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Financial Markets Research Team**Nick.kounis@nl.abnamro.com**

Tel: +31 20 343 5616

nick.kounis@nl.abnamro.com

Upgrading our eurozone GDP forecast

Euro Macro: GDP forecasts revised up – We have revised up forecasts for eurozone GDP in 2017 and 2018. We have raised our forecast for average growth during 2017 from 2.3% to 2.5%. Our projections for 2018 have increased from 2.5% to 2.8%. These upgrades partly reflect upward revisions for growth in 2017Q2 and Q3. However, they also reflect the considerable upward momentum in the eurozone economy. We assess that data published tomorrow will show the economy accelerating further in Q4 to 0.8% qoq (see below). More broadly, the most recent business surveys are at levels consistent with past cyclical highs and we see significant scope for investment to power economic growth going forward. Indeed, we expect GDP growth to settle in the range of 0.6-0.7% qoq in the coming quarters, which is roughly twice as high as the trend growth rate. Our 2018 forecast is now even further above the current consensus forecast of 2.2%.

We now turn to tomorrow's preliminary estimate for GDP growth in 2017Q4. We think that growth ticked a bit higher in the final months of last year. Although we do not have any hard monthly economic data for December, the numbers that were published so far for October and November are pre-signalling that economic activity strengthened somewhat in Q4. Indeed, retail sales and new car registrations indicate that private consumption growth picked up slightly, supported by robust employment growth, low interest rates and positive wealth effects from the equity and housing markets. Moreover, foreign trade data suggests that net exports contributed positively to GDP growth on the back of ongoing strength in global trade. Finally, fixed investment is likely to have bounced back sharply in Q4 after it contracted by 0.3% qoq in Q3. The contraction in Q3 was entirely due to volatility in Ireland's investment growth, which plummeted to -36% qoq in Q3 following + 22% in Q2. Fixed investment in the eurozone excluding Ireland grew by 1.1% qoq in Q3 and we expect this to have picked up in Q4. Accelerating investment in machinery and equipment was pre-signalled by a sharp rise in orders for German machinery by other eurozone countries during the three months up to November 2017 (+10% 3m-o-3m in November) as well as by jumps in business confidence in the final months of last year. (Aline Schuiling)

Asia Macro: US import tariffs highlight risks protectionism - Last week, the world's political and business leaders came together at the annual World Economic Forum in Davos, Switzerland. Normally, this gathering symbolises globalisation, international cooperation and free trade. This year was a bit different. Just before the Forum started, the US announced it would impose import tariffs on solar panels and washing machines. Meanwhile, also reflecting comments from US Finance Minister Mnuchin, the Davos event led to a further broad weakening of the US dollar, with the Chinese yuan reaching the highest level since the currency turmoil period in mid-2015. A key question is whether these developments mark the start of serious trade tensions between the US

and China. While there are reasons for the US to have changed tactics and trade conflicts do flare up from time to time, our base scenario still does not assume a major, damaging trade war, given that mutual interdependencies are too large. However, that does not mean there are no risks. While the impact of the import tariffs imposed last week is not significant, for China an escalating trade dispute with its largest export destination would certainly be meaningful. A – say – 10% drop in Chinese exports to the US would – ceteris paribus – shave off almost 0.4% of China's GDP growth. A further escalation of trade disputes also poses downward risks for several other Asian countries, particularly those with relative strong export linkages to (and bilateral surpluses with) the US. All in all, while in our base scenario we expect (emerging) Asia to remain the global engine (with growth of around 6% this year), a rise in protectionism would clearly pose downside risks for this export oriented region. For more background, see [our Short Insight here](#) (Arjen van Dijkhuizen).

US Macro: Core PCE still subdued; the pickup from here will be slow – December core PCE inflation, the Fed's target measure, rose 0.2% mom, and 1.5% yoy – unchanged from November and in line with consensus. Consistent with the CPI release for December, there continued to be little sign of a trend change in inflationary pressures. Today we published an analysis of the key drivers of core inflation, and concluded that although inflation is likely in the process of bottoming, a number of offsetting factors mean the pickup from here is likely to be slow. For instance, the rebound in commodity prices since early 2016 means that we are likely to get some upward pressure from core goods inflation over the next 18 months, while on the services side there are anecdotal signs that wage pressures are building. However, we also see signs that shelter inflation will continue to cool, and we think wage growth is likely to be accommodated by higher productivity growth and corporate profit margins in the near term. See [our US Watch here](#) for further details. (Bill Diviney)

Links:

<https://insights.abnamro.nl/en/2018/01/short-insight-asia-us-import-tariffs-highlight-risks-protectionism/>

<https://insights.abnamro.nl/en/2018/01/us-watch-why-inflation-might-continue-to-disappoint/>

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ABN AMRO Bank
Gustav Mahlerlaan 10 (visiting address)
P.O. Box 283
1000 EA Amsterdam
The Netherlands

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