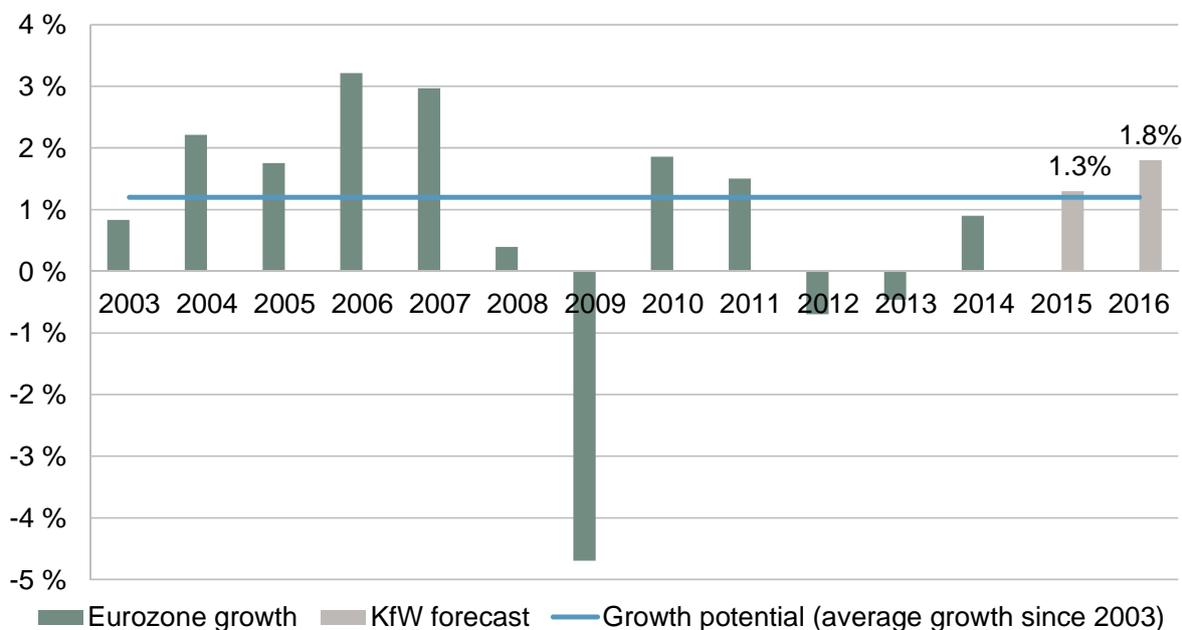


KfW Business Cycle Compass Eurozone

The eurozone economy is slowly picking up pace

- *In the final quarter of 2014, the eurozone managed to slightly increase its high pace of growth to 0.3% on the previous quarter (after 0.2% in the third quarter). Throughout 2014, the price-adjusted GDP of the eurozone grew by 0.9%.*
- *KfW lifts growth forecast for 2015 to 1.3%. Growth is now on a broader basis, so we are more optimistic about the future.*

Growth of real gross domestic product in the eurozone



Source: AMECO, KfW Research

Mild upward trend towards the end of the year

The eurozone economy grew somewhat more strongly again towards the end of 2014, with fourth-quarter gross domestic product (GDP)¹ 0.3% higher on the previous quarter. This growth strengthened on a broad basis. Private consumption, investments and foreign trade all made positive contributions. The average growth rate for the year 2014 as a whole was 0.9%. Thus, after a two-year decline, growth has cautiously returned to the eurozone.

¹ Figures on GDP and its components at eurozone level are based on price- and seasonally adjusted values reported by Eurostat.

Momentum is set to continue this year

For 2015 we expect this trend to gather pace, with growth rising to 1.3%. We expect all components to make a positive contribution to this growth rate. Foreign trade is benefiting from a weaker euro, corporate investment from the stabilisation of the banking sector and public investment from the slower pace of budget consolidation and the Juncker Plan.

However, household consumption is likely to continue to be the greatest linchpin as it generates 55% of GDP, the biggest proportion of economic output. In the past, economically rather difficult years, households have accumulated a lot of pent-up demand. With unemployment falling and the number of gainfully employed persons rising, more people have sufficient disposable income to consume more.

The number of employed persons has been increasing since the first quarter of 2014 and is expected to continue rising as the economy stabilises. At the same time, a higher number of persons in employment generates more growth because production increases and the additional workers are also able to consume more. In the long-term average, each percentage point of growth in the economically active population in the eurozone secured an increase in GDP growth by 0.2 percentage points in the following quarter.

The growth in the working population is also good news for public finances. More people are paying income tax and social security contributions, while the decline in unemployment is relieving the burden on social security funds. This leaves more money for the state, which can be used for productive investments without impairing the solidity of the budget. In turn, these investments will generate increased growth. This will create a virtuous circle.

There are clear signs that this positive cycle is underway in the eurozone. Along with the previously mentioned increase in the number of employed persons, the rate of job openings is increasing as well. In the fourth quarter of 2014, companies were hiring new employees for 1.8% of all available positions, a rate last seen in the summer of 2008, before the start of the financial crisis.

Stumbling blocks remain

This cycle can, of course, stall again if it hits an obstacle awkwardly. The unclear situation in Greece is one such obstacle, along with the tense situation in Ukraine and the cooled relations with Russia. Possible turbulence in developing and emerging countries when the US Federal reserve begins to raise interest rates is also on the radar. But with a bit of luck, the eurozone has already gained enough momentum to resist coming to a standstill once more.

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