

Eurozone GDP: Germany wins the 100 meter dash; PIGS never left the starting blocks

ECB President Jean-Claude Trichet must be looking disapprovingly in the direction of Germany today. Without the fireworks produced by the largest member of the Eurozone progress in the second quarter would be weak, but at least homogenous. Instead the ECB is left with a divided Eurozone where interest rate needs vary greatly - at least when looking through the greasy glasses of a Keynesian central banker.

The Eurozone economy grew a solid 1.7% year-on-year, up a full percent quarter-on-quarter. Germany's impressive 2.2% quarter-on-quarter growth rate translates into a stunning 9.1% on an annualised basis. The recovery is driven by a pick-up in global trade and inventory adjustments while consumption both public and private remains insipid. Governments have been forced to introduce austerity measures in response to the sovereign debt crisis earlier this year and this will weigh on consumption for a long time.

The report is an improvement on the last one, but does contain some pitfalls. The 1.7% growth rate - which is of course only solid compared to the recent past - is papering over a large gulf between the north and south of the Eurozone. The industrious Germans achieved China-like growth of more than 9% quarter-on-quarter on an annual basis. Without them the quarterly growth would have been a paltry 0.3%; or 0.9% from a year ago. Not even a single percent of additional output have the other members managed to produce since the trough in June 2009. Even worse, the PIGS countries still cannot get any traction in the slippery mud and their output only edged up 0.3% from twelve months ago.

The Eurozone members should celebrate the growth they are experiencing now because it is not going to last forever. Unless we see another serious decline in the Euro, the contribution from the drop in the first half of the year will fade together with inventory adjustments. This will leave the Eurozone economy with overleveraged consumers likely to keep their money in their pockets, and governments with a newfound sense of fiscal responsibility. GDP growth will remain low for an extended period of time, to use a popular phrase.

We are not going to dispute the grandeur of a 9.1% annualized GDP growth rate, but Germany too will face several headwinds in the second half of 2010 and beyond. First, Germany is the second-largest exporter in the world and is therefore dependent on the wellbeing of its major trading partners. We expect many of them, including the rest of the Eurozone and the US, to grow at a slow rate. Second, Germany will undergo austerity measures just like the other members to the south in an attempt to reduce its public debt-to-GDP ratio. Third, a significant part of the 9% print was inventory adjustments, which are purely transitory and will only offer a few quarters worth of GDP growth.

Overall, 1.7% sure beats 0.6%, but several obstacles remain including the large divide between the southern and northern part of the Eurozone. Germany may be a charging locomotive, but the passenger wagons have been left at the station.

General

These pages contain information about the services and products of Saxo Bank A/S (hereinafter referred to as “Saxo Bank”). The material is provided for informational purposes only without regard to any particular user's investment objectives, financial situation, or means. Hence, no information contained herein is to be construed as a analysis; or an offer to buy or sell; or the solicitation of an offer to buy or sell any security, financial product, or instrument; or to participate in any particular trading strategy in any jurisdiction in which such an offer or solicitation, or trading strategy would be illegal. Saxo Bank does not guarantee the accuracy or completeness of any information or analysis supplied. Saxo Bank shall not be liable to any customer or third person for the accuracy of the information or any market quotations supplied through this service to a customer, nor for any delays, inaccuracies, errors, interruptions or omissions in the furnishing thereof, for any direct or consequential damages arising from or occasioned by said delays, inaccuracies, errors, interruptions or omissions, or for any discontinuance of the service. Saxo Bank accepts no responsibility or liability for the contents of any other site, whether linked to this site or not, or any consequences from your acting upon the contents of another site. Opening this website shall not render the user a customer of Saxo Bank nor shall Saxo Bank owe such users any duties or responsibilities as a result thereof.

Analysis Disclosure & Disclaimer

Risk Warning

Saxo Bank A/S shall not be responsible for any loss arising from any investment based on any analysis, forecast or other information herein contained. The contents of this publication should not be construed as an express or implied promise, guarantee or implication by Saxo Bank that clients will profit from the strategies herein or that losses in connection therewith can or will be limited. Trades in accordance with the analysis in an analysis, especially leveraged investments such as foreign exchange trading and investment in derivatives, can be very speculative and may result in losses as well as profits, in particular if the conditions mentioned in the analysis do not occur as anticipated.