Euro Growth Diverges; Strong Germany Offsets France

By Alessandro Speciale and Mark Deen - May 15, 2014

German economic growth accelerated more than economists forecast last quarter, providing fuel to help the euro area’s recovery offset an unexpected stalling in France.

Gross domestic product in the region’s biggest economy rose 0.8 percent, twice the pace of the previous quarter, the Federal Statistics Office in Wiesbaden said today. Economists forecast 0.7 percent, according to the median of 40 estimates in a Bloomberg News survey. France, the euro area’s second-largest economy, unexpectedly stagnated in the period.

Germany is key to the 18-nation currency bloc’s drive to sustain a recovery from its longest-ever recession at a time when weak price growth is pushing the European Central Bank toward adding more stimulus. While fundamentals for this quarter still point to growth, the country’s pace of expansion is likely to slow, the Bundesbank said last month.

“Apparently, the divergence between the French and German economies is widening,” said Alexander Koch, an economist at Raiffeisen Schweiz in Zurich. “While the preconditions for solid expansion are better in Germany than in other countries, slowing fiscal consolidation and an improving labor market point to an increasing convergence and broadening in euro-zone growth.”

Growth in Germany was driven by domestic consumption by private households and the government, the statistics office said. Investment in construction and machinery also increased. External trade subtracted from growth with lower exports and higher imports than the prior quarter, the office said.

Hollande’s Challenge

In France, the unchanged GDP tally compared with a revised 0.2 percent gain in the previous three months. The result was below the median estimate of 28 economists in a Bloomberg survey for a 0.1 percent increase. The standstill shows the difficulty faced by President Francois Hollande as he simultaneously seeks to overhaul the economy, revive growth and cut joblessness.

The euro was little changed after the release of the French and German GDP data, trading at $1.3716 as of 7:55 a.m. London time.

German growth probably outpaced the expansion in the euro area in the first quarter. GDP in the region rose 0.4 percent after a 0.2 percent increase in the final three months of 2013, according to a separate Bloomberg survey. That report is due from the European Union’s statistics office in Luxembourg at 11 a.m. The Netherlands and Italy are scheduled to report national figures before then.
Bundesbank Forecast

The Frankfurt-based Bundesbank predicts the German economy will grow 1.7 percent this year and 2 percent in 2015, with inflation averaging 1.3 percent and 1.5 percent, respectively.

The DAX stock index is trading near a record in a sign that confidence in the country’s economic outlook remains solid. Deutsche Wohnen AG (DWN), Germany’s second-largest residential landlord by market value, said yesterday that first-quarter profit rose 91 percent after it took advantage of higher share prices to buy more homes. Unemployment (GRUEPR) is at a record-low 6.7 percent.

Even so, German investor confidence fell for a fifth month in May to the lowest level since January 2013. Industrial production and factory orders unexpectedly dropped in March, and manufacturing and services activity cooled in April. China, Germany’s third-biggest trading partner last year, is showing signs of a slowdown, and trade with Russia is threatened by that country’s conflict with Ukraine.

French Weakness

In France, spending by households and investment by business is being hurt by deficit-cutting and tax increases of more than 70 billion euros since 2011. In the first quarter, consumer spending fell 0.5 percent, Insee said. Investment spending fell 0.9 percent, the third-straight quarterly decline.

Finance Minister Michel Sapin said today he’s maintaining the government’s forecast for 1 percent growth for 2014.

“We need to accelerate and deepen growth,” Sapin said on Europe 1 radio. “The recovery began slightly at the end of last year. It’s still not enough.”

The risks to growth come against the backdrop of a euro-area economy that is struggling to boost inflation, hurting efforts to reduce debt ratios and undermining the incentive of companies to invest. Inflation in the currency bloc was 0.7 percent in April, and has been stuck at less than half the ECB’s goal of just below 2 percent since October.

The central bank may respond as soon as next month with measures ranging from interest-rate cuts to liquidity injections. ECB President Mario Draghi said last week, after keeping interest rates at a record low, that officials are “dissatisfied” with the outlook for prices and “comfortable” with acting at the June 5 policy meeting. Executive Board member Yves Mersch said yesterday that officials are working at “high speed” on a range of measures.

“The outlook for the German economy remains good,” said Andreas Rees, chief German economist at UniCredit MIB in Munich. “There is a lot of pent-up demand in investment and with low inflation and growing wages we have the perfect environment for strong private demand.”

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