

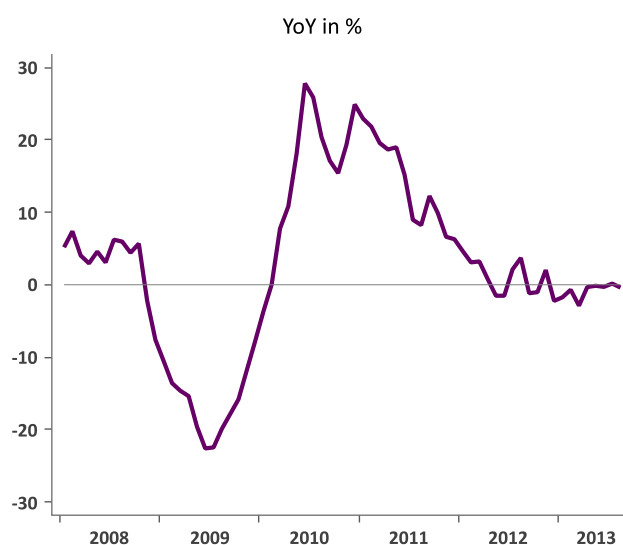


# Eurozone Growth Monitor

**Too Little Power from the German Powerhouse.** The euro area economy has continued to gain traction. Sentiment has picked up in an increasing number of sectors, even suggesting that the employment and investment outlook in most member countries may gradually get brighter. According to the European Commission's latest Business Climate Indicator, annual GDP growth for the currency union should move back into positive territory by year-end. So all in all, things look fairly good.

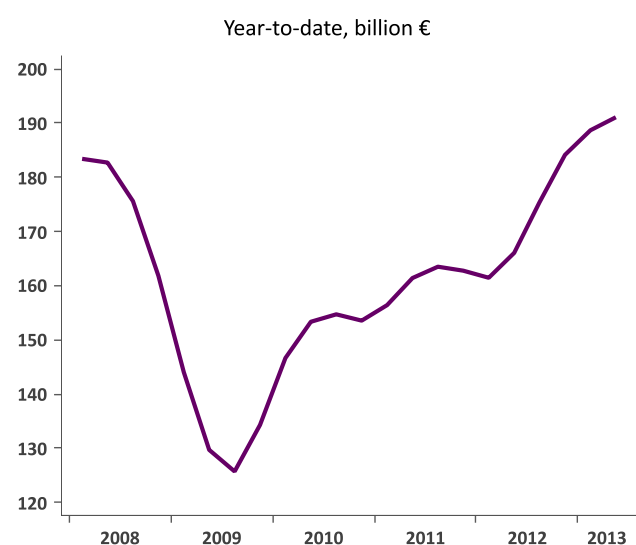
But there's a missing ingredient: better export performance. Not only are sales to the rest of the world marking time, but trade within the currency bloc has contracted further—an unusual occurrence in a recovery phase. The main explanation for this lies with persistently stagnant demand in Germany— a major obstacle to any real improvement for the regional economy as a whole.

**German Imports From the Euro Area**



Sources: RichesFlores Research, Macrobond

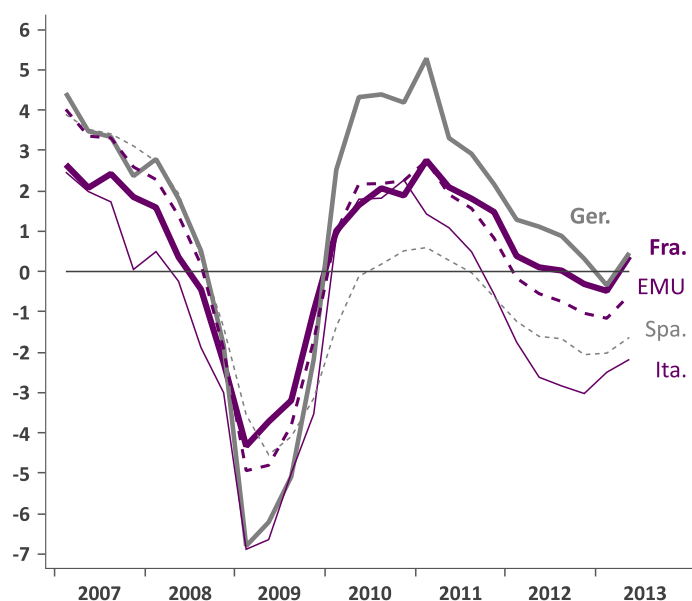
**Germany's Current Account**



Sources: RichesFlores Research, Macrobond

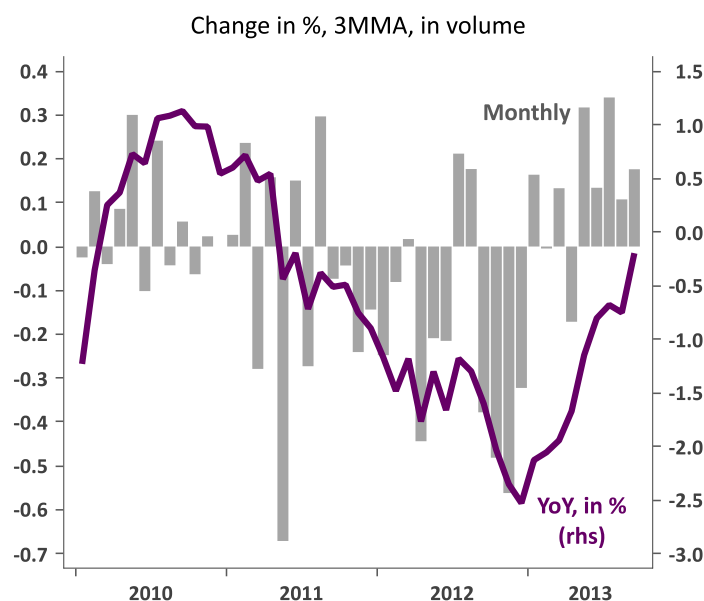
**Overall improvement in leading indicators.** Although the third quarter was certainly less encouraging than the second in terms of GDP growth, the outlook for the euro area shows gradual but steady improvement. Rising consumer sentiment and spending helped bring the recession to a halt at the end of the first quarter, and since then the business climate has perked up in the vast majority of sectors and most E.M.U. member countries. According to the European Commission's latest Business Climate Indicator, annual eurozone GDP growth should move back into positive territory by year-end.

### Real GDP Growth, YoY in %



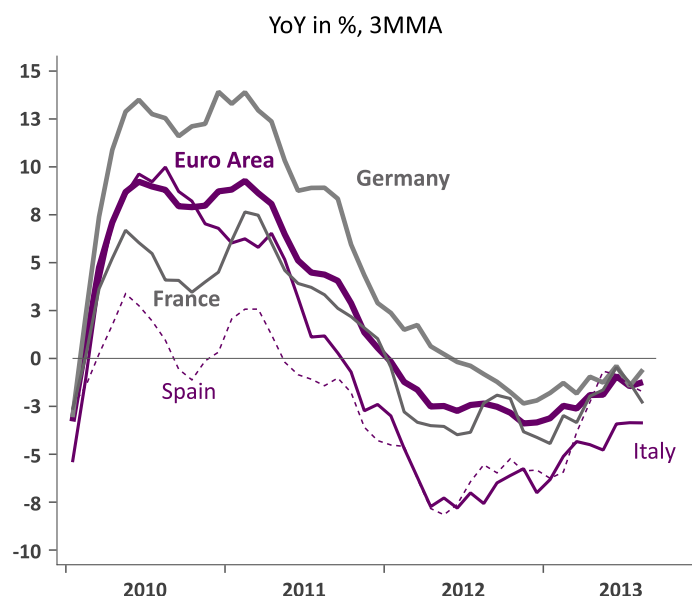
Sources: RichesFlores Research, Macrobond

### EMU Retail Sales Growth



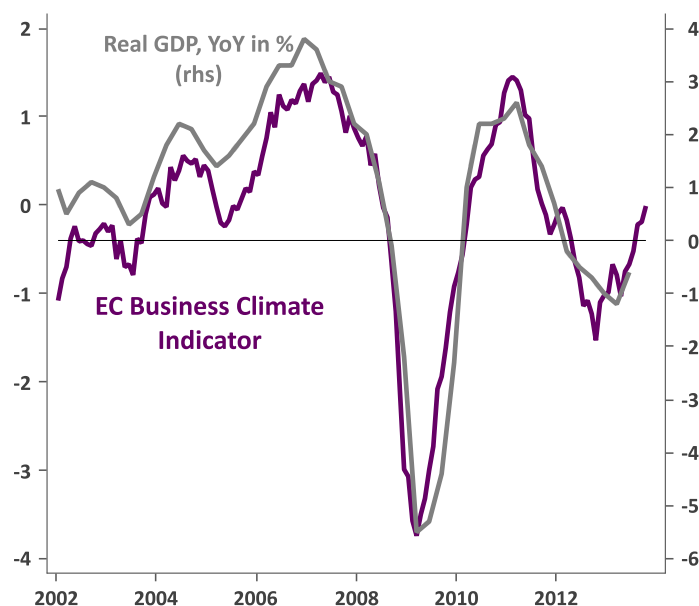
Sources: RichesFlores Research, Macrobond

### Manufacturing



Sources: RichesFlores Research, Macrobond

### Business Climate and GDP Growth

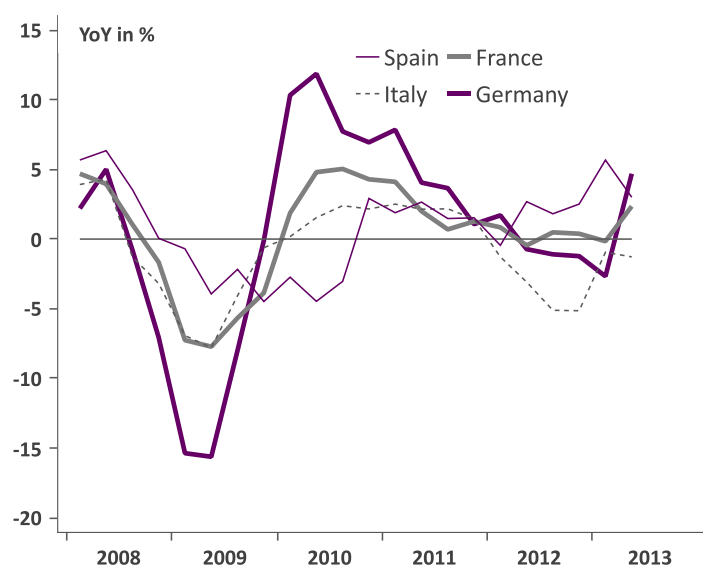


Sources: RichesFlores Research, Macrobond

**Investment contraction apparently on the way out.** In the second quarter, non-financial corporations everywhere except in Italy posted a return to growth in operating earnings. Capacity utilization rates have also risen, and orders for capital goods are once again heading in the right direction. All this points to an improved outlook for capital spending by non-financials.

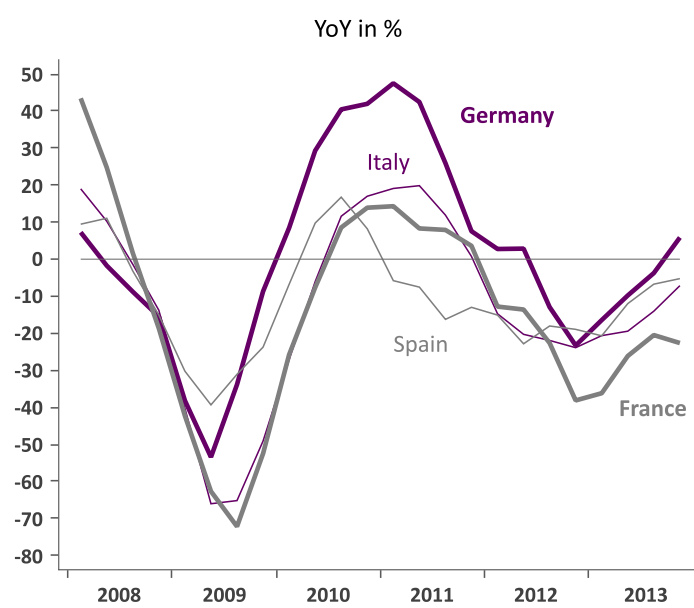
2008 marked the start of a historic slump in the rate of investment, but a moderate recovery now seems to be under way, which is good news for employment.

## Operating Earnings - Non-financial Corporations



Sources: RichesFlores Research, Macrobond

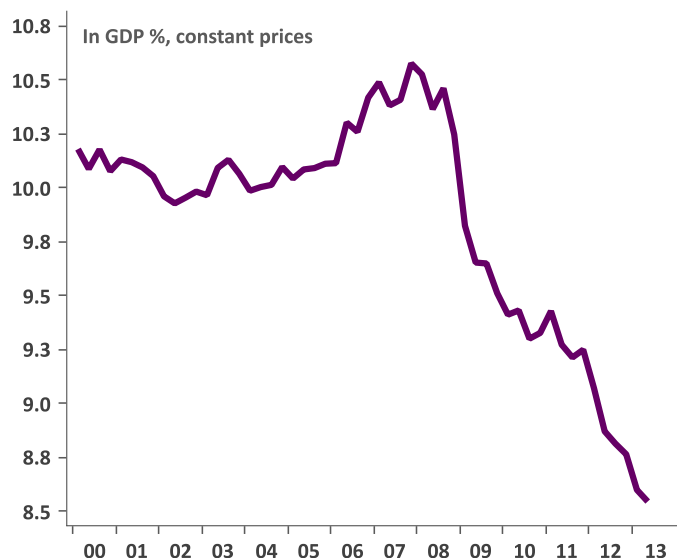
## Capital Goods Orders



Sources: RichesFlores Research, Macrobond

## Capital Investment

R&D, Machinery, and Transport Equipment



Sources: RichesFlores Research, Macrobond

## Employment and Unemployment Outlook



Sources: RichesFlores Research, Macrobond

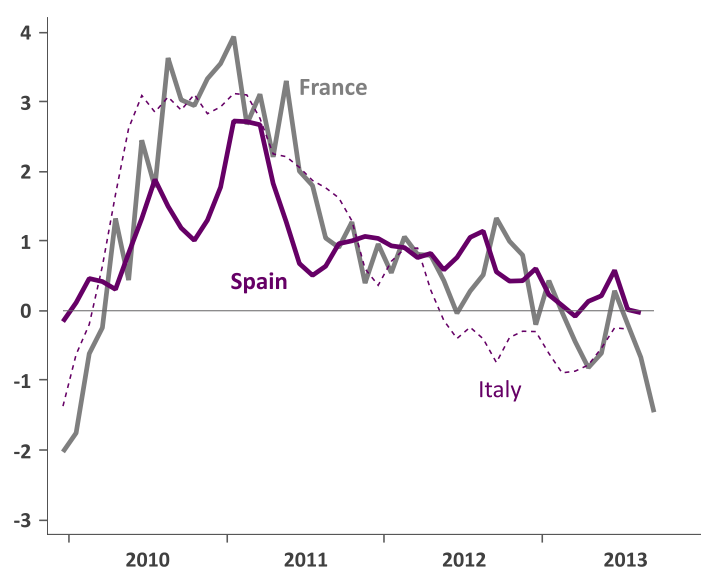
**But still no upturn in exports.** What's missing here, however, is better trade performance. Not only are eurozone exports to the rest of the world marking time, but trade within the currency bloc has contracted further—an unusual occurrence in a recovery phase. This lack of momentum is due in large part to the situation in Germany. Since mid-2011, German imports from other E.M.U. countries and the rest of the world have shown out-and-out stagnation. There are two key issues here. The first one is that the falloff in the country's exports has had an adverse effect on German demand. The result is that for several months now, Germany is no longer a contributor to export growth for its main trading partners in the region.

### Intra- and Extra-Euro Area Trade in the E.M.U., YoY in %, 2MMA



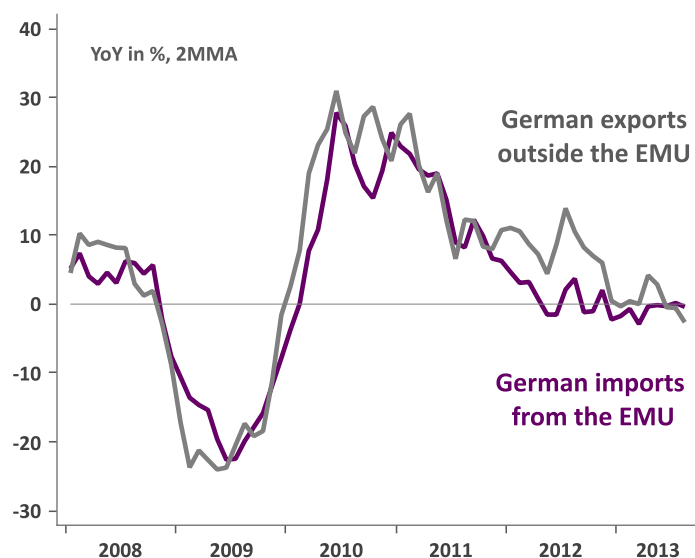
Sources: RichesFlores Research, Macrobond

### Germany's Contribution to Partners' Annual Export Growth



Sources: RichesFlores Research, Macrobond

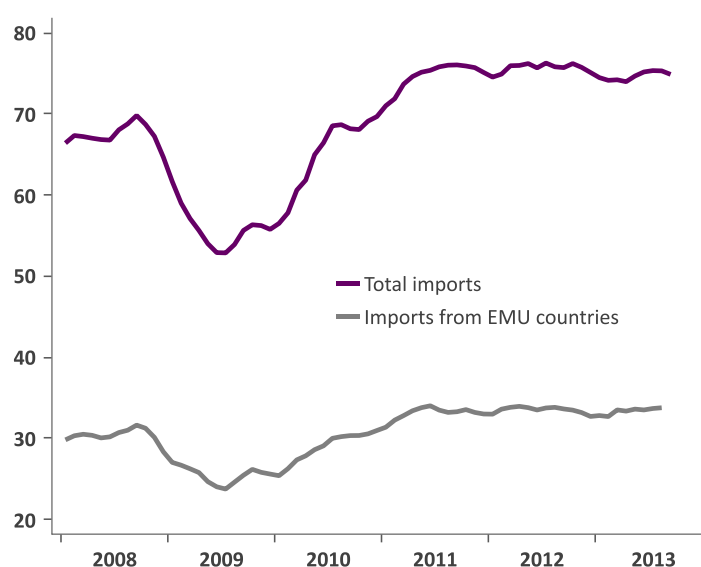
### German Exports to Outside the EMU, German Imports from the EMU



Sources: RichesFlores Research, Macrobond

### German Importations

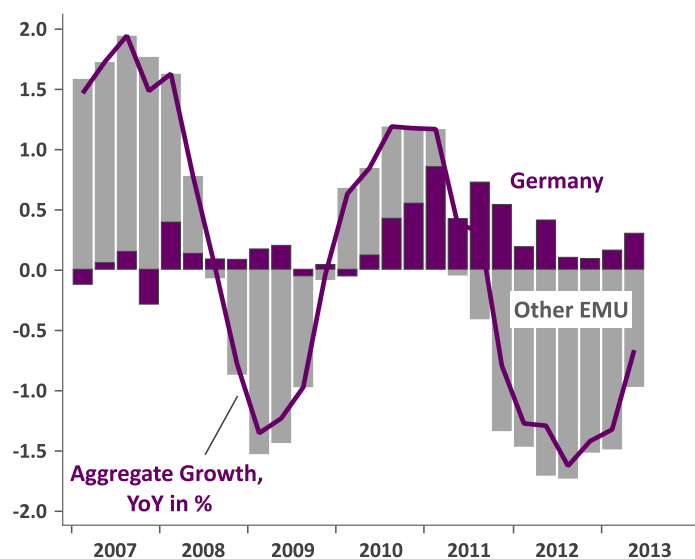
Billion €



Sources: RichesFlores Research, Macrobond

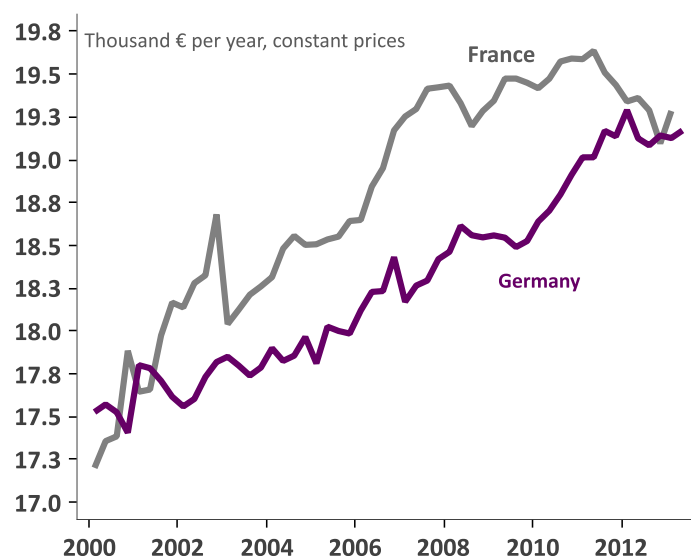
**Too little power from the German powerhouse...** The second key issue is that Germany's weak domestic demand stands in the way of the much hoped-for rebalancing process within the currency union. Despite the country's low jobless rate, consumer spending has scored only modest gains, because disposable income has barely increased. Household consumption in Q2 grew by just 0.8 percent, meaning that Germany has offset a mere 0.3 percentage points of the losses recorded elsewhere in the E.M.U. Thus, the country's current-account surplus has mounted steadily in the past few quarters—to over 7 percent today. What this figure throws into stark relief is Germany's inability to function as the eurozone powerhouse. Yet the region has little chance of achieving balanced growth if it doesn't. This makes it hard to take an overly upbeat view of the period to come.

### Germany's Contribution to Eurozone Annual Consumer Spending Growth



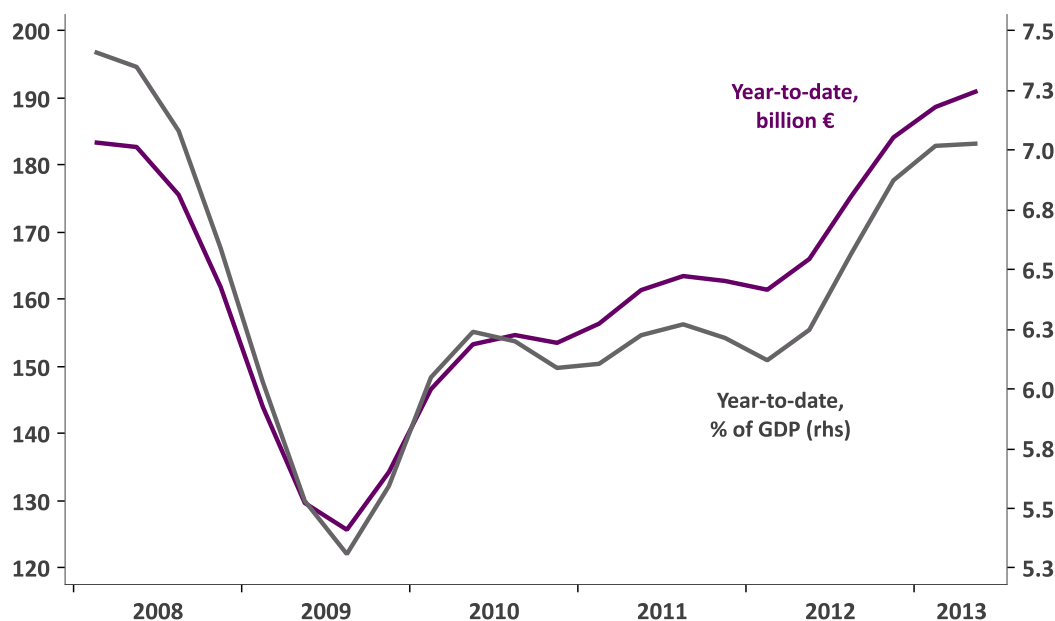
Sources: RichesFlores Research, Macrobond

### Gross Disposable Income per Capita of French and German Households



Sources: RichesFlores Research, Macrobond

### Germany's Current Account



Sources: RichesFlores Research, Macrobond

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