



Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 410-3274

Eurozone Recession Comes to an End

Real GDP in the Eurozone rose 0.3 percent (not annualized) in Q2, which was stronger than most analysts had expected. Growth likely will remain positive, albeit relatively sluggish, in coming quarters.

Eurozone GDP Stronger-Than-Expected in Q2

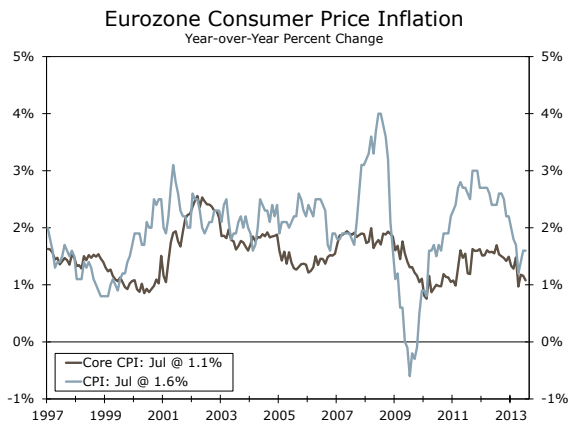
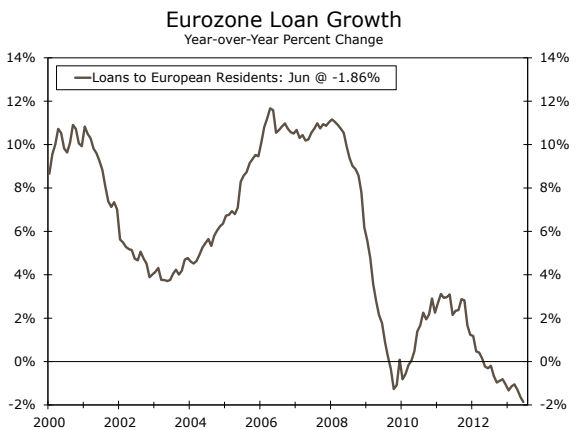
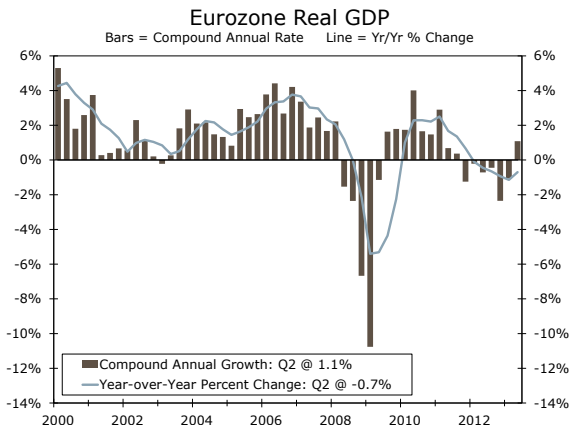
Data released this morning showed that real GDP in the Eurozone rose 0.3 percent (1.1 percent at an annualized rate) on a sequential basis in the second quarter, which was stronger than the market consensus forecast had anticipated (top chart). If recessions are defined by consecutive quarters of negative GDP growth, then the second recession in the Eurozone in the past five years appears to have come to an end. However, the level of real GDP in the Eurozone remains 3 percent below its peak five years ago, and the holes in the heavily indebted economies (i.e., Greece, Ireland, Italy, Portugal and Spain) remain even deeper.

Among individual countries, GDP growth was stronger-than-expected in Germany (0.7 percent) and France (0.5 percent), and rates of contraction in Spain, Italy and the Netherlands were slower in Q2 than they were in Q1. A detailed breakdown of overall Eurozone real GDP into its underlying demand components will not be available for a few weeks, but preliminary data from Germany and France show that real consumption expenditures rose in the second quarter. Therefore, it appears that the rise in real GDP in Eurozone in Q2 was driven, at least in part, by domestic demand rather than solely by net exports. In other words, the rise in Eurozone real GDP appears to have some staying power, at least in the near term.

That said, the Eurozone is not completely out of the woods yet. For starters, the banking system remains very weak, especially in the highly indebted countries. Loans are down 2 percent on a year-ago basis (middle chart), and lending to small and medium enterprises (SME) has essentially ground to a halt in some countries. Moreover, the incipient recovery in economic activity is very fragile. Even a minor exogenous shock (e.g., a rise in energy prices from current levels) could send the Eurozone back into recession again.

ECB to Remain on Hold “For as Long as Necessary”

We project that GDP in the overall euro area will continue to expand, although we expect growth will remain rather sluggish. As noted above, lending remains very weak and fiscal policy will remain restrictive in many economies. Due to benign inflation (bottom chart) and weak economic growth, the European Central Bank (ECB) has vowed to maintain an accommodative monetary policy stance “for as long as necessary.” Indeed, we believe that the ECB will maintain its main policy rate at 0.50 percent through the end of next year. The euro has edged higher against the dollar over the past month, but we look for it to depreciate modestly against the greenback in coming quarters as real GDP growth in the Eurozone lags behind growth in the United States and as the ECB maintains an accommodative monetary policy stance.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Sarah Watt	Economist	(704) 410-3282	sarah.watt@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Sara Silverman	Economic Analyst	(704) 410-3281	sara.silverman@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Peg Gavin	Executive Assistant	(704) 410-3279	peg.gavin@wellsfargo.com
Cyndi Burris	Administrative Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. ("WFS") is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. ("WFBNA") is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. WFS and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2013 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority. The content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FSA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES