,47	-0,28	-0,38	0,19	-0,75
Consumer Price Index: YoY	%	1,10	1,30	1,20	1,70	1,40	1,50	1,40
PPI: YoY	%			0,97	1,86	1,96	1,86	1,76
Imports: YoY	%			2,39	4,38	7,74	5,27	4,00
Exports: YoY	%			4,16	2,73	5,87	5,98	2,63
Unemployment Rate	%		7,50	7,60	7,60	7,70	7,80	7,80
Wholesale & Retail Trade Index: YoY	%			2,29	4,74	4,22	4,30	4,32
Wages and Salaries Index: YoY	%							
Money Supply: M2: YoY	%		5,07	5,37	5,54	5,36	4,67	4,22
Government Bond Yield: Monthly Average: Euro: 10 Years	% pa	0,36	0,58	0,87	0,95	0,99	1,12	1,21
Policy Rate	% pa	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Direct Investment	EUR bn			20,70	-43,32	24,31	12,87	14,79
Current Account	EUR bn			13,31	20,66	33,33	18,88	11,38

Source: CEIC Data

Real GDP Growth: QoQ

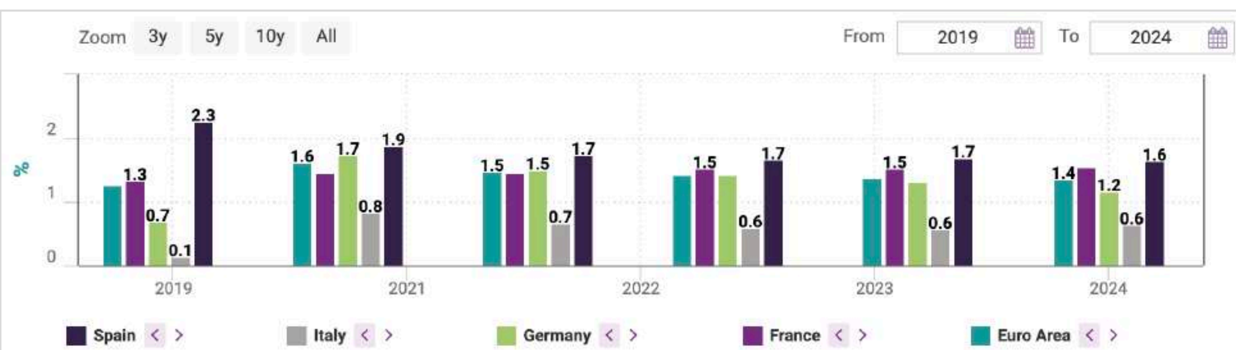
Headline and Core Inflation

ECB: Government Bond Yield: Current and Projection



Unemployment Rate: sa: Euro Area

IMF GDP Growth Projections



Source: CEIC Data

Real Sector

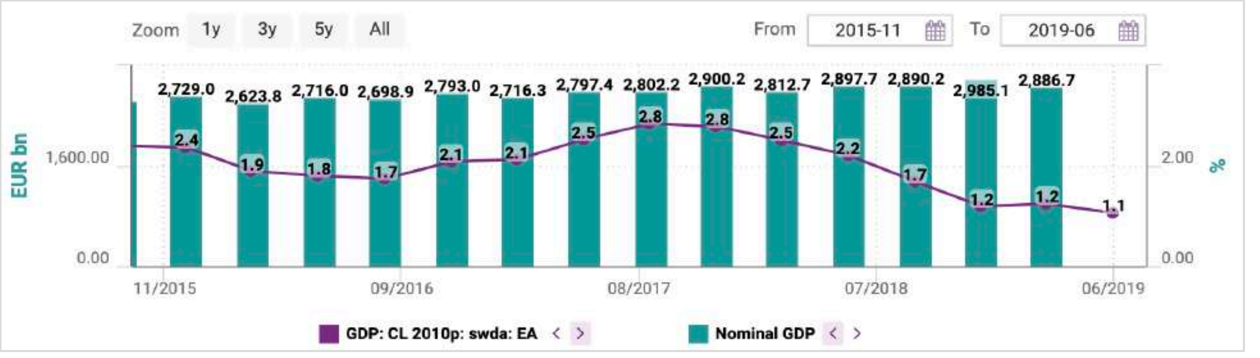
Real Sector

The Euro Area's economic performance in Q1 2019 rebounded somehow from the freefall in the second half of 2018. In y/y terms real GDP accelerated marginally to 1.24% from 1.20% in Q4 2018. Nevertheless, the performance marks the first quarter since Q3 2017 when the eurozone economy did not decelerate. In terms of q/q growth, the increase amounted to 0.4%, doubling the previous quarter's performance. A strong 4.8% increase in fixed investment was again the backbone of the Euro Area economic performance. Household consumption increased by 1.1%, almost mirroring the previous two quarters' result. The growth remains somehow sluggish given the continuously decreasing unemployment rate and rising wages. The same trend can be observed in government spending which also accelerated only marginally to 1.1% y/y. The good news comes from the external sector, where both exports and imports stayed robust throughout 2019, increasing by 3.2% and 4% y/y, respectively, in May, despite the global trade slowdown and the continuing antagonism between the US and China. The deceleration in the import sector is more worrying, as it decelerated to its lowest value for 2019.

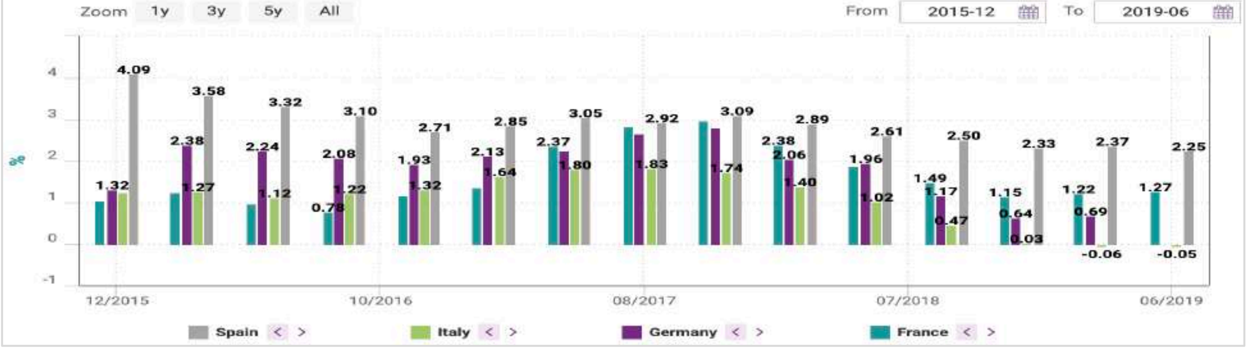
Among the bigger eurozone economies, the data for Q1 reveal a development somewhat similar to the previous quarter with only marginal growth acceleration. The one notable exception is Italy, where the real GDP shrank by 0.1% y/y. Nevertheless, in q/q terms the outcome was positive, with an increase of 0.1% effectively ending the period of technical recession. Spain continues to be the best performing major economy, growing by 2.4%, while Germany and France kept the pace from the previous quarter, accelerating only marginally. In terms of gross value added (GVA) growth, the manufacturing and industry sectors, which contribute to around one-third of total GVA, regained some ground, contracting by 0.3% and 0% y/y respectively. Manufacturing has finally showed some mildly positive signs which was also mirrored by an uptick in PMI. Nevertheless, May PMI values stood at 47.7, below the threshold value of 50. The sector is experiencing particular trouble in the eurozone's powerhouse Germany which has been struggling with lower demand related to Brexit and global trade uncertainties as well as troubles in the automotive sector. The wholesale and retail, transport, accommodation, and food sectors continued showing stability, growing by 1.6% as a whole. However, these sectors' growth has also been decelerating since the end of 2017.

Retail sales volume in the Euro Area dropped by 0.4% m/m for the first time since December 2018, signalling a stagnation in domestic demand. The positive development in domestic trade was the bright spot of the eurozone's economic performance in the otherwise lacklustre start of 2019 but is now taking mild blows in the food and non-food sectors. In annual terms, retail trade decelerated but stayed positive, growing by 1.4% in volume. The generally underperforming group of textiles, clothing, footwear & leather was the only one that decreased, falling by 3.8% y/y. Among the eurozone major economies, Germany's retail sales grew by 3.5% y/y in Q1, while Italy struggled at 0.7%, despite improving its performance compared to 2018. The Euro Area unemployment rate continues to decline and as of April it was at its lowest level since the 2007-2008 financial crisis – 7.6% seasonally adjusted. Nevertheless, youth unemployment rate (ages 15 to 24) continues to be high at 15.8%. As of Q1 2019, unemployment rates vary greatly between eurozone member states ranging from 3% in Germany to 18.4% in Greece. Wages and salaries growth decelerated moderately in Q4 2018 after three quarters of consecutive growth and stood at 2.2%. Gross average salary growth was particularly strong in Germany (3.4%) despite troubles in the manufacturing sector. In addition to this, the average wage in Germany continues to be the highest among the top four eurozone economies, amounting to EUR 3,938 per month.

GDP: Real Growth and Nominal



Real GDP Growth: Top 4 Economies

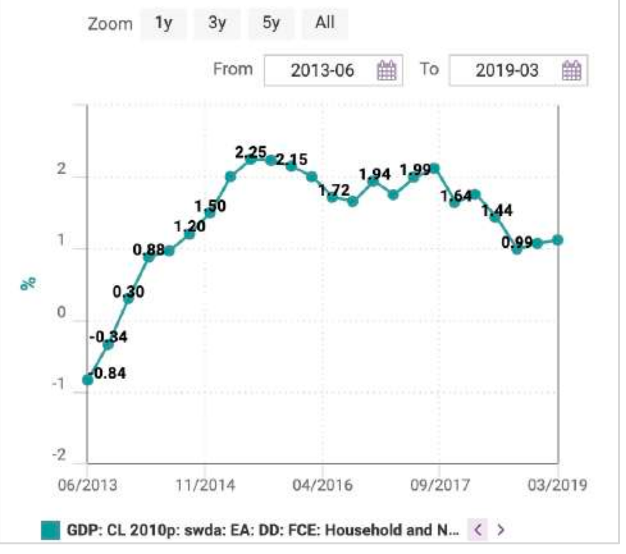


GDP by Expenditure

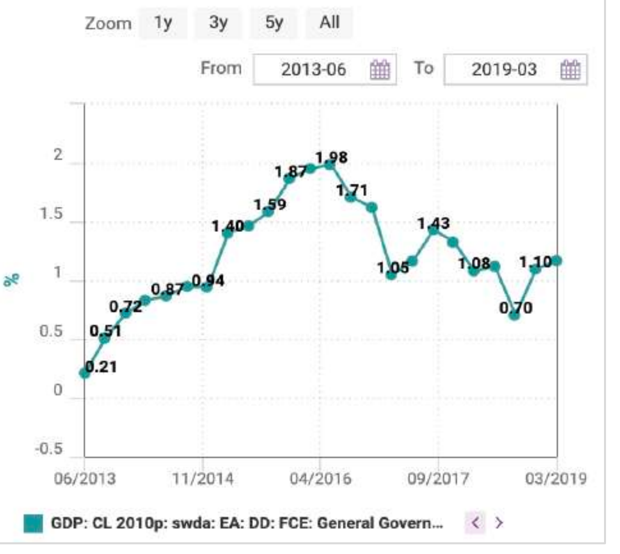
	Unit	06.01.2019	03.01.2019	12.01.2018	09.01.2018	06.01.2018	03.01.2018	12.01.2017
GDP: CL 2010p: swda: EA	EUR bn	2 670,31	2 664,93	2 653,01	2 646,73	2 642,20	2 632,17	2 621,66
Domestic Demand (DD)	EUR bn		2 547,16	2 539,63	2 536,47	2 524,41	2 513,29	2 497,61
DD: Final Consumption Expenditure (FCE)	EUR bn		1 980,36	1 972,04	1 964,25	1 962,30	1 958,22	1 951,00
DD: FCE: General Government	EUR bn		546,05	545,48	542,13	541,88	539,75	539,57
DD: FCE: Household and NPISH	EUR bn		1 434,34	1 426,60	1 422,15	1 420,45	1 418,49	1 411,47
DD: Gross Capital Formation (GCF)	EUR bn		567,12	567,91	572,54	562,42	555,38	546,89
DD: GCF: Gross Fixed Capital Formation	EUR bn		564,57	564,25	555,87	553,56	544,67	543,12
Exports	EUR bn		1 330,29	1 321,62	1 306,60	1 302,99	1 288,46	1 294,52
Exports: Goods	EUR bn		985,98	976,57	965,56	967,17	957,36	960,50
Exports: Services	EUR bn		344,42	345,00	341,01	336,00	331,32	334,18
Imports	EUR bn		1 212,38	1 208,32	1 196,37	1 184,92	1 169,11	1 169,86
Imports: Goods	EUR bn		904,83	899,37	891,67	884,79	874,38	874,63
Imports: Services	EUR bn		309,38	310,57	306,41	301,96	296,66	297,28

Source: CEIC Data

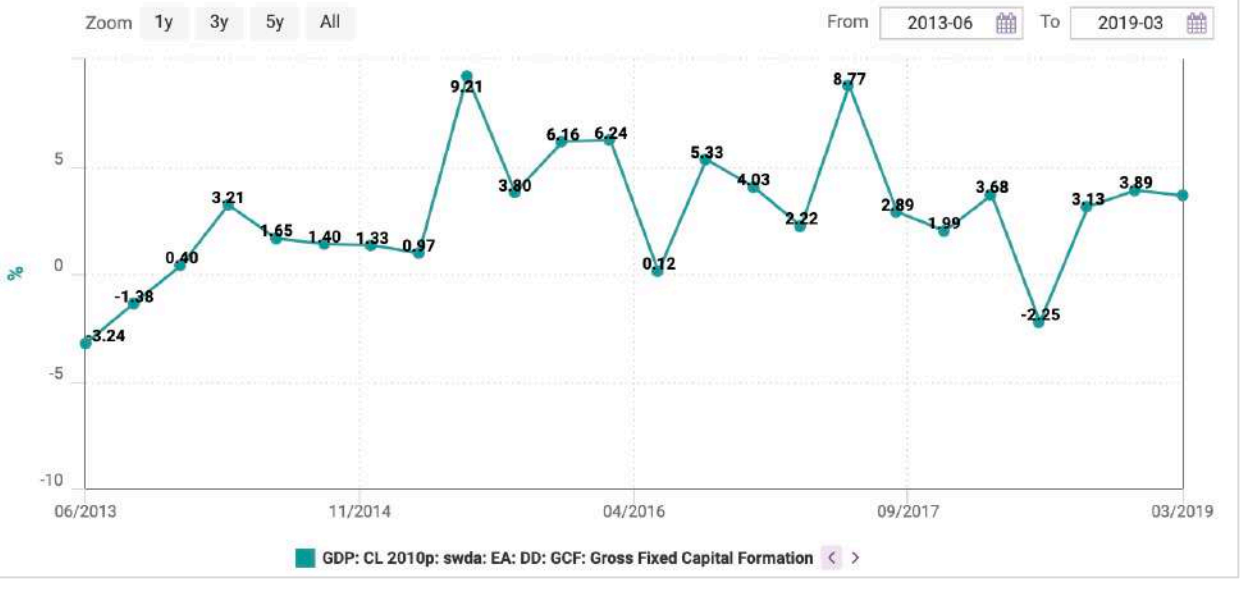
Households and NPISH: Consumption Expenditure: YoY



General Government: Consumption Expenditure: YoY

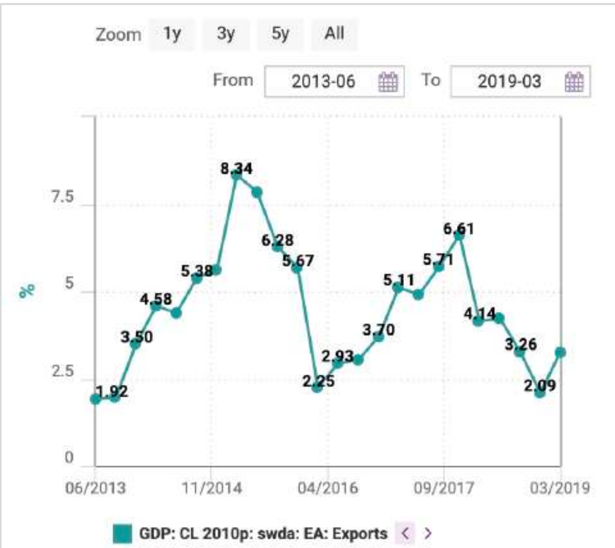


Fixed Investment: YoY

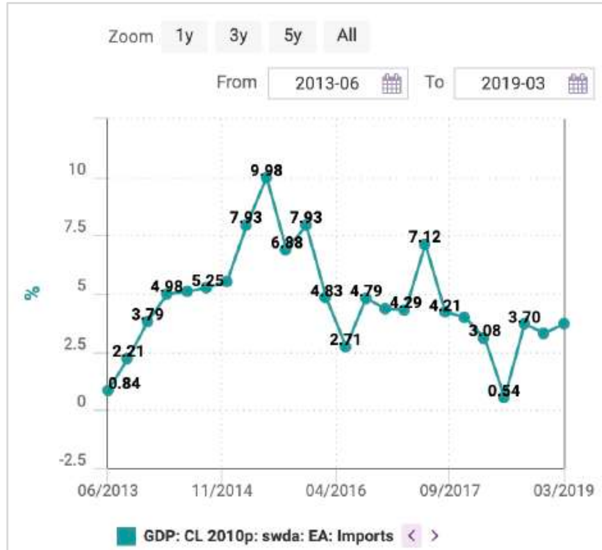


Source: CEIC Data

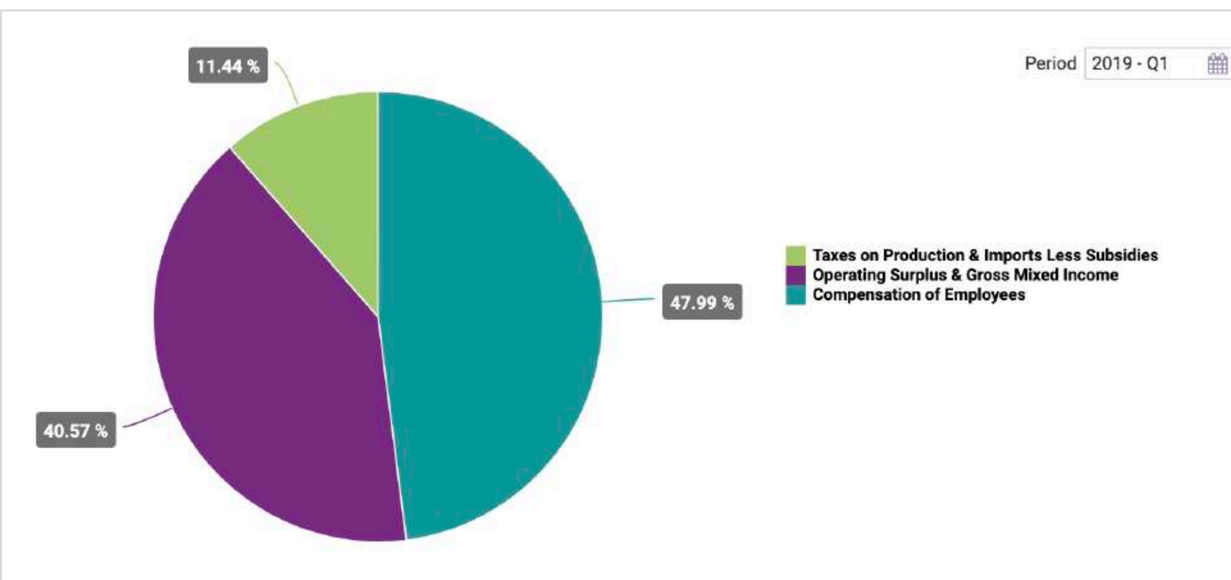
Exports of Goods and Services: YoY



Imports of Goods and Services: YoY

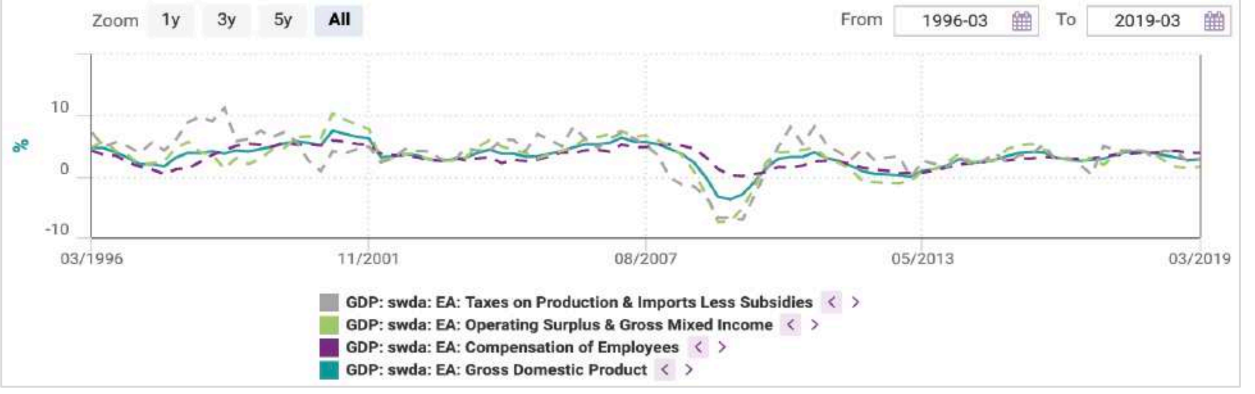


GDP: by Income

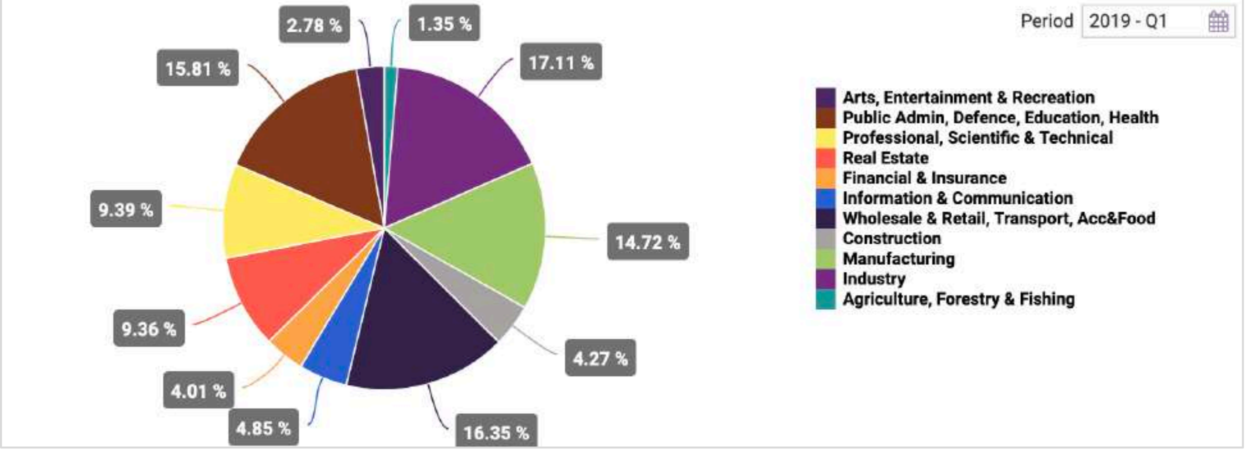


Source: CEIC Data

GDP by Income: YoY



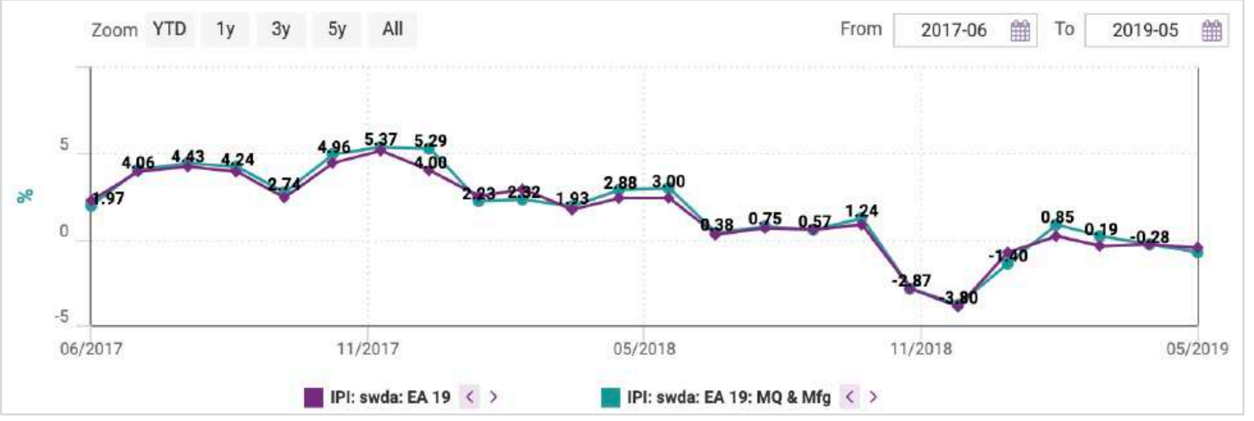
Gross Value Added: by Industry



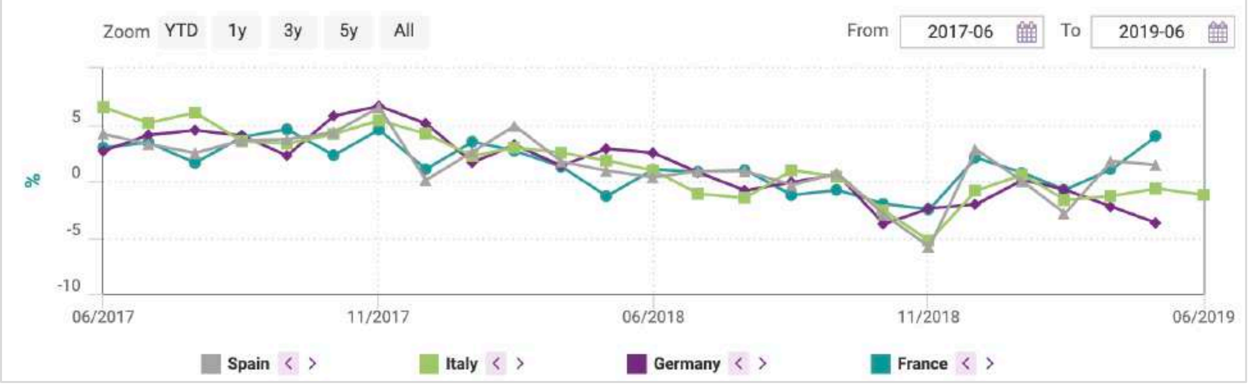
GVA Growth: Major Industries

Source: CEIC Data

Industrial Production Index: YoY



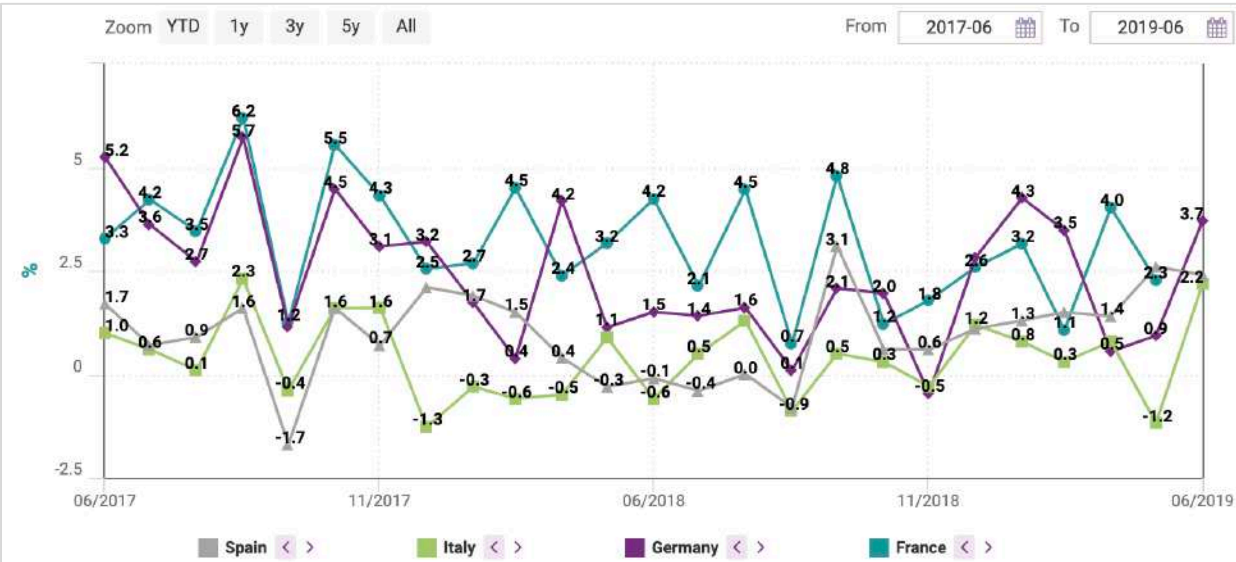
IPI: Top 4 Economies



Wholeseale and Retail Trade Index: Volume and Value

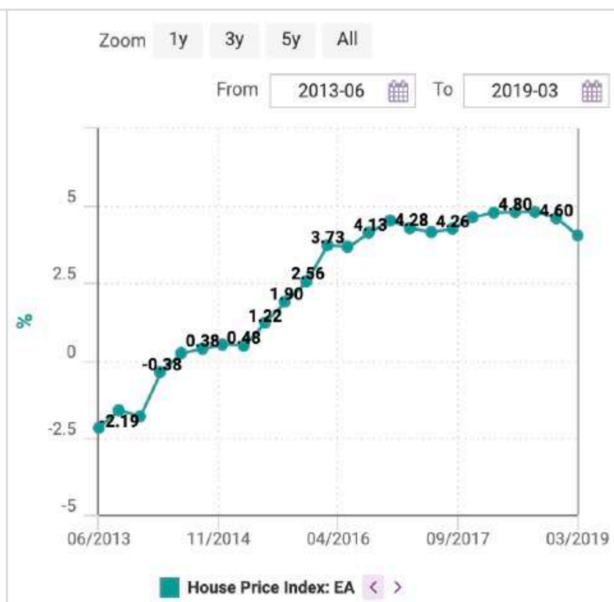
Source: CEIC Data

Retail Sales: Top 4 Economies



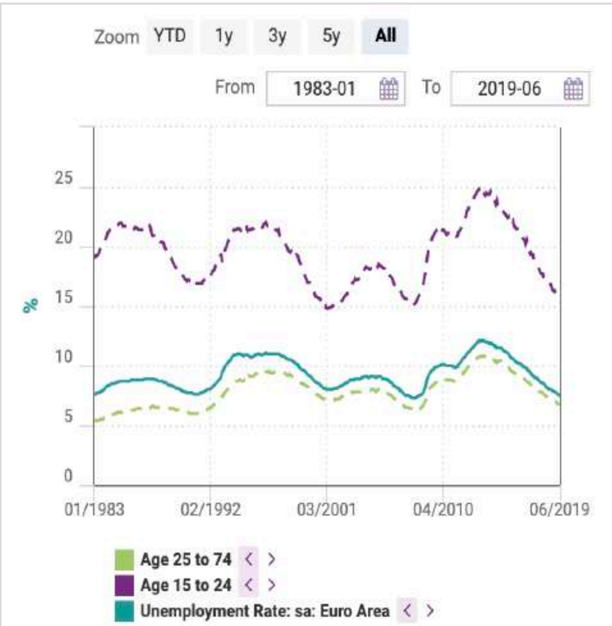
Construction Production Index: YoY

House Price Index: YoY

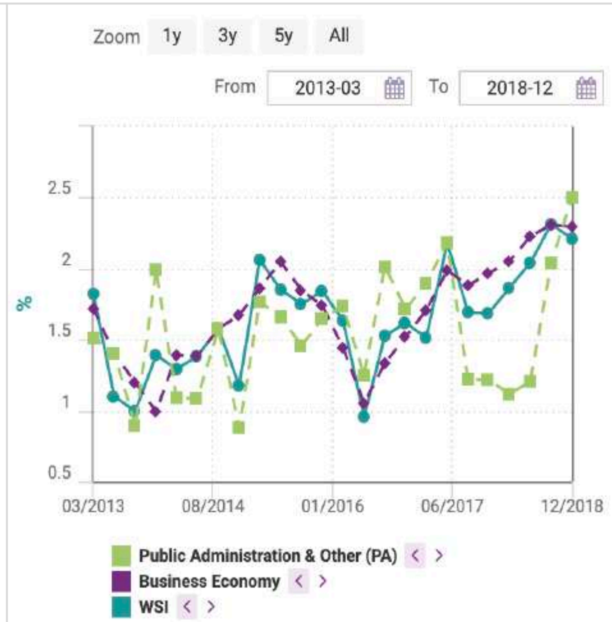


Source: CEIC Data

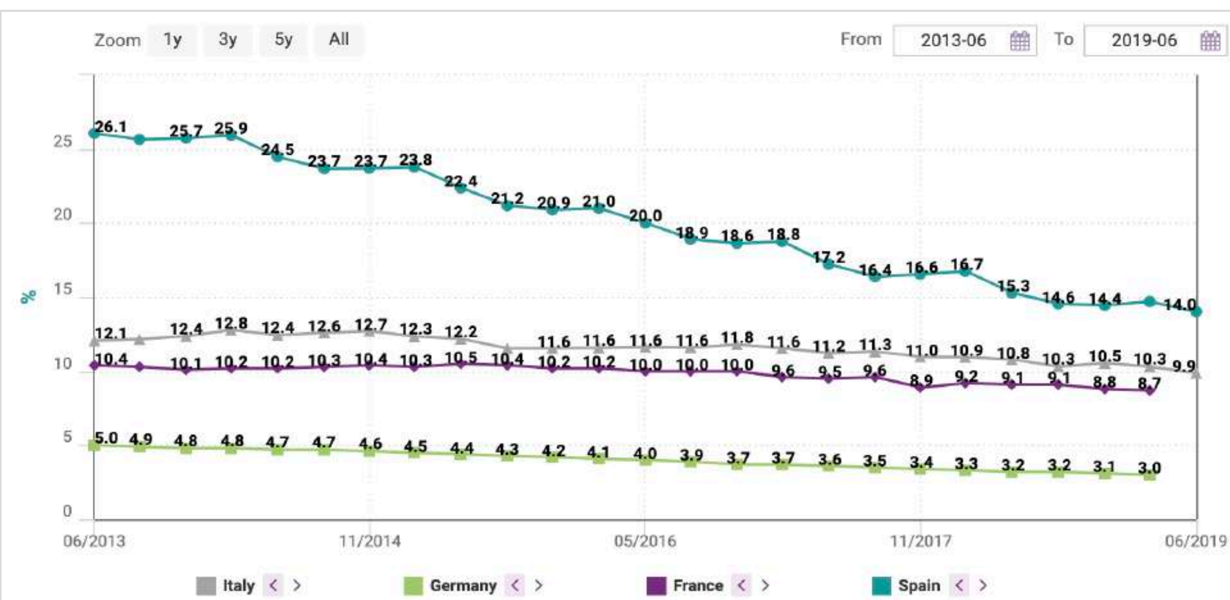
Unemployment Rate



Wages and Salaries Index: YoY



Unemployment Rate: Top 4 Economies



Source: CEIC Data

Monetary & Financial Sector

Monetary & Financial Sector

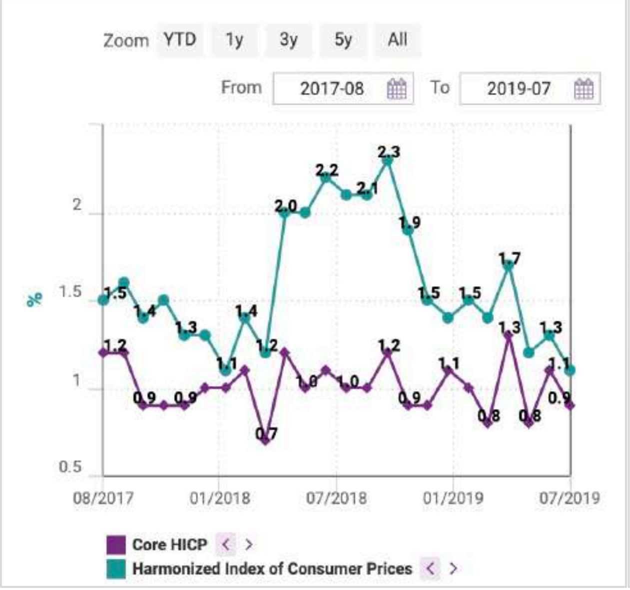
Consumer price index (CPI) in the eurozone continues to struggle below the ECB's target of 2% and as of June stood at 1.2%. CPI has been declining rapidly since October 2018 aside from a brief boost in April 2019. Since 2015, the Euro Area has suffered from persistently low inflation rates that have only managed to reach the ECB's target for short periods, the last being May-October 2018. With the cooldown of the union's economy since the beginning of the year, the policymakers abandoned plans of raising the interest rates in the near future. The nomination of Christine Lagarde to succeed Mario Draghi as ECB president in November 2019 led to speculation that the quantitative easing programme, which Lagarde had supported previously, may return as an ECB policy. Core inflation (excluding prices for energy, food, alcohol and tobacco) has accelerated to 1.1% - rather expected, since the indicator has been fluctuating around 1% for years now.

In May, alcoholic, tobacco and narcotics goods consumer prices saw the steepest increase of 3%, followed by those of housing, water, electricity and other fuels, which went up by 2.3%. These prices have also been growing the fastest in the past 12 months. Prices of food and alcoholic beverages, which carry a 15% relative weight in the consumer basket, increased near the average by 1.1%, while the cost of services kept on decelerating and reached the level of core inflation (1.1%). The strongest deflation once again was observed in communications, where prices have long been declining. The monthly drop stood at 3%, the deepest contraction since January 2014. Country-wise, the highest inflation y/y was observed in Latvia (3%), while consumer prices deflated in Greece (-0.3%) and Cyprus (-0.2%). Producer prices growth experienced a sharp deceleration in May, reaching 1% y/y, after a period of relative stability since the beginning of the year. Prices in the mining and quarrying sector dropped dramatically, contracting by 6.5%, while the other major groups decelerated but kept positive values. The only exception were consumer goods prices, which accelerated very marginally to 0.5% y/y. Among major Euro Area economies, PPI rose the highest in Germany (1.9%), while in France it remained around the monetary union's average at 1%.

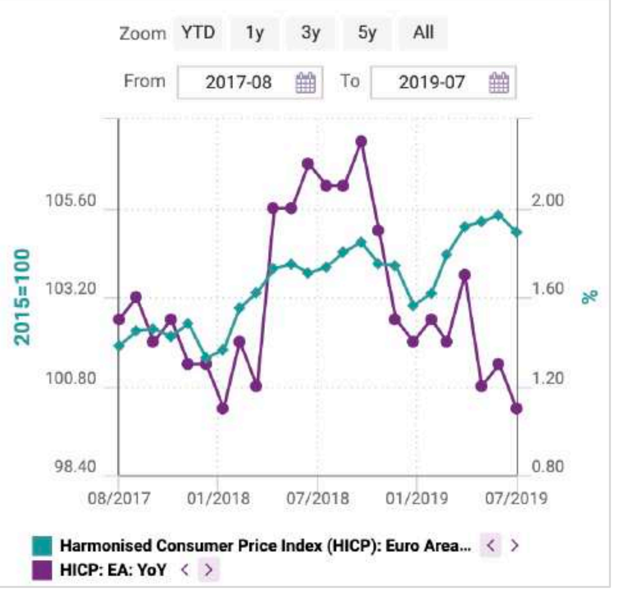
The ECB kept the refinancing rate unchanged at 0% in June amid a low-inflation environment and stated that rates would most likely remain unchanged through the first half of 2020. ECB President Draghi, who earlier this year said that the ECB would use "all available instruments" to tackle economic slowdown in the eurozone, hinted at a possible interest rate cuts to boost inflation. Draghi, who will step down as ECB president in October 2019, also could reinstate the quantitative easing programme, something which is seen as widely possible and in accordance with his successor Lagarde's views. The announcement of potential further stimulus in September caused a drop in the value of the euro against the US dollar. This had a temporary effect, however, as the euro caught back and returned to its median June value (1.12 USD/EUR) in the beginning of July.

The Dow Jones Euro Stoxx Index reacted positively to the ECB comments for further stimulus and at the end of June stood at 378.6, gaining 5.8% compared to its end of May value. The euro performance on the FX markets remained somehow stable throughout the first half of 2019 balancing between weak inflation outcome and the expected Fed interest rate cut which eventually happened at the end of July. The weaker euro provides trade benefits for export-oriented countries in the eurozone, much to the US president's displeasure but it is also a reflection of the economic cooldown among the members of the monetary union, which is something that the policy makers should be wary of. Uncertainties regarding Brexit are also troubling investors, especially regarding the new prime minister.

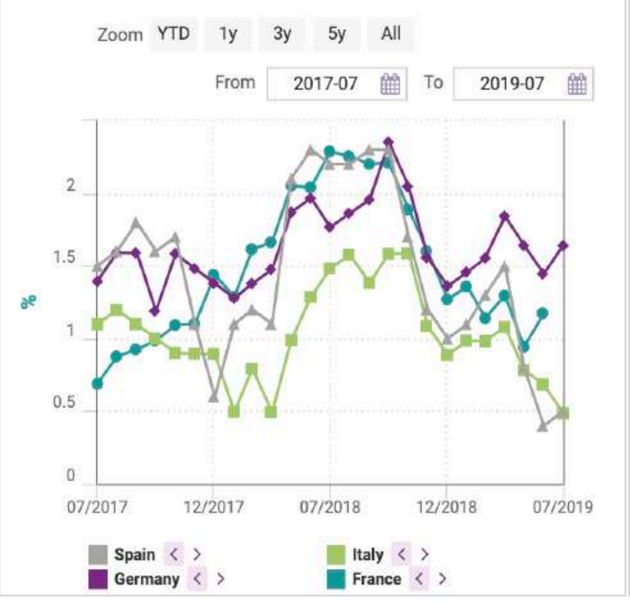
Headline and Core Inflation



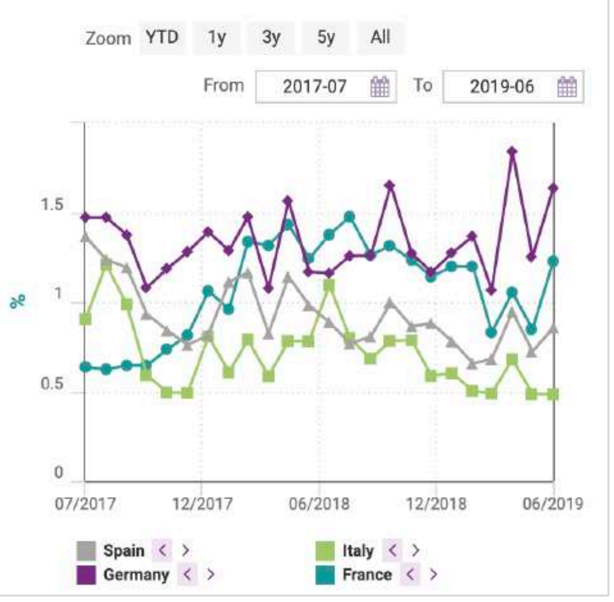
Harmonised Index of Consumer Prices



CPI: Top 4 Economies



Core CPI: Top 4 Economies



Source: CEIC Data

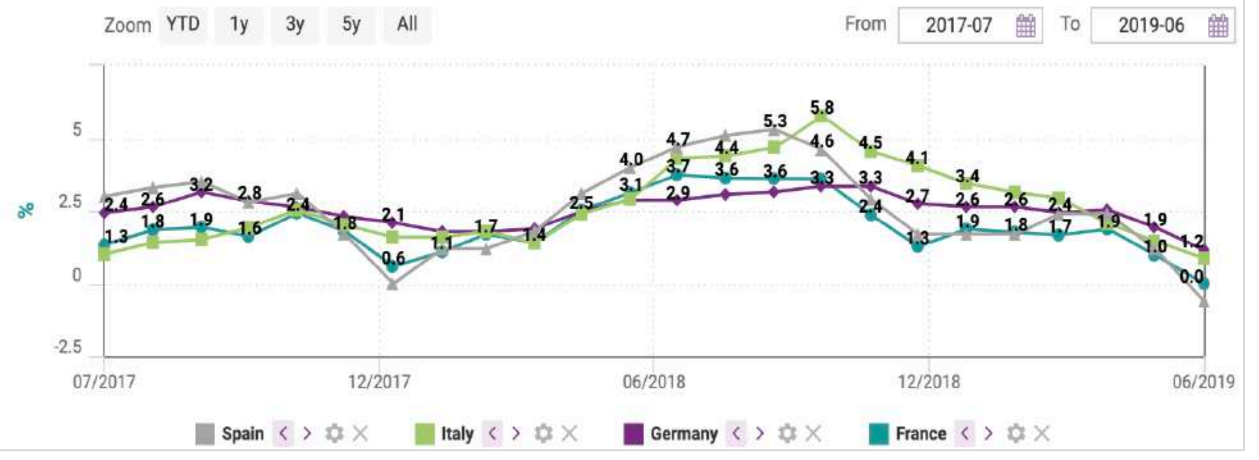
Producer Price Index: EA 19

Harmonised Consumer Price Index

	Unit	07.01.2019	06.01.2019	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019
Harmonised Consumer Price Index: Euro Area	%	1,06	1,27	1,22	1,72	1,40	1,49	1,39
Food & Non Alcoholic	%		1,27	1,12	1,15	1,35	1,84	1,31
Alcoholic, Tobacco & Narcotics	%		2,80	3,04	2,91	3,38	3,90	3,72
Housing, Water, Electricity, Gas & Other Fuels	%		2,27	2,34	2,76	2,87	2,64	2,57
Communications	%		-2,55	-2,98	-2,74	-2,10	-2,11	-1,97
Restaurants & Hotels	%		2,40	2,06	2,41	1,58	1,81	1,87
MS: Insurance	%		1,58	1,23	1,25	1,19	1,64	1,61
Services	%	1,17	1,63	1,05	1,93	1,14	1,36	1,57
All Items: excl Energy & Seasonal Food	%		1,25	0,98	1,36	0,96	1,16	1,22
Clothing & Footwear	%		0,43	0,40	0,30	-0,07	1,13	1,20
Furnishings, Household Equipment	%		0,36	0,48	0,41	0,29	0,45	0,40
Health	%		0,70	0,66	0,82	0,88	0,88	0,86
Transport	%		1,09	1,98	2,93	2,12	1,24	0,83
Recreation & Culture	%		0,66	-0,79	1,81	-0,01	0,68	1,32
Education	%		-0,63	-0,09	0,00	0,00	0,00	0,00
Miscellaneous Goods & Services	%		1,60	1,47	1,57	1,45	1,57	1,56
Goods excl Services	%		0,97	1,36	1,55	1,62	1,58	1,24

Source: CEIC Data

PPI: Top 4 Economies

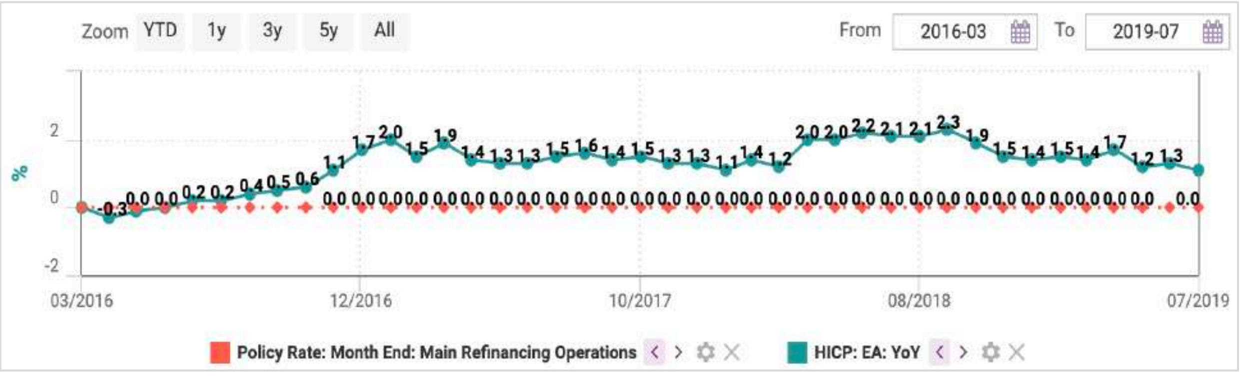


Producer Price Index: EA

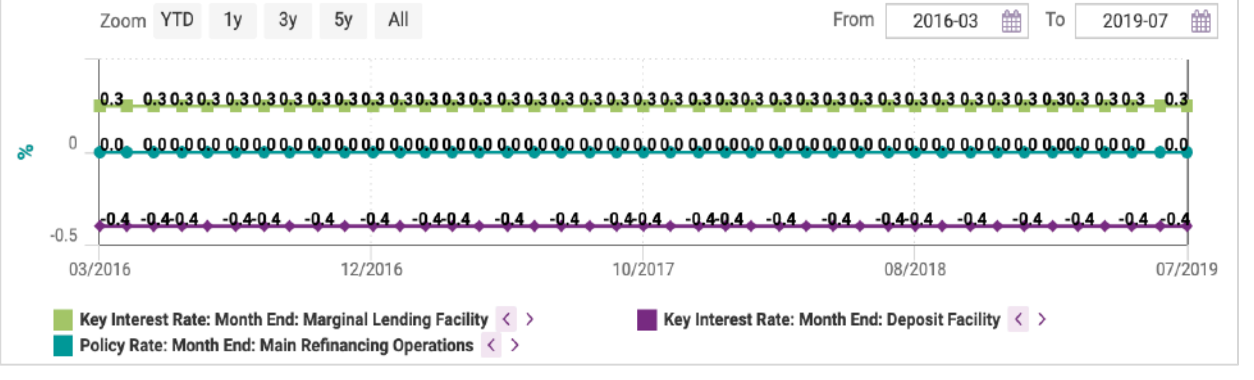
	Unit	06.01.2019	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019	12.01.2018
PPI: EA 19	%	0,10	0,97	1,86	1,96	1,86	1,76	1,87
Industry: excl Construction	%	0,19	1,07	1,96	1,96	1,86	1,86	1,87
MQ & Mfg	%	-0,10	0,58	1,27	1,17	0,98	0,49	0,88
Mining & Quarrying (MQ)	%	-12,05	-5,92	-2,52	-0,41	6,84	5,76	8,43
Manufacturing (Mfg)	%	0,00	0,68	1,27	1,27	0,98	0,59	0,69
Electricity, Gas & Air Conditioning Supply (EA)	%	1,49	4,04	6,65	7,30	8,53	11,55	9,81
Intermediate Goods	%	-0,10	0,58	1,25	1,26	1,26	1,55	2,05
Energy	%	-1,41	2,76	6,48	7,57	7,74	6,82	7,36
Capital Goods	%	0,69	0,79	0,98	0,69	0,49	0,59	0,30
Consumer Goods	%	0,59	0,50	0,40	0,20	0,10	-0,20	-0,49
Consumer Durables	%	0,88	0,89	0,98	0,99	0,79	0,89	0,59
Consumer Non Durables	%	0,59	0,40	0,40	0,10	-0,10	-0,30	-0,69

Source: CEIC Data

Policy Rate and Inflation



Key Rates

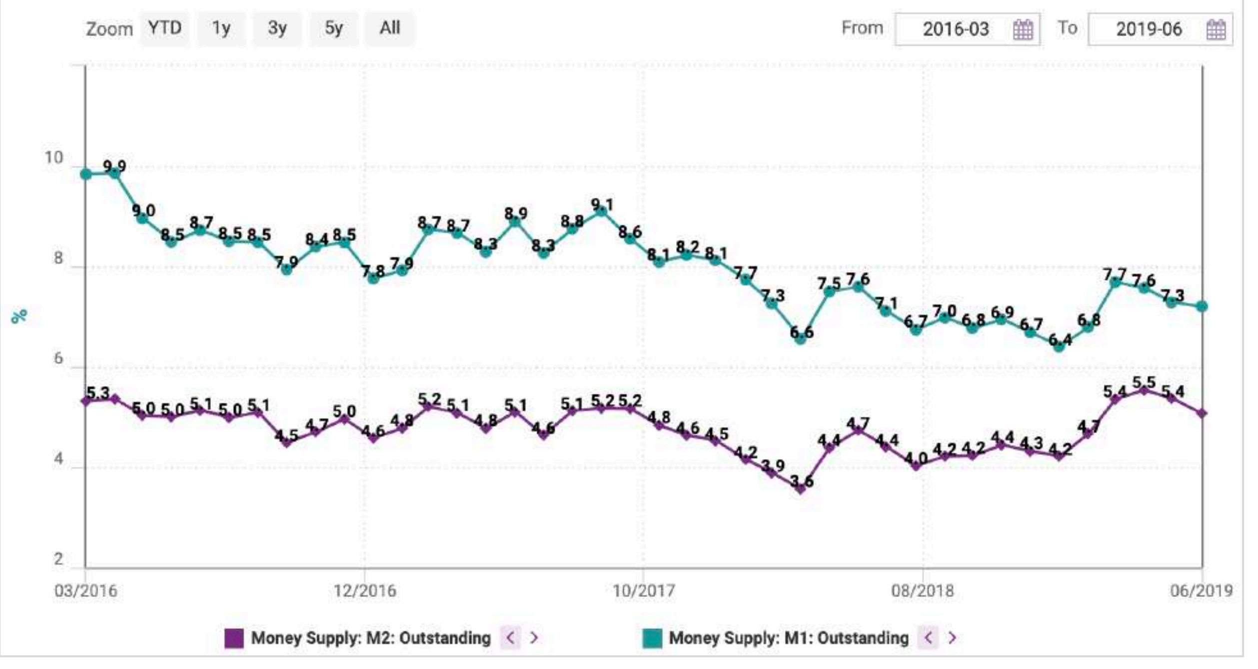


Key Rates

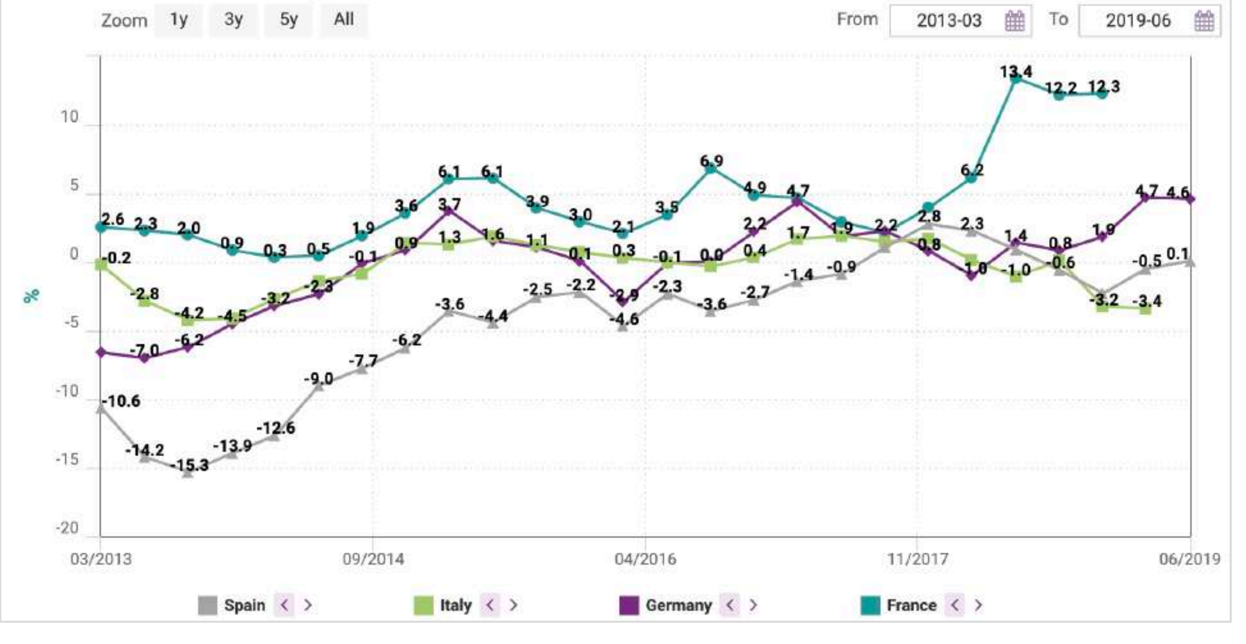
	Unit	07.01.2019	06.01.2019	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019
Policy Rate: Month End: Main Refinancing Operations	% pa	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Key Interest Rate: Month End: Deposit Facility	% pa	-0,40	-0,40	-0,40	-0,40	-0,40	-0,40	-0,40
Key Interest Rate: Month End: Marginal Lending Facility	% pa	0,25	0,25	0,25	0,25	0,25	0,25	0,25
RRR: Reserve Coefficient: OvernightDeposit,Deposit,Debt Sec, MMPaper	%	1,00	1,00	1,00	1,00	1,00	1,00	1,00
MFI: Lending Rate: NB: HH: Consumer Credit (CC): Fixation: Total	% pa		5,64	5,74	5,63	5,59	5,66	5,76
MFI: Lending Rate: NB: HH: House Purchase (HP): Fixation: Total	% pa		1,65	1,71	1,74	1,77	1,80	1,81
Euro Index Average (EONIA): Overnight	% pa	-0,36	-0,36	-0,36	-0,36	-0,36	-0,37	-0,36
Short Term Interest Rate: Month End: EURIBOR: 3 Months	% pa	-0,38	-0,35	-0,32	-0,31	-0,32	-0,31	-0,31
Euro Interbank Rate: Month Average: Overnight: Euro Area	% pa	-0,37	-0,36	-0,37	-0,37	-0,37	-0,37	-0,37

Source: CEIC Data

Money Supply: YoY Growth



Total Loans Growth: Top 4 Economies



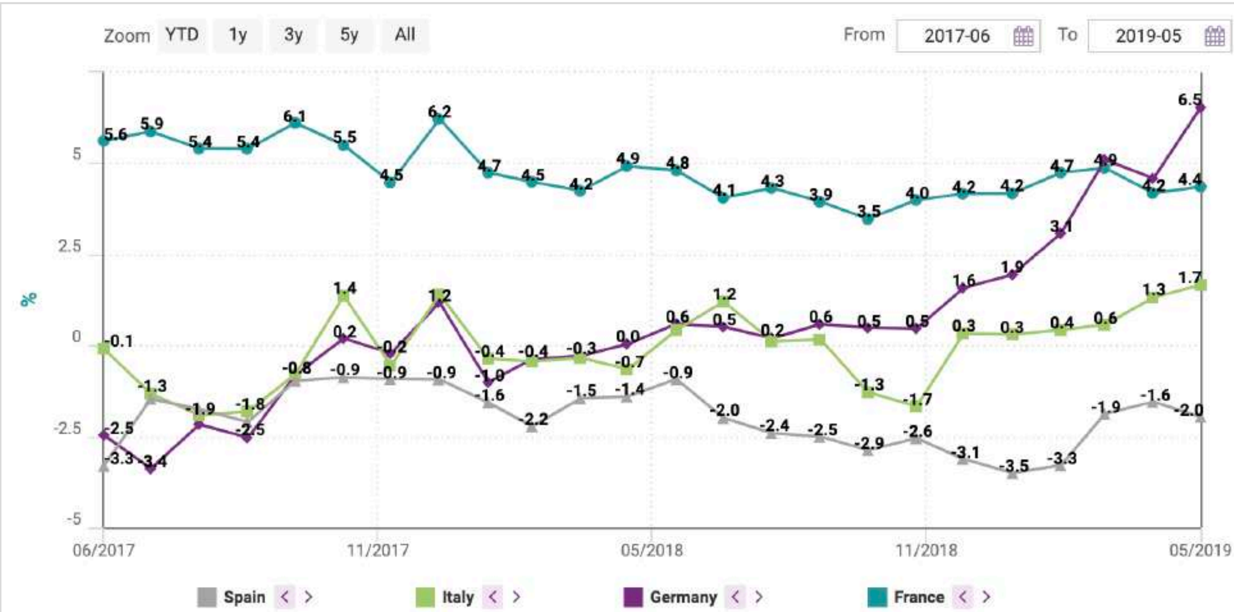
Source: CEIC Data

PPI: Top 4 Economies

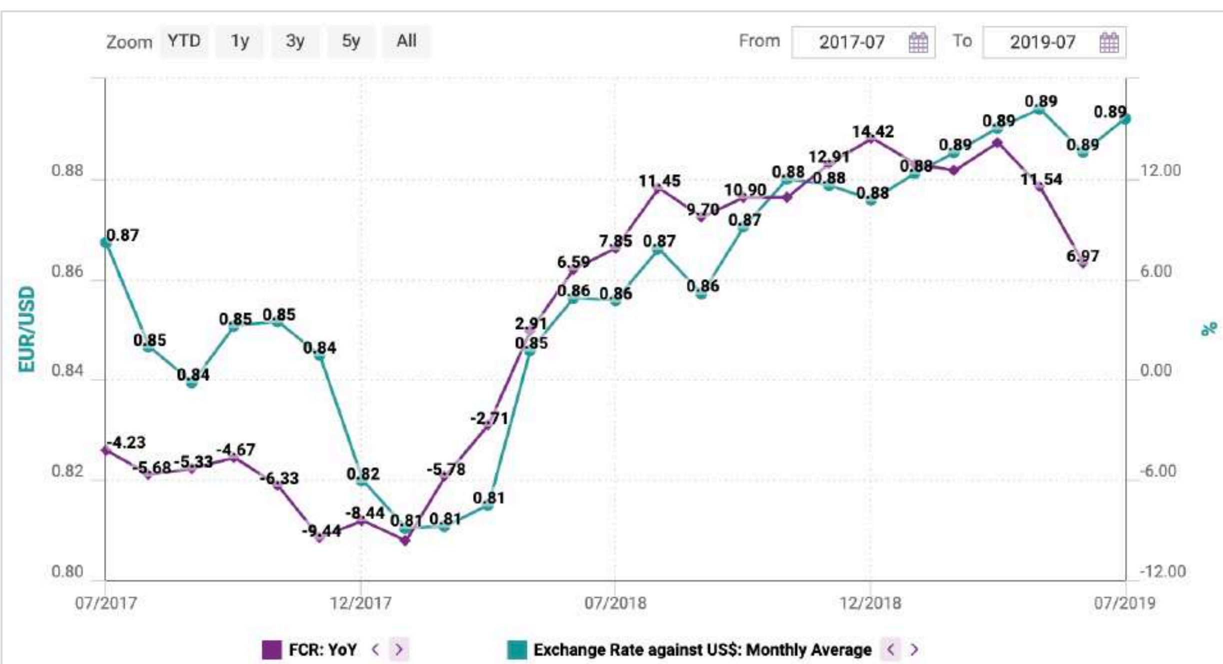
	Unit	06.01.2019	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019	12.01.2018
Official Reserve Assets (ORA)	EUR bn	770,65	751,04	740,45	741,14	732,86	728,40	719,05
ORA: ow Include Financial Derivatives	EUR bn	260,53	266,56	262,29	259,56	252,04	251,57	253,15
ORA: Foreign Currency Reserves (FCR)	%	6,97	11,54	14,16	12,50	12,88	14,42	12,91
ORA: FCR: Securities	EUR bn	219,19	223,43	221,04	219,77	212,76	209,33	202,74
ORA: FCR: Securities: ow Issuer Headquartered in EA	EUR bn	0,13	0,11	0,11	0,11	0,10	0,10	0,10
ORA: FCR: Total Currency & Deposits with (CD)	EUR bn	41,50	43,40	41,31	39,90	39,21	42,27	50,42
ORA: FCR: CD: Other National Central Banks, BIS & IMF	EUR bn	35,53	36,05	35,71	31,75	28,93	31,00	41,72
ORA: FCR: CD: Banks	EUR bn	5,97	7,35	5,60	8,15	10,28	11,28	8,70
ORA: FCR: CD: Banks: HQ in Euro Area & Located Abroad	EUR bn	0,29	1,99	0,66	0,25	1,23	1,48	0,51
ORA: FCR: CD: Banks: HQ & Located Outside Euro Area	EUR bn	5,68	5,36	4,95	7,90	9,05	9,80	8,19
ORA: IMF Reserve Position	EUR bn	24,25	24,56	24,64	22,26	22,17	22,11	22,15
ORA: SDR	EUR bn	52,56	53,09	52,83	52,75	52,28	52,07	51,76
ORA: Gold Including Gold Deposits & Gold Swapped	EUR bn	430,39	403,47	396,93	400,80	402,36	399,22	388,45
ORA: Gold Including Gold Deposits & Gold Swapped: Volume	Unit mn	346,45	346,49	346,49	346,54	346,54	346,54	346,53
ORA: Other Claim	EUR bn	2,77	3,09	3,71	5,66	4,08	3,40	3,54
ORA: Other Claim: excl Financial Derivatives	EUR bn	2,91	3,35	3,76	5,67	4,00	3,43	3,54
ORA: Other Claim: Financial Derivatives	EUR bn	-0,16	-0,26	-0,05	-0,10	0,07	-0,04	-0,01
ORA: Other Claim: Other	EUR bn	0,02	0,00	0,00	0,10	0,00	0,00	0,00
Other Foreign Currency Assets (FC)	EUR bn	17,48	19,06	19,26	20,07	20,95	21,59	20,60
FC: Securities Not Included in Office Reserve Assets	EUR bn	6,82	7,23	7,20	7,25	7,06	6,70	6,03
FC: Deposits Not Included in Office Reserve Assets	EUR bn	10,78	12,07	12,18	12,98	13,95	14,96	14,62
FC: Loans Not Included in Office Reserve Assets	EUR bn	0,02	0,02	0,02	0,02	0,02	0,02	0,02
FC: Financial Not Included in Office Reserve Assets	EUR bn	-0,17	-0,28	-0,16	-0,20	-0,10	-0,11	-0,10
FC: Other	EUR bn	0,02	0,02	0,02	0,03	0,02	0,02	0,03

Source: CEIC Data

Domestic Credit Growth: Top 4 Economies

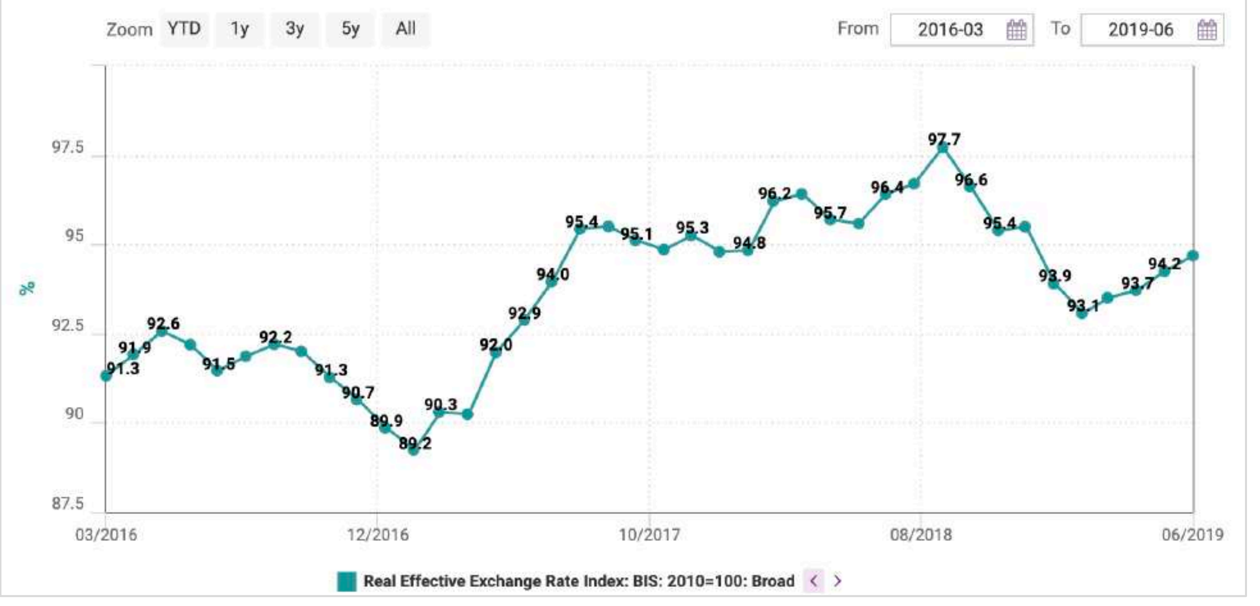


FX Rate and Foreign Currency Reserves Growth

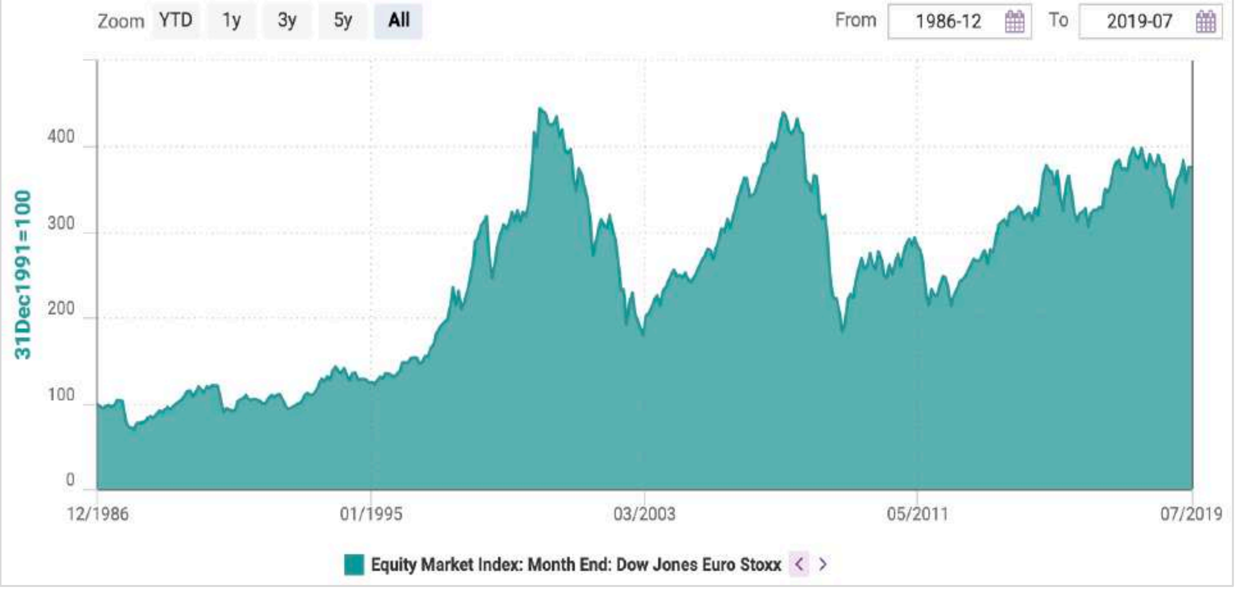


Source: CEIC Data

Real Effective Exchange Rate Index: BIS: 2010=100: Broad



Equity Market Index: Month End: Dow Jones Euro Stoxx



Source: CEIC Data

Fiscal Sector

Fiscal Sector

The eurozone continues to pursue its policy of fiscal prudency which aims at reducing the members' fiscal deficit and possibly achieving a surplus as well as keeping low consolidated debt levels (60% of GDP according to the Maastricht criteria). According to the European Commission's Directorate-General for Economic and Financial Affairs (DG ECFIN), the eurozone fiscal deficit decreased for the ninth consecutive year to reach 0.6% at the end of 2018, its best performance since 2000. Forecasts for the next two years show that fiscal regulation would be loosened, albeit very slightly, and deficits for 2019 and 2020 would amount to 0.8% and 0.7% respectively. The strict fiscal policy of the Euro Area has been met with various degrees of scepticism by member states' governments, as some believe that tight budgets could hamper the economic growth of a nation. The latest friction occurred between the EU Parliament and Greece's newly elected government, led by New Democracy party's leader Kyriakos Mitsotakis. Mitsotakis has stated his intention to try to renegotiate primary budget surplus targets which were set by the previous government in an attempt to gain a debt reduction from its creditors following the 2010 Greek debt crisis. According to the current agreement, Greece must maintain a primary fiscal surplus of 3.5% of GDP until 2022.

On a more positive note, the Italian government seems to have finally succumbed to the European Commission's urge to keep its budget deficit at 2%. In a press release on July 3, the Commission announced that it would not pursue an Excessive Debt Procedure (EDP) against Italy "at this stage"1 after the Italian government updated its budget from the 2.5% deficit in the spring. The Commission would nevertheless monitor closely the implementation of the budget for 2019 and 2020 to check if it would be in accordance with the eurozone's rules.

According to Eurostat, the eurozone's government debt to GDP ratio amounted to 85.9% in Q1 2019, a 0.4 pp increase compared to Q4 2018. Total government debt reached a record high EUR 10tn, slightly increasing from the EUR 9.9tn in Q1 2018, but decreasing as a share of GDP indebtedness compared to the same period of 2017 when it stood at 87.1%. Debt securities constitute the largest chunk of the Euro Area's liabilities (81.1%), loans make up 15.8% and the remaining 3.1% come from currency and deposits. Southern economies Greece (181.9%) and Italy (134%) remained the most indebted, thus explaining to an extent the eurozone's attitude towards loosening their budget. Among the four largest Euro Area economies only Germany was close to the Maastricht criteria of 60% debt-to-GDP ratio with 61% as of Q1 2019, a marginal increase from the previous quarter.

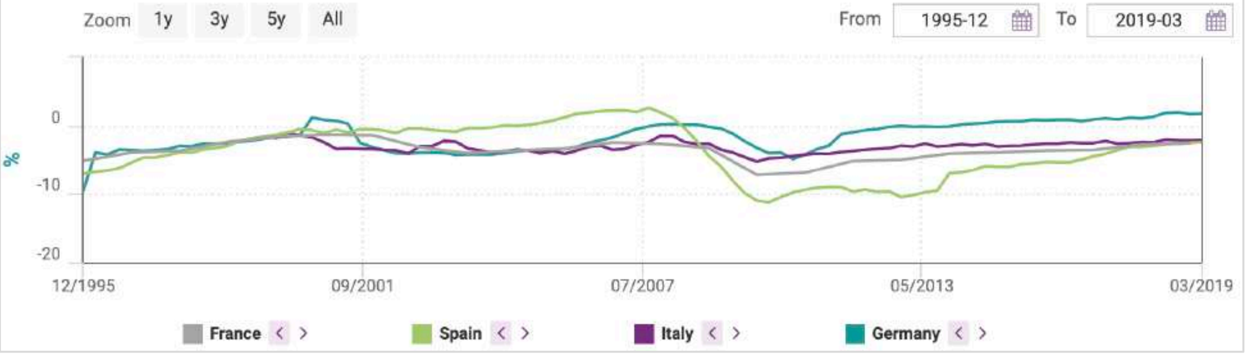
Meanwhile, the eurozone's bond yields continue their plunge to record lows, with the 10-year benchmark government bond yield average for June dropping to 0.6%. Major economies' bond yields are firmly in the negative territory with Germany's 10-year bond yield falling to -0.33% in July while France's dropped to -0.07%. An imminent interest rate cut by the Fed is seen as a major contributor to this development coupled with ECB president Draghi's comments about further monetary easing. Even higher-yielding economies lost some pace, with Italy's 10-year gross yield dropping to its lowest level in a year (2.1%) while Greek bonds yielded 2.2% in mid-July.

General Government Balance: Euro Area

General Government Balance: Top 4

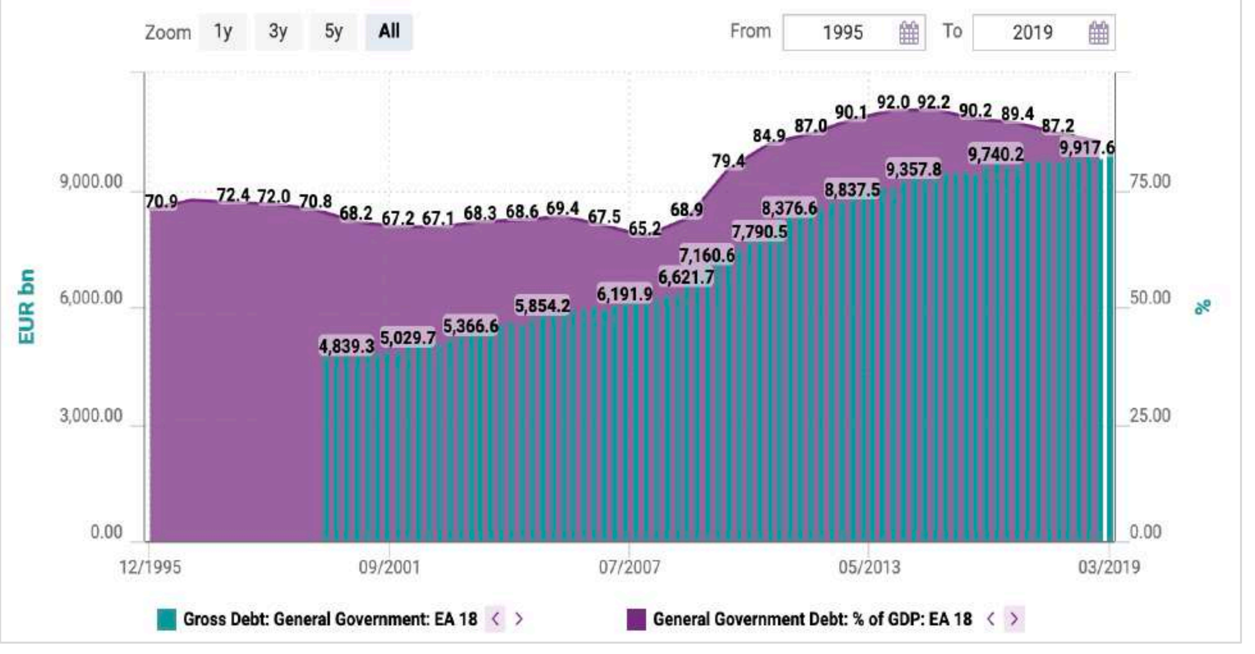
	Unit	03.01.2019	12.01.2018	09.01.2018	06.01.2018	03.01.2018	12.01.2017	09.01.2017
Germany	EUR bn	19,40	-0,10	9,32	30,50	17,62	8,22	6,00
France	EUR bn	-21,51	-15,62	-16,43	-14,39	-13,20	-13,51	-17,92
Italy	EUR bn	-17,71	-8,02	-9,79	-1,81	-17,88	-7,56	-8,31
Spain	EUR bn	-3,70	-16,18	8,16	-17,87	-4,10	-17,62	7,48

Consolidated Fiscal Balance: % of Nominal GDP



Source: CEIC Data

Government Debt: EA 18

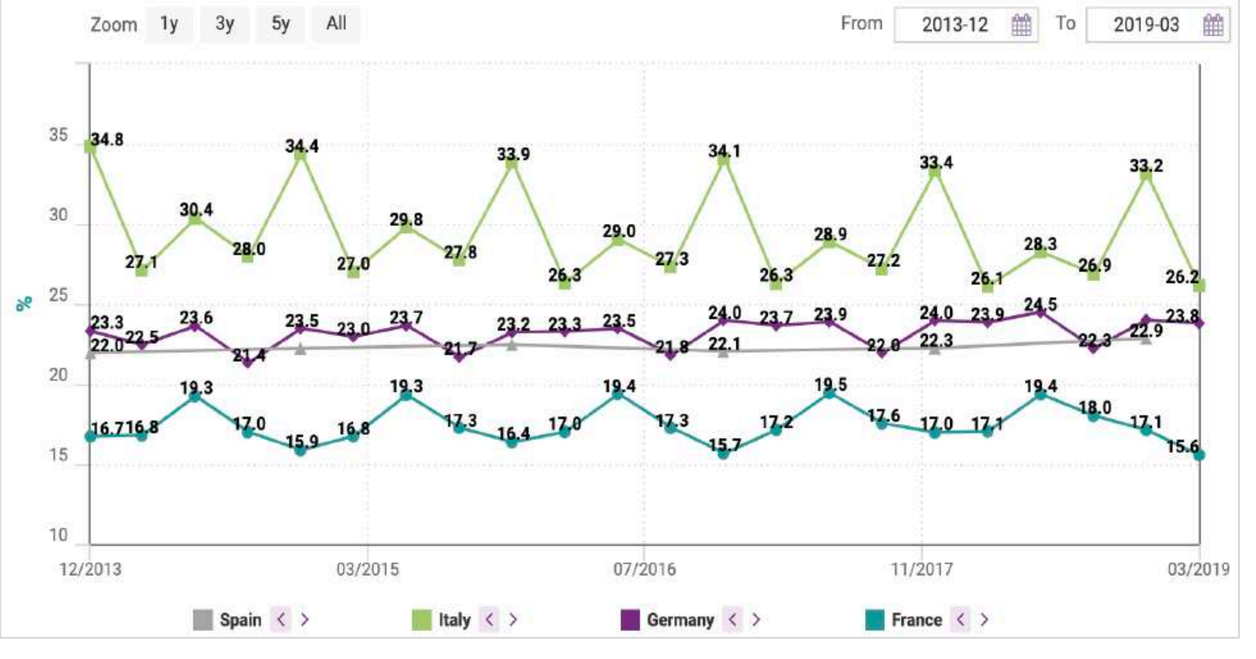


Government Debt: % of GDP: Top 4

Source: CEIC Data

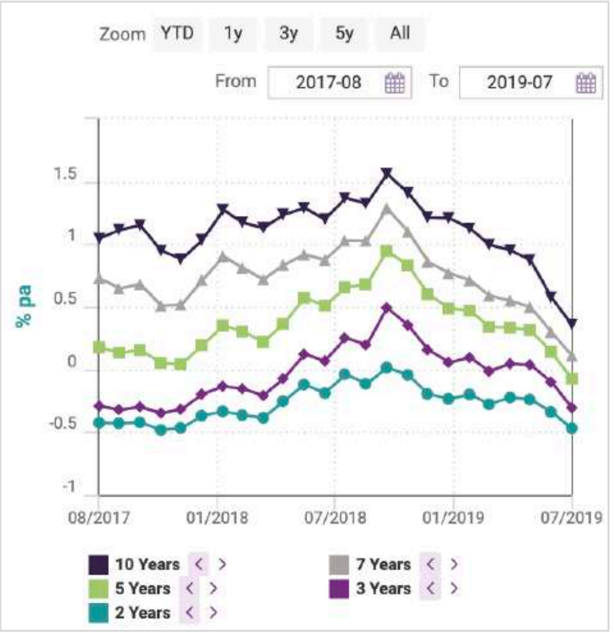
Euro Area: Tax Revenue

Government Debt: % of GDP: Top 4



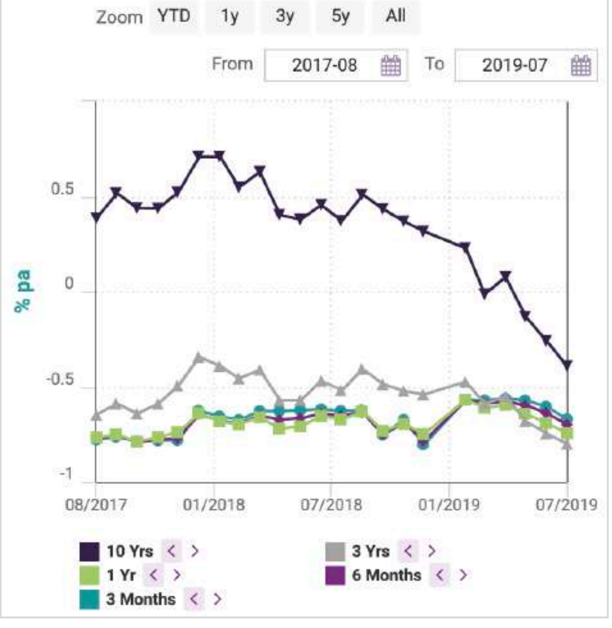
Source: CEIC Data

Government Bond Yield: Monthly Average: Euro

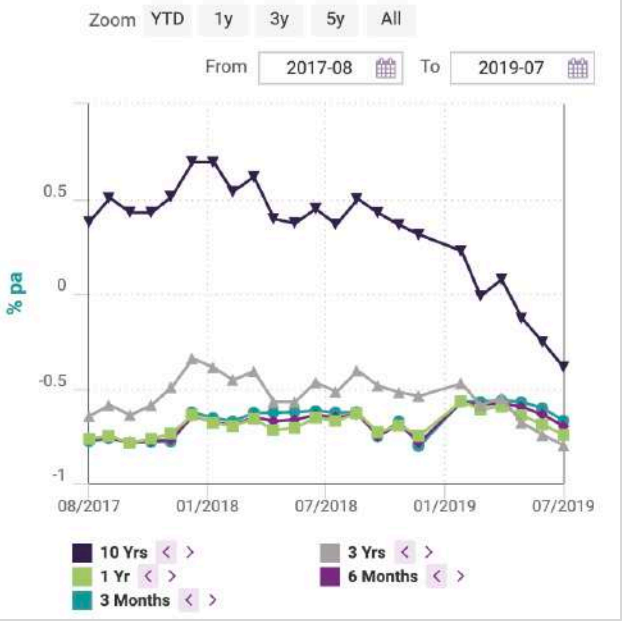


Euro Interbank Offered Rate

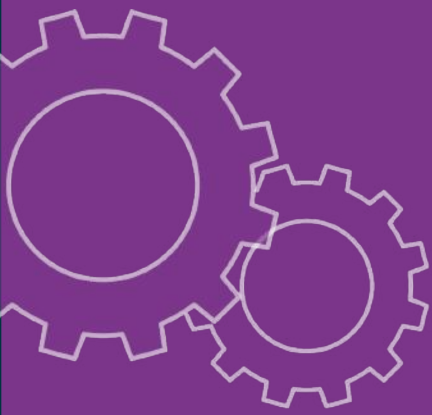
Govt Bond Yield: Spot Rate: AAA



Govt Bond Yield: Par Yield Rate: AAA



Source: CEIC Data



External Sector

External Sector

According to Eurostat's seasonally and working-day adjusted data, trade surplus in the Euro Area improved sharply in May after two months of decline and reached EUR 20.2bn, up by 22.5% y/y. This development was spurred by a bigger increase in export than in import value (4.2% vs 2.4% y/y) and by a decline of imports on a monthly basis. The Euro Area has been running a trade surplus since the end of 2011 as a result of a number of factors including a policy to reduce internal trade imbalances. In January-May 2019 export and import value grew by 4.3% and 4.7% y/y, respectively. For now, these numbers are ahead of the ECB growth projections for 2.2% export growth and 2.7% import growth for the calendar 2019. This might mean that the ongoing global trade tensions have not affected the Euro Area as strongly as expected.

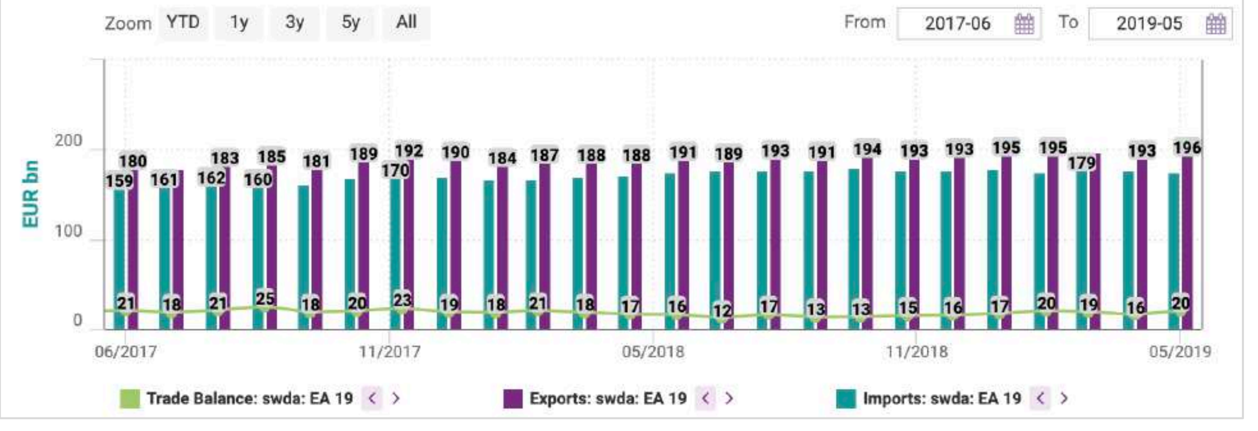
Both the export and import value of manufactured products, which represent the bulk of the traded goods (83% and 70% of exports and imports, respectively), rose – by 2.9% and 0.2% y/y, respectively - while the biggest export value increase was observed in beverages and tobacco (10%). In contrast, mineral fuels and lubricants exports declined sharply by 10.6% y/y, although it is to be noted that they are a particularly volatile trade goods group. Imported goods that increased the strongest were beverages and tobacco (5.1%) while crude materials declined by 2.3%, for a second month in a row.

Export value growth in the four largest Eurozone economies was robust in May, especially in the case of France (12.4% y/y growth in USD terms), but Italy and Spain also followed suit with 8% and 5.4% respectively. The notable exception was the powerhouse Germany, a country with a strongly export-oriented profile. The German economy has been struggling since the beginning of 2019, suffering a considerable decline in the manufacturing sector. This, in turn, affected the country's exports, which declined by 0.5% y/y, for a second month in a row. Germany is the world's second largest exporter after China but its performance is particularly worrying on a local scale since the majority of trade in the Euro Area is between its members – which would signify a declining demand among other countries inside the monetary union.

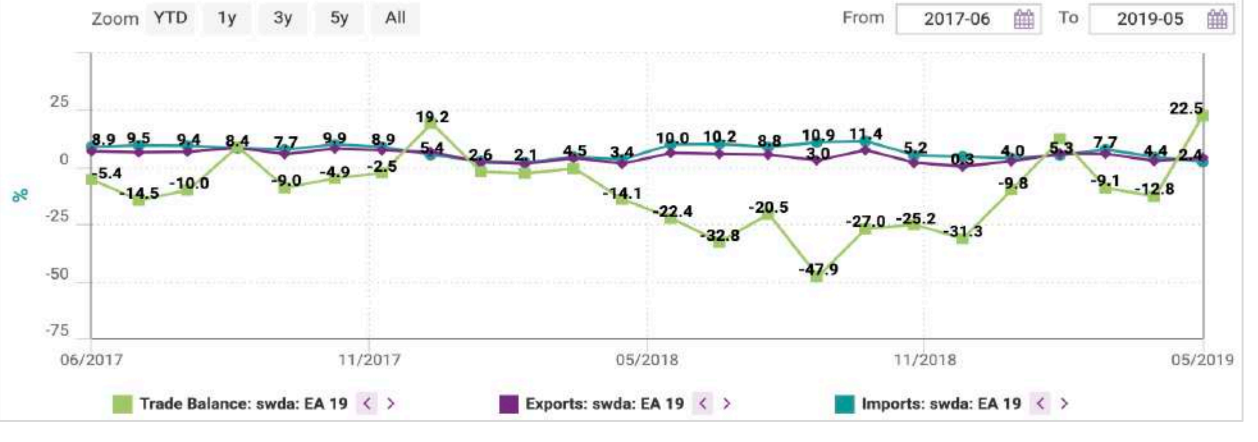
The US remained the largest trade partner of the eurozone and for the January-May period the total bilateral trade surplus amounted to EUR 56bn (EUR 142.2bn of exports vs EUR 86.3bn of imports). May was another month of solid y/y export growth as seasonally-adjusted data revealed a 13.5% increase. Imports, on the other hand, decelerated to 2.1% after growing in the double digits for the last quarters. From a global point of view, the trade war between the US and China seems to have little effect on the eurozone, since Chinese exports to and imports from the Euro Area also increased healthily in May - by 8.4% and 7.8% respectively. In addition to this, US President Trump has expressed his dissatisfaction with the weak euro because of the perceived "unfair" advantage with regards to trade competitiveness. More worrisome are the relationships with traditional partners such as the UK and Turkey. In April the value of Euro Area exports to the UK fell to its lowest point since the 2007-2009 financial crisis, shrinking by 11.2% y/y. It failed to rebound in May and declined further by 0.9%. Turkey's severe lira depreciation since mid-2018 directly affected the country's ability to import from the Euro Area and exports to that country have been continuously decreasing, registering a drop of 14.9% y/y in May.

The eurozone's current account surplus stood at EUR 29.7bn seasonally adjusted in May, increasing by 7.9% y/y and 32.8% m/m. Current account balance has been consistently positive and rising since 2012, with most eurozone members running a surplus, and amounted to 2.2% of the eurozone's GDP as of Q1 2019. This development was influenced mostly by powerhouse Germany, which has followed a strict policy of maintaining a high current account surplus, amounting to 7.7% of GDP for the first quarter of 2019 – way above other big economies, with Italy being a distant second with 1.1%. This policy could, however, prove problematic, especially in light of the recent environment of external pressure – with the euro zone counting on external above domestic demand, it might become more susceptible to the weakening global trade and therefore lose some pace at least in the short term.

Trade Balance: Monthly

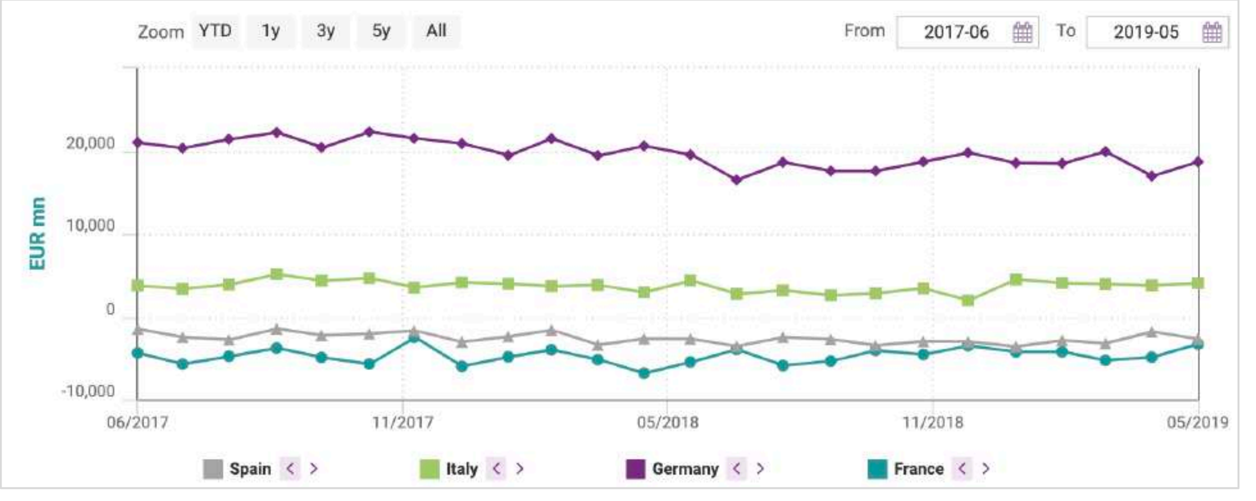


Monthly Trade Balance: YoY Growth



Source: CEIC Data

Trade Balance: Top 4



EA: Exports: by Main Category

	Unit	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019	12.01.2018	11.01.2018
Exports: swda: EA 19	EUR bn	195,59	192,92	197,95	195,24	194,97	192,99	192,63
Food, Drink and Tobacco	EUR bn	14,47	14,83	14,97	14,84	14,58	14,06	14,05
Food and Live Animals Chiefly for Food	EUR bn	11,06	11,50	11,59	11,41	11,25	10,94	10,91
Beverages and Tobacco	EUR bn	3,41	3,32	3,38	3,44	3,33	3,12	3,14
Raw Materials	EUR bn	4,65	4,78	4,92	4,74	4,70	4,65	4,70
Crude Materials, Inedible Except Fuels	EUR bn	4,10	4,19	4,31	4,17	4,12	4,09	4,14
Mineral Fuels, Lubricants	EUR bn	9,02	9,66	9,50	8,64	8,24	8,90	9,58
Petroleum Products	EUR bn	7,87	8,90	8,81	7,95	7,39	8,05	8,89
Animals & Vegetable Oils, Fats & Waxes	EUR bn	0,55	0,59	0,61	0,57	0,58	0,56	0,56
Manufactured Products	EUR bn	162,33	159,82	164,69	163,95	164,29	161,64	162,21
Chemicals & Related Products, nes	EUR bn	35,47	35,16	36,09	35,83	36,60	34,36	34,95
Other Manufactured Products	EUR bn	46,40	46,02	47,35	46,64	47,00	46,08	46,69
Manufactured Gds	EUR bn	22,59	22,83	23,34	23,43	23,81	23,07	23,46
Machinery and Transport Equipment	EUR bn	80,46	78,63	81,24	81,48	80,69	81,20	80,58
Miscellaneous Manufactured Articles	EUR bn	23,81	23,20	24,01	23,21	23,19	23,01	23,23
Goods, nes	EUR bn	5,12	3,83	3,87	3,06	3,16	3,73	2,09

Source: CEIC Data

EA: Imports: by Main Category

	Unit	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019	12.01.2018	11.01.2018
Imports: swda: EA 19	EUR bn	175,35	177,18	179,05	174,88	177,88	177,32	177,63
Food, Drink and Tobacco	EUR bn	11,50	11,79	11,82	11,89	11,97	11,49	11,44
Food and Live Animals Chiefly for Food	EUR bn	10,22	10,48	10,47	10,62	10,69	10,35	10,19
Beverages and Tobacco	EUR bn	1,27	1,30	1,35	1,27	1,28	1,14	1,25
Raw Materials	EUR bn	7,04	7,15	7,35	7,38	7,37	7,60	7,36
Crude Materials, Inedible Except Fuels	EUR bn	6,23	6,37	6,50	6,54	6,59	6,79	6,44
Mineral Fuels, Lubricants	EUR bn	29,07	28,93	29,59	27,81	28,77	29,04	29,30
Petroleum Products	EUR bn		21,62	22,26	21,02	20,88	20,94	20,95
Animals & Vegetable Oils, Fats & Waxes	EUR bn	0,80	0,79	0,85	0,85	0,78	0,81	0,91
Manufactured Products	EUR bn	123,16	126,45	127,84	126,07	126,80	126,05	126,77
Chemicals & Related Products, nes	EUR bn	20,31	20,49	21,21	20,60	20,59	19,99	20,29
Other Manufactured Products	EUR bn	43,59	45,16	44,72	44,33	44,80	44,63	45,54
Manufactured Gds	EUR bn	18,83	19,79	19,63	19,82	20,21	19,97	20,54
Machinery and Transport Equipment	EUR bn	59,27	60,80	61,92	61,14	61,42	61,44	60,94
Miscellaneous Manufactured Articles	EUR bn	24,76	25,36	25,09	24,51	24,59	24,66	24,99
Goods, nes	EUR bn	4,58	2,86	2,45	1,73	2,96	3,14	2,76

EA: Exports: by Main Trading Partner

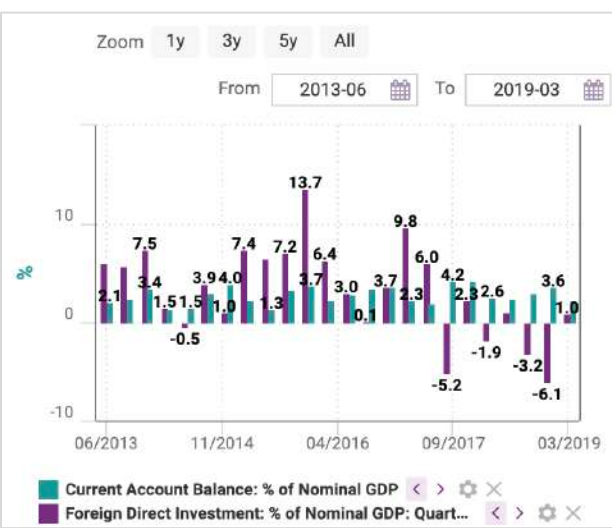
	Unit	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019	12.01.2018	11.01.2018
Intra EA	EUR bn	165,99	164,17	164,38	165,03	165,92	162,33	163,40
United Kingdom	EUR bn	23,18	20,53	26,97	25,46	24,47	23,58	23,33
United States	EUR bn	28,73	29,11	27,64	27,87	28,89	27,91	27,54
China (except Hong Kong SAR)	EUR bn	14,97	14,97	14,82	14,64	15,56	14,12	15,00
Poland	EUR bn	11,13	11,52	11,80	11,63	11,62	11,58	11,73
Switzerland	EUR bn	11,58	11,23	11,17	11,77	11,30	10,72	10,70
Czech Republic	EUR bn	7,25	7,51	7,63	7,53	7,50	7,55	7,61
Sweden	EUR bn	6,19	6,15	6,12	6,10	6,15	6,01	6,28
Russia	EUR bn	5,91	5,70	5,63	5,79	5,79	5,63	5,53
Hungary	EUR bn	4,71	4,81	5,03	5,03	4,92	4,97	4,90
Turkey	EUR bn	4,38	4,24	4,69	4,55	4,27	4,22	4,00
Japan	EUR bn	4,77	4,43	4,63	4,32	4,55	4,45	4,25
Denmark	EUR bn	3,66	3,59	3,63	3,55	3,62	3,60	3,63
Romania	EUR bn	3,78	3,78	3,93	3,83	3,86	3,67	3,70
South Korea	EUR bn	3,57	3,46	3,27	3,36	3,15	2,99	3,29

Source: CEIC Data

EA: Imports: by Main Trading Partner

	Unit	05.01.2019	04.01.2019	03.01.2019	02.01.2019	01.01.2019	12.01.2018	11.01.2018
Intra EA	EUR bn	161,82	163,16	162,89	162,55	162,72	161,65	160,90
United Kingdom	EUR bn		13,12	16,28	15,05	14,69	14,15	14,18
United States	EUR bn	16,81	16,61	17,60	18,35	16,88	17,83	17,33
Russia	EUR bn	9,23	9,87	10,03	9,52	10,76	10,29	10,44
Poland	EUR bn		10,55	10,87	10,54	10,61	10,42	10,54
Czech Republic	EUR bn		8,92	9,11	8,96	9,11	8,87	9,34
Switzerland	EUR bn	8,90	8,54	8,50	8,10	8,59	8,28	8,62
Sweden	EUR bn		5,26	5,31	5,27	5,29	5,38	5,36
Hungary	EUR bn		5,07	5,14	5,08	5,11	5,02	4,83
Turkey	EUR bn	4,49	4,71	4,63	4,67	4,64	4,46	4,64
Japan	EUR bn	4,71	4,86	4,59	4,69	4,65	4,46	4,48
Norway	EUR bn	2,98	3,53	3,09	2,74	3,79	3,47	3,72
Romania	EUR bn		3,27	3,36	3,28	3,15	3,09	3,08
South Korea	EUR bn	2,87	2,96	3,01	2,91	3,40	3,17	2,94
China (except Hong Kong SAR)	EUR bn	24,53	25,09	24,76	24,22	24,20	24,01	24,60

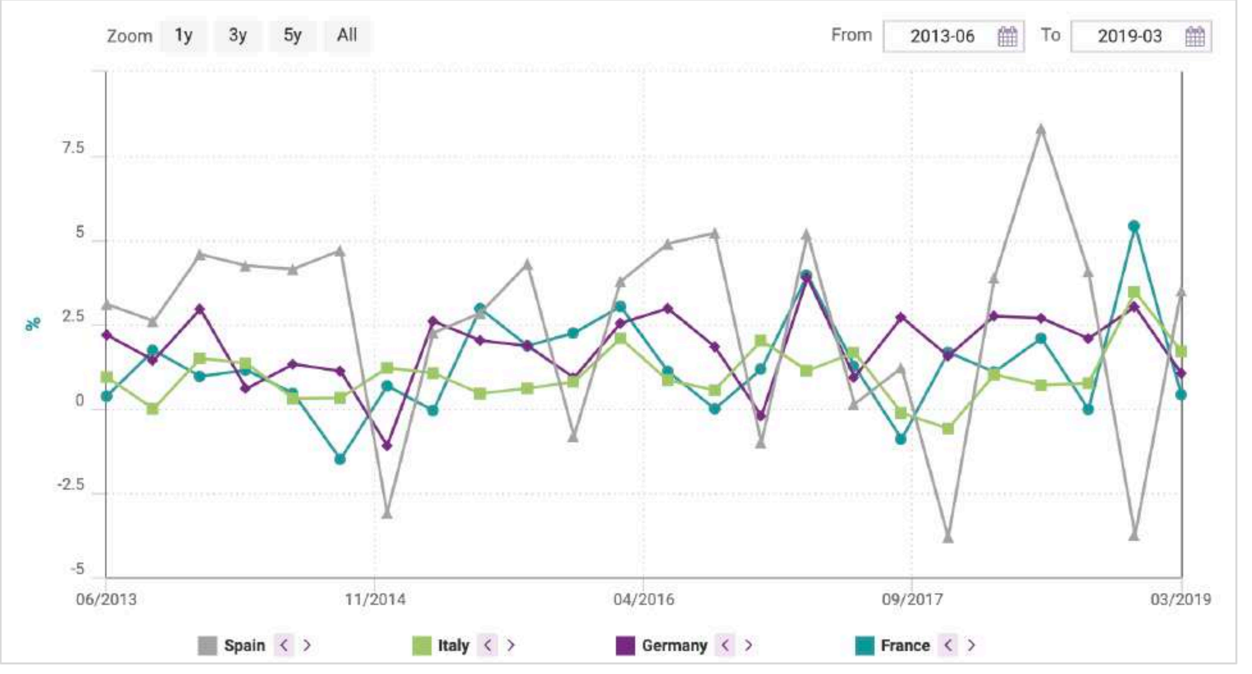
Current Account Balance and Foreign Direct Investment



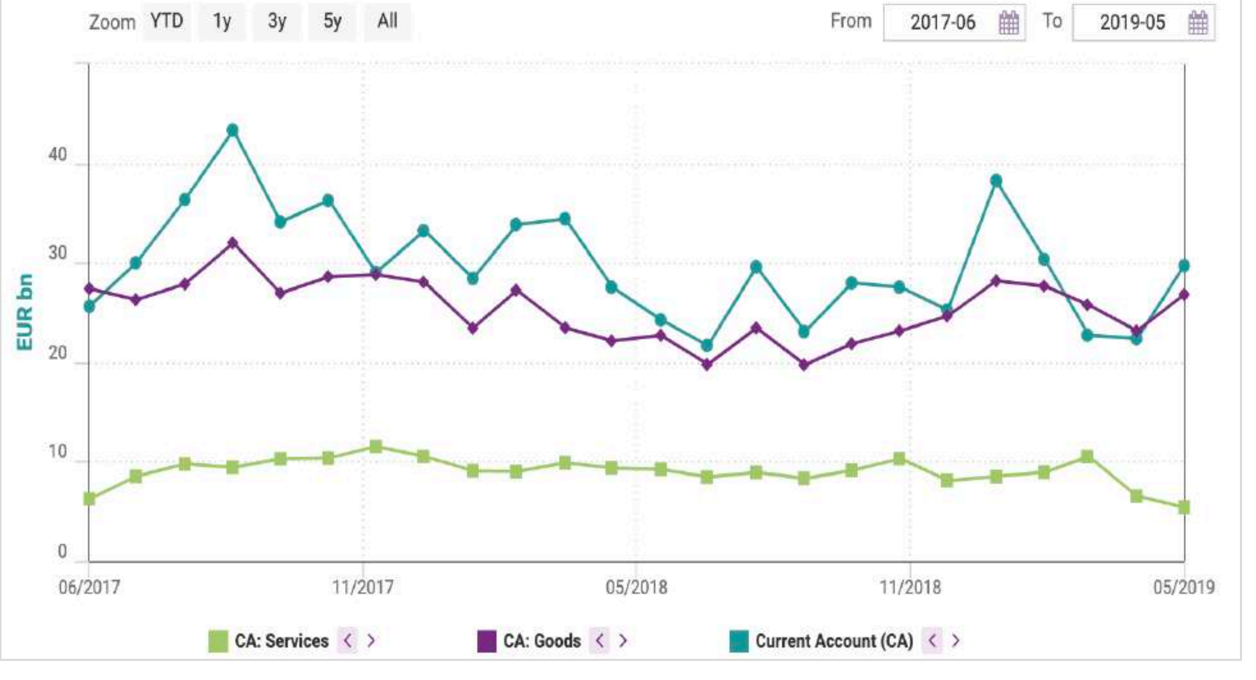
Current Account Balance: Top 4

Source: CEIC Data

Foreign Direct Investment: Top 4



Current Account Balance: Seasonally Adjusted



Source: CEIC Data

Direct Investment

Portfolio Investment

Source: CEIC Data

About CEIC Data

CEIC is an ISI Emerging Markets Group Company specialized in high quality macroeconomic databases. CEIC's databases have earned a world-class reputation among financial institutions, government agencies, universities, and corporations due to accuracy and comprehensiveness. Today, we are the service of choice for economic research on emerging and developed markets by economists around the globe.

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CEIC Insights is a unit of CEIC Data that produces proprietary research and analysis. The service features data templates with dynamic visuals for Emerging and Developed markets, providing instant insight from macro overviews to individual sector analysis.

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