



Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • 704-410-3274
Zachary Griffiths, Economic Analyst
zachary.griffiths@wellsfargo.com • 704-410-3284

Is an Economic Upswing Underway in the Eurozone?

Eurozone GDP growth outpaced consensus expectations in the fourth quarter, increasing 0.9 percent year-over-year. With the ECB beginning its own quantitative easing program, we look for further growth ahead.

Germany Drives Upside Surprise in Eurozone

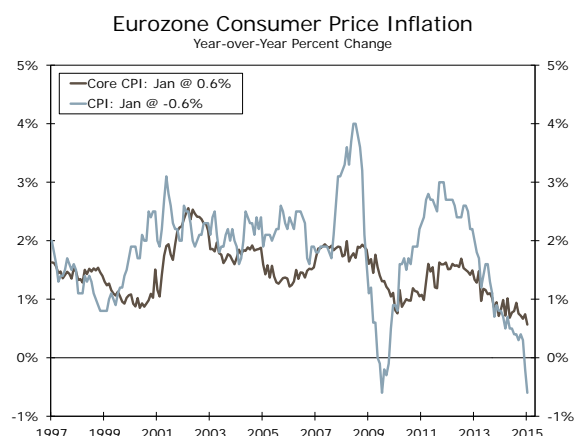
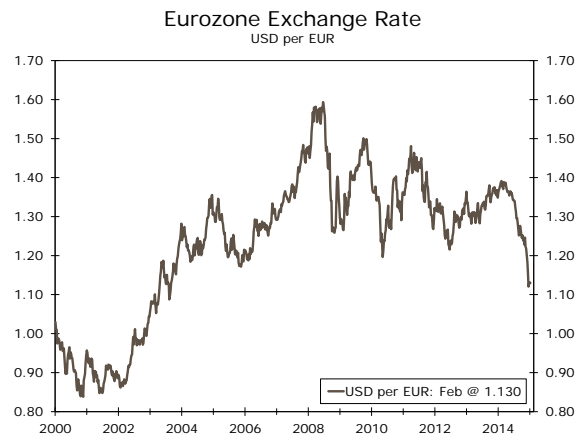
Data released this morning showed that real GDP in the Eurozone rose 0.3 percent (1.4 percent at an annualized rate) in Q4-2014 relative to the previous quarter. The stronger-than-expected outturn for the overall euro area—the consensus forecast had anticipated a 0.2 percent rise—was due largely to growth in Germany, where real GDP surged 0.7 percent. Elsewhere, growth was less impressive, as France grew just 0.1 percent, while Italy remained flat following two quarters of negative growth rates.

A breakdown of real GDP into its underlying demand components will not be available until next month, but it appears that stronger domestic demand contributed to the acceleration in real GDP. For example, monthly data show that real retail sales in the Eurozone rose 0.6 percent on a sequential basis in Q4, up from the anemic increase of only 0.1 percent that was registered in Q3. German statistical authorities indicated that investment spending also was strong in that country during Q4.

As shown in the top chart, the rate of GDP growth in the Eurozone has edged higher for two consecutive quarters, and we look for economic activity to strengthen a bit more this year. As we wrote in a recent report, the Eurozone has a few tailwinds in its favor now including lower petroleum prices, which should help boost real consumer spending, euro depreciation (middle chart) and relaxation in financial conditions. (See “*The Eurozone: The Good, the Bad, and the Ugly*”)

That said, economic growth is not strong enough, at least not yet, to arrest the disinflationary momentum that has developed in the overall euro area. As shown in the bottom chart, overall CPI inflation has moved further into negative territory, as the collapse in oil prices weighs on global inflation rates. However, core inflation has remained relatively resilient over the past months, as falling oil prices have yet to drop core inflation into negative territory. That being said, core inflation is still below one percent, as the disinflation story is not limited to just energy prices. Concerns over lower inflation are part of the reason the ECB moved to sovereign bond purchases, which will total just shy of €60 billion per month. In that regard, we look for the euro to continue its recent decline, as monetary policy divergence weighs on the euro going forward.

We look for stronger growth going forward as the effects of quantitative easing take hold, but downside risks still remain. Among these downside risks is the potential for a “Grexit”—a Greek exit from the Eurozone. While we do not see this as imminent, (see “*Potential Financial Fallout from ‘Grexit’*”) it is a potential outcome that would have negative effects on the Eurozone economy. The situation in Ukraine also remains fluid and further deterioration would have adverse effects on the Eurozone economy. We remain broadly positive on near-term prospects for economic growth, as long as no major exogenous shocks are realized.



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 H. 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 J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. 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
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@wellsfargo.com
Sarah Watt House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. 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. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. 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 © 2015 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 Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA 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