



February 12, 2016

## TD Economics

### Data Release: Recovery in the euro-zone continues, albeit slowly

- The flash estimate of euro-zone (EZ) GDP for the fourth quarter of 2015 indicates growth rose by 1.1% on an annualized basis. This implies that the economy expanded by 1.5% in 2015 – in line with our December Quarterly Economic Forecast. After seven long years, EZ GDP finally broke above its 2008 pre-crisis peak.
- On a regional level, relatively robust growth in Spain (3.2% in 2015), together with sluggish growth in Germany and France (1.5% and 1.1% respectively) were responsible for the majority of euro-zone growth last year.
- Positive economic growth also returned to the economies of Italy and Finland, ending three dismal years of contraction.

### Key Implications

- The euro-zone is recovering at the pace we expected. Nonetheless, low inflation means that the ECB will increase its monetary accommodation this year by expanding its quantitative easing (QE) program and perhaps even pushing its target rate further below zero. The goal is to encourage bank lending to businesses, which should boost investment. There are signs that this is working – EZ loan issuance has gained momentum in recent months.
- We are hopeful that domestic demand will help drive an EZ recovery, but there are significant headwinds facing the union. In addition to the typical structural issues (lack of progress toward a fiscal union, high levels of unemployment particularly for youth, aging labour force, structural budget deficits and the unresolved insolvency of peripheral nations), the EZ has to figure out how to accommodate hundreds of thousands of migrants and refugees while dealing with security concerns at its eastern border and maintaining labour mobility within the Schengen region.
- Overall, our outlook for the euro-zone is for growth of 1.7% in 2017. The risks to the outlook are tilted to the downside stemming from fears of a BREXIT, a rising tide of anti-immigrant populism, and concerns that without progress on structural reforms, ECB stimulus will be enough to stoke faster economic growth.

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