And a happy new year?

December's hard and soft economic data brought plenty of reasons for seasonal cheer. **According to European Commission data, consumers continue to gain in confidence, with the aggregate sentiment index registering a 20-month high of -5.1, driven by improving services and retail trade sentiment (see Chart 5)**. We await confirmation that stronger sentiment will translate into firmer retail sales volumes after November's figures disappointed by falling 0.4% month-on-month. However, because monthly retail sales are volatile and subject to revision, monitoring the underlying trend is more important than individual readings. On that basis the trend remains healthy, as volumes increased 2.2% year-on-year (y/y) in November.

Meanwhile, The European Commission's industrial confidence indicator rose above zero (consistent with above-average growth) for the first time since July 2011. Surveyed firms noted marginal improvement in production expectations and volume order books, with a large uptick in the balance of firms noting a positive production trend in recent months. Perhaps it is no surprise then that industrial production in the Eurozone grew by a rapid 1.5% in November, though like the retail trade data, industrial activity is very lumpy. It is therefore encouraging that **the smoothed y/y growth rate has also turned upwards following a disappointing summer (see Chart 6)**. This reflects the broader manufacturing upswing being felt across the world. Even France seems to be joining the party, following a strong rebound in industrial growth in November, though we await more readings before deciding whether it was the start of a new positive trend or merely a fluke.

If 2016 ended well, is more good news in store for 2017? The European Commission forecasts moderate growth for 2017 of 1.5%; our forecast is a shade lower at 1.4%. The global economic environment is certainly supportive right now and forward-looking indicators point to further improvements in the first months of the year. That said, both Chinese policy and Trump's trade agenda warrant monitoring for signs of this backdrop becoming less supportive. **Meanwhile, the Eurozone consumer, who drove much of the economic recovery in recent years, may come under pressure in 2017**. Although further above-trend growth should push the unemployment rate closer to its natural rate, some spare capacity will remain, while the flatness of the Phillips Curve points to only modest rises in nominal wage growth in the year ahead. Elsewhere, headline inflation is set to pick-up thanks to previous falls in energy prices washing out of the numbers. **If wage pressures remain weak, rising headline inflation will squeeze real incomes and probably weigh on consumer spending. Of course, the same pick-up in inflation is good news for corporate profit margins, which could translate into stronger business investment, especially against a backdrop of stronger global demand**. Beyond the fundamental economic risks, there are a series of political risks brewing that could significantly impact the economic agenda in Europe; French, German and Dutch general elections, and Italian electoral reform, all warrant monitoring in spite of the fact that a populist Europhobic government in any of them remains a long way from being our central case. Indeed, in France there is even a tantalising prospect that the election acts as catalyst for reform.

Chart 5: "A new year and I'm feeling good"

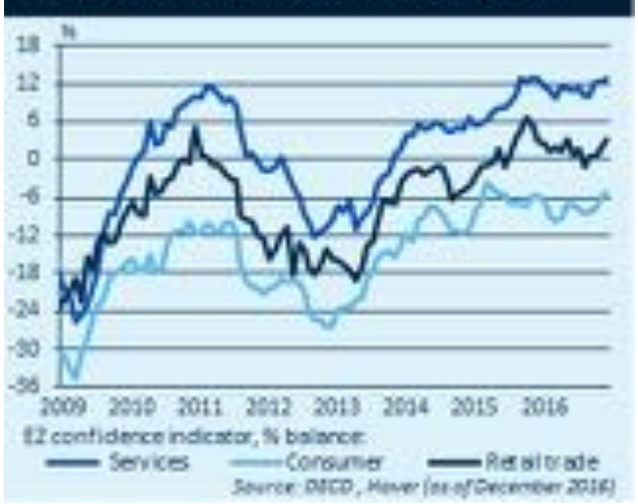

Chart 6: Manufacturing some growth