



The Economic Forecast for Europe

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Economic Situation, Forecasts, Business and Consumer Surveys

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Main messages

„Growth continues at a more moderate pace”



1. Economic expansion set to continue at slower pace due to global and domestic impediments
2. Labour market improvement translates into higher wages
3. Inflation to remain subdued
4. Macroeconomic policies are set to remain supportive
5. Downside risks to the outlook remain prominent

Source: Commissioner Moscovici's slides at the press conference in Brussels, 7 May 2019

Spring forecast document: https://ec.europa.eu/info/files/european-economic-forecast-spring-2019_en

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Main contents

„Continued growth with diminished expectations“

1. Past growth drivers (trade, consumption, investment) have all lost momentum last year, resulting in **diminishing expectations**.
2. Externally, trade tensions, financial conditions, uncertainty and manufacturing are forming **global crosscurrents**.
3. Domestically, some **domestic growth impediments** (WLTP, manufacturing, ...) are more persistent than expected.
4. Fading adverse domestic factors and a rebound outside the EU should allow for **a growth rebound later this year**.
5. **Inflation set to remain subdued**, reflecting to lower oil price increases, despite higher wage increases.
6. **Downside risks dominate** ('no deal' Brexit, trade policy).

Source: *European Economic Forecast*, Spring 2019, Chapter I.



Outline

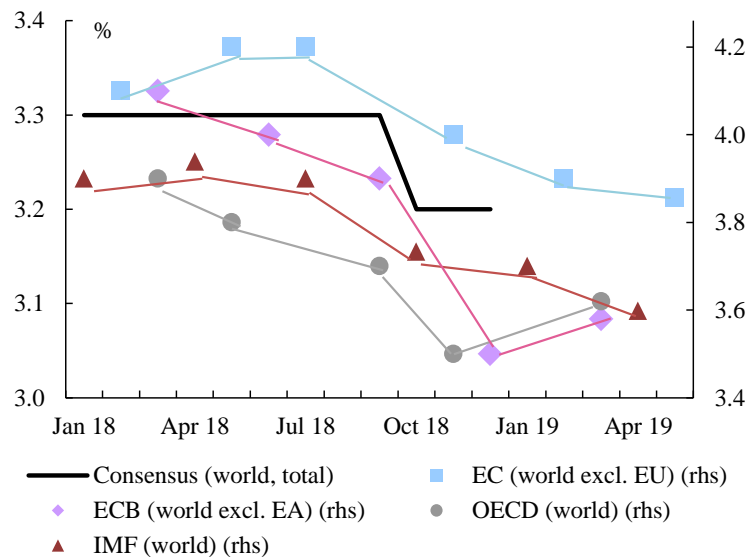
1. Diminished expectations
2. Why has growth slowed?
3. Where do we stand?
4. What could support a rebound?
5. The outlook and risks

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Diminishing expectations (global)

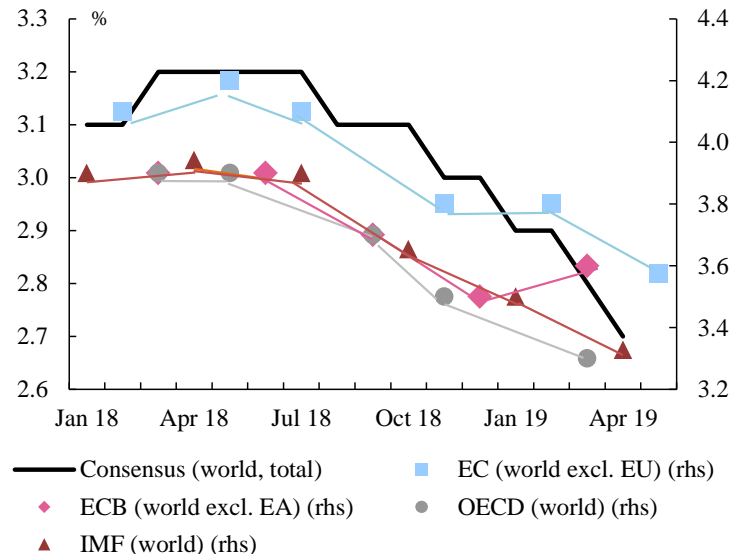
Since autumn, forecasts for **2018** were revised down...

Graph 1: Global GDP growth in 2018, forecasts since January 2018



...following the revisions to forecasts for **2019**

Graph 2: Global GDP growth in 2019, forecasts since January 2019

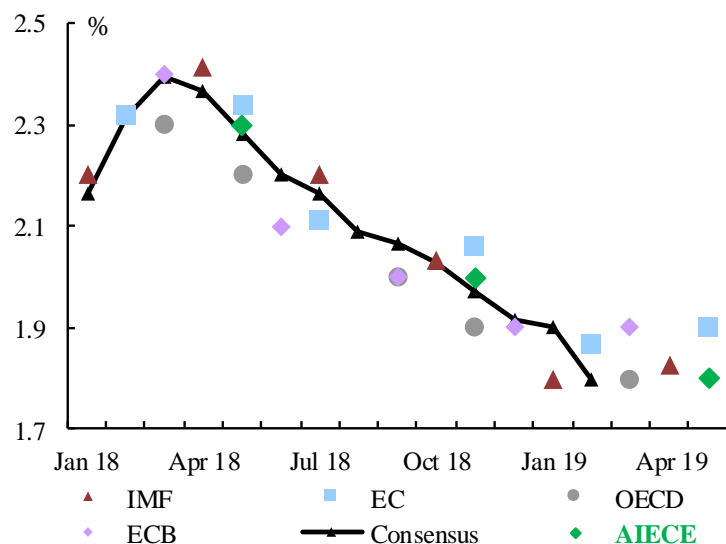


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Diminishing expectations (euro area)

Since May, forecasts for 2018 were lowered...

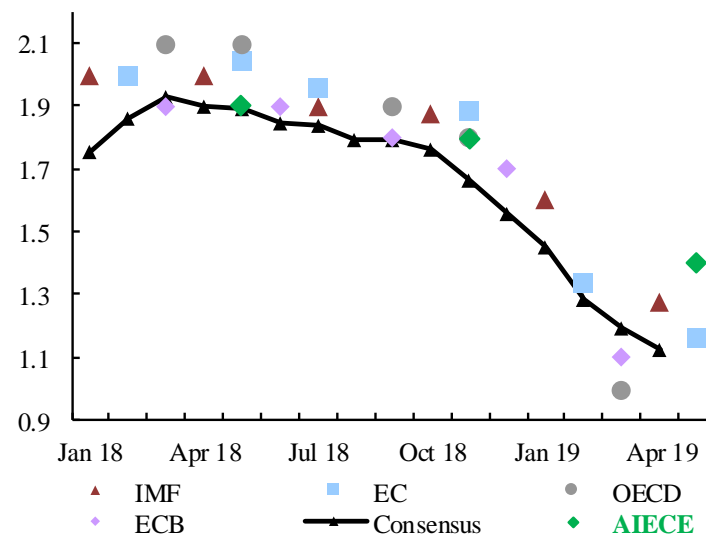
Graph 3: Euro area GDP growth in 2018, forecasts since January 2018



Note: The ECB and the OECD forecasts are working-day adjusted the IMF and EC forecasts are not adjusted. In 2018, the effect is estimated to be less than ± 0.1 pps.

...followed by the growth forecasts for 2019

Graph 4: Euro area GDP growth in 2019, forecasts since January 2019



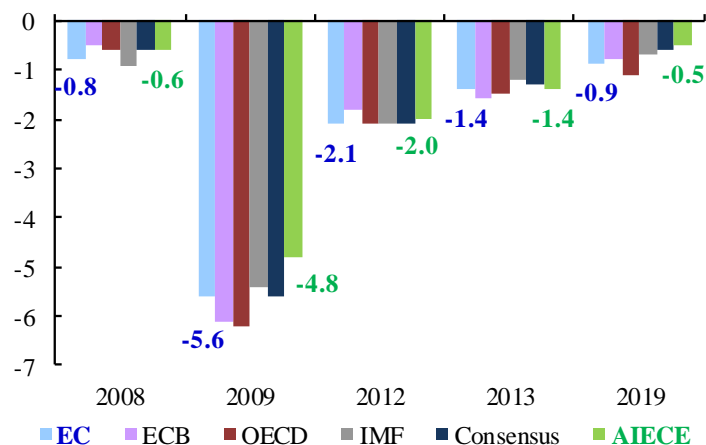
Note: The ECB and the OECD forecasts are working-day adjusted, the IMF and EC forecasts are not adjusted. In 2019, the adjustment less estimated to lower the GDP forecast by 0.2 pps.

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Largest revisions and their composition

Revisions for 2019 among the largest since 2007...

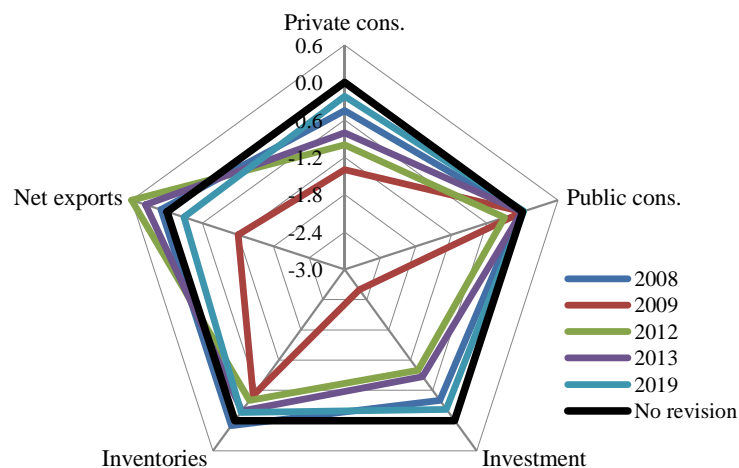
Graph 5: Largest downward revisions in current-year growth forecasts, euro area (2007-2019)



Note: Revisions in forecasts in spring as compared to the forecast one year before. **EC** (Spring), **ECB** (June projections), **IMF** (April WEOs), **OECD** (May Econ. Outlook), **Consensus Economics** (March); **AIECE** (General Report May); ECB & OECD in 2019: latest forecast used.

...but with more evenly distributed contributions

Graph 6: Contributions to EC revisions of EA GDP growth in selected years



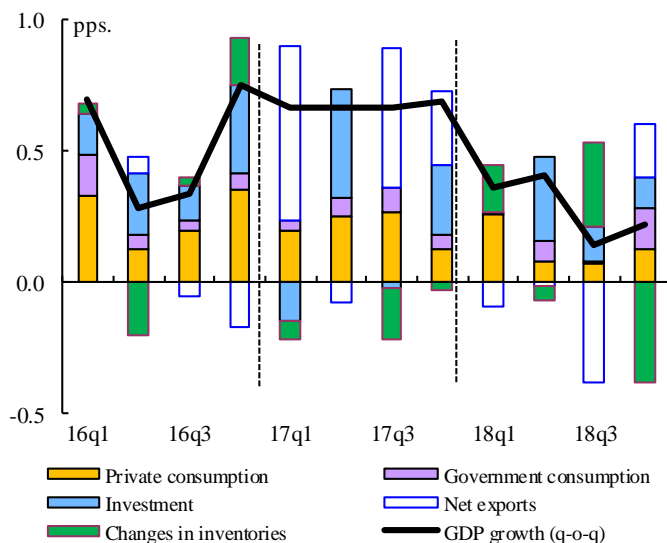
Note: Revisions in the Commission's spring forecast for the current year from the spring forecast in the preceding year; years with the largest GDP forecast revisions in 2007-2019.

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What is behind the weakness?

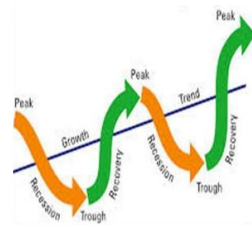
More moderate GDP growth last year...

Graph 7: Quarterly GDP growth and contributions, euro area, 2016-18



...with several potential explanations.

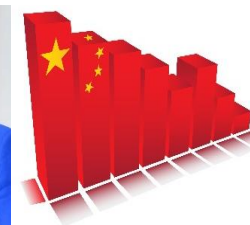
Pictures: Potential sources of change in the pace of economic growth



Maturing cycle



Elevated uncertainty



Less global growth



Slowing global trade



Manufacturing (cars)



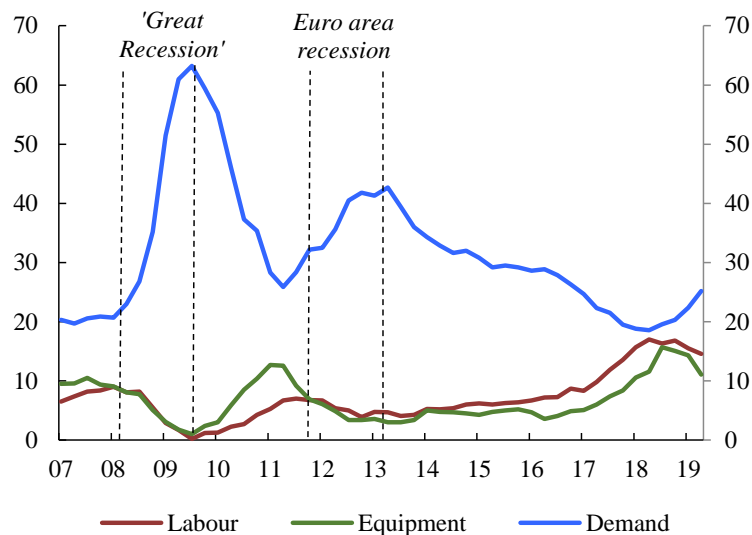
European issues

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Is this reflecting a maturing cycle?

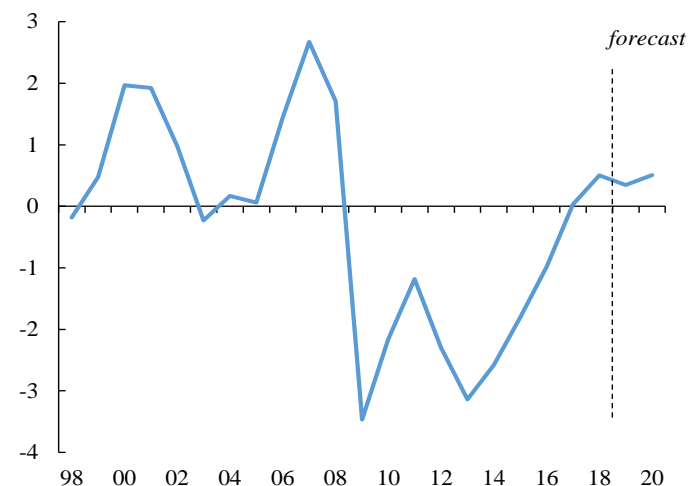
**Little evidence in typical
late-cycle indicators (e.g.
inflation pressure, ...)**

Graph 8: Factors limiting production in the euro area, manufacturing (in % of respondents)



**...and no large positive
output gap that is closing in
the euro area**

Graph 9: Output gap estimates, euro area (% of potential output)

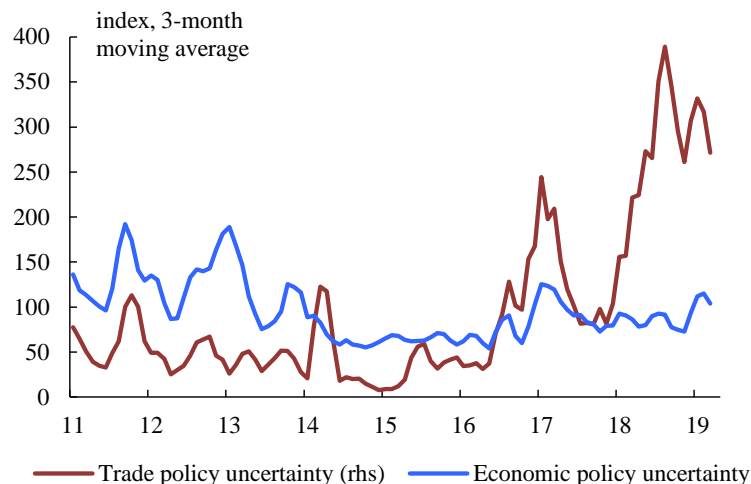


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Elevated uncertainty weighing on growth?

Economic policy uncertainty is elevated...

Graph 10: Economic policy uncertainty and trade policy uncertainty in the US



Source: Baker, Bloom and Davis at www.PolicyUncertainty.com.

...and **Brexit**-related uncertainty is persisting.

Picture: Brexit assumption

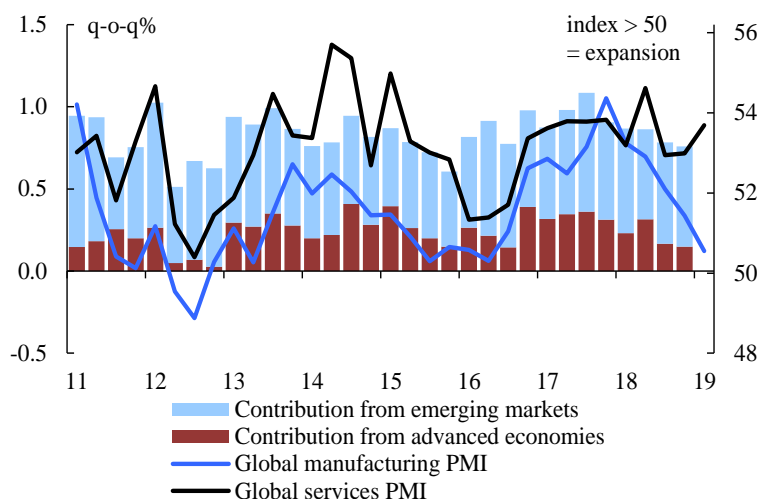


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A weaker external environment?

Global expansion has weakened in late 2018...

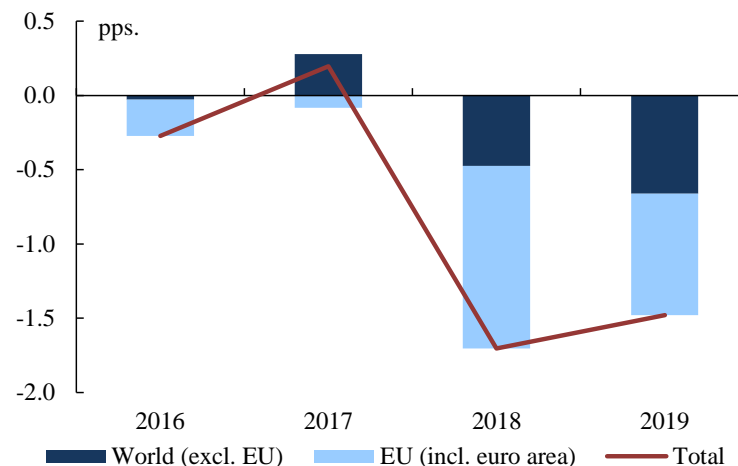
Graph 11: Growth of global output and Global PMIs (excl. EU)



Sources: OECD, IMF and national statistical institutes for GDP, JPMorgan/IHS Markit for PMI

...with EA export markets growing less than expected.

Graph 12: Revisions to euro area export market growth, spring 2019 forecast vs. spring 2018



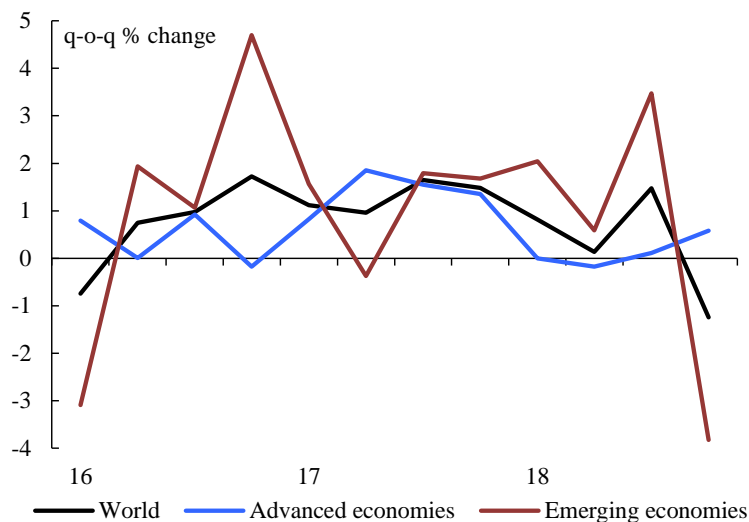
Note: Revisions between the Commission's spring 2018 forecast and the spring 2019 forecast. Exports of goods and services.

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The impact of slowing trade growth?

Global trade growth slowed in late 2018...

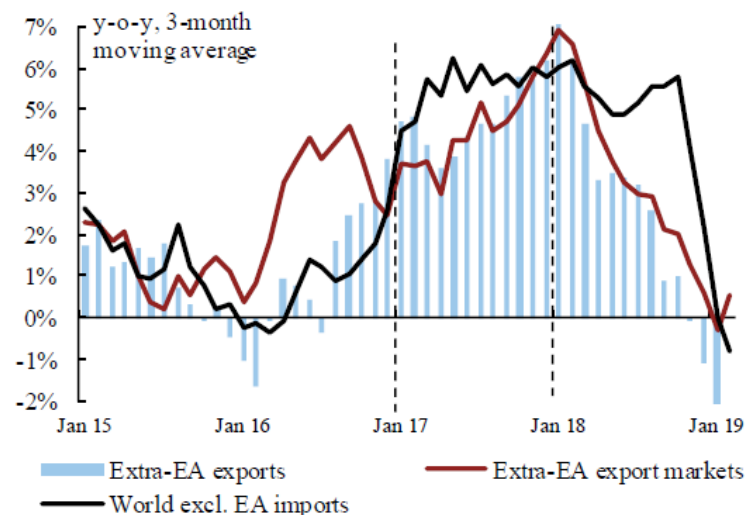
Graph 13: Import volumes (goods), world and advanced and emerging economies



Source: CPB

...with extra-EA export growth falling sharply.

Graph 14: Extra-EA exports (goods), world imports (excl. EA), and extra-EA markets (goods)



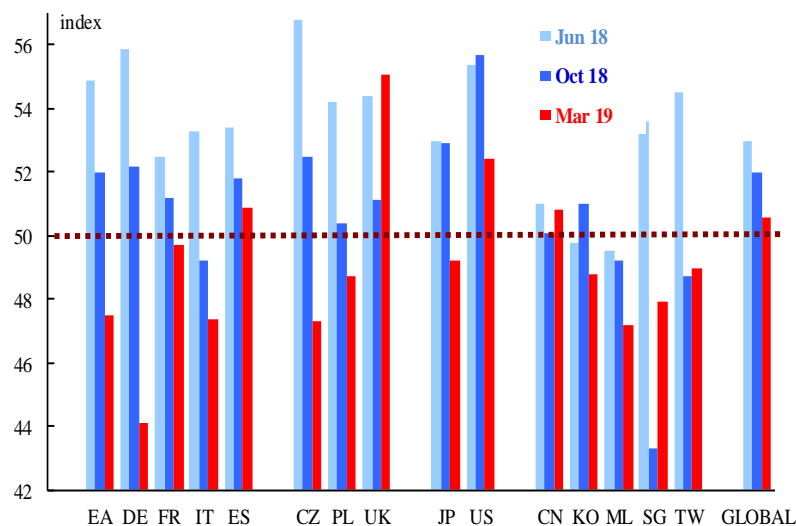
Source: CPB, Eurostat. Data available until February, except for extra-euro area exports where data are available until January 2019.

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The global manufacturing downturn?

Global manufacturing weakened since mid-2018...

Graph 15: Manufacturing PMI, selected countries and areas



...with manufacturing output falling in the euro area.

Graph 16: Manufacturing output and extra-euro area exports

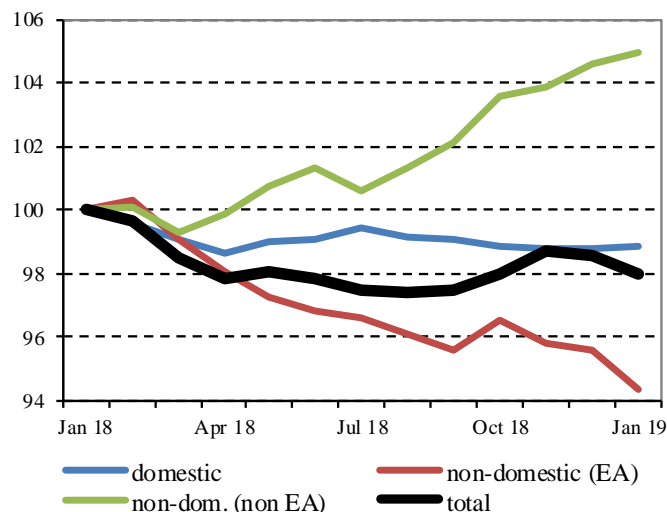


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The euro area manufacturing sector?

New industrial orders point to intra-EA weakness

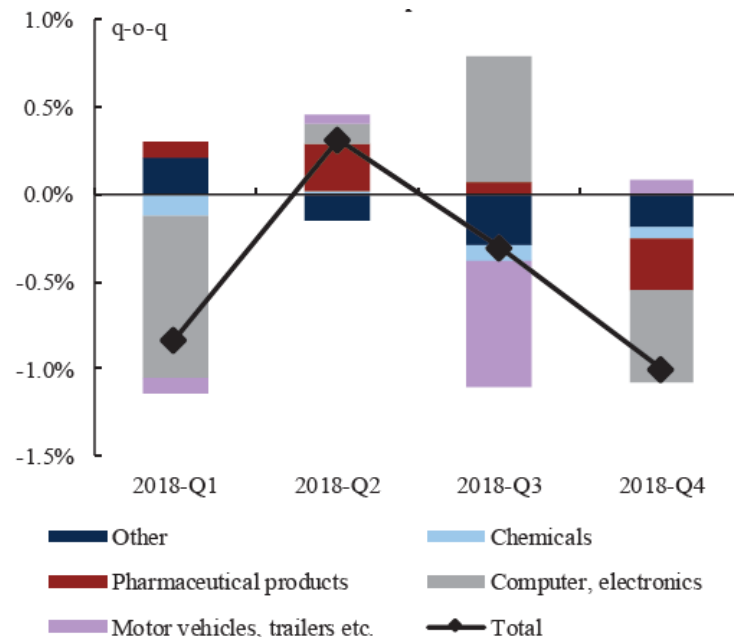
Graph 17: New industrial orders, manufacturing, euro area (3mma, Jan. 2018=100)



Source: ECB (<https://sdw.ecb.europa.eu/browse.do?node=9691194>); own calc.

The car production in the euro area dominated 18-Q3.

Graph 18: Manufacturing output growth and its composition, euro area

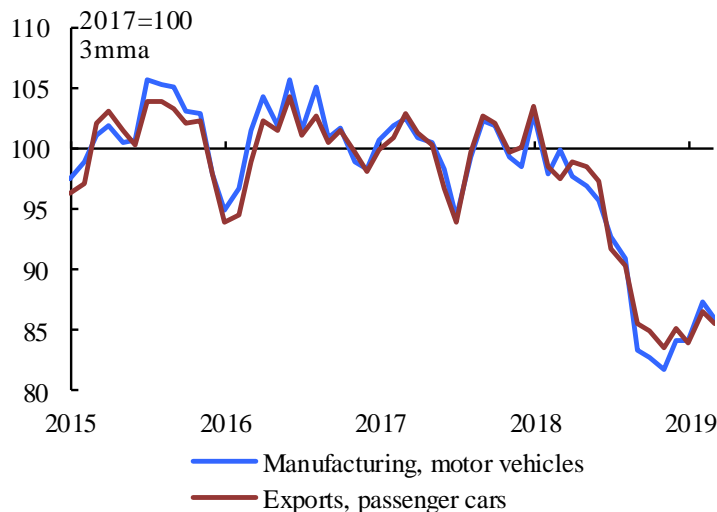


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The German car industry weakness?

Car output and exports fell in 2018 in Germany...

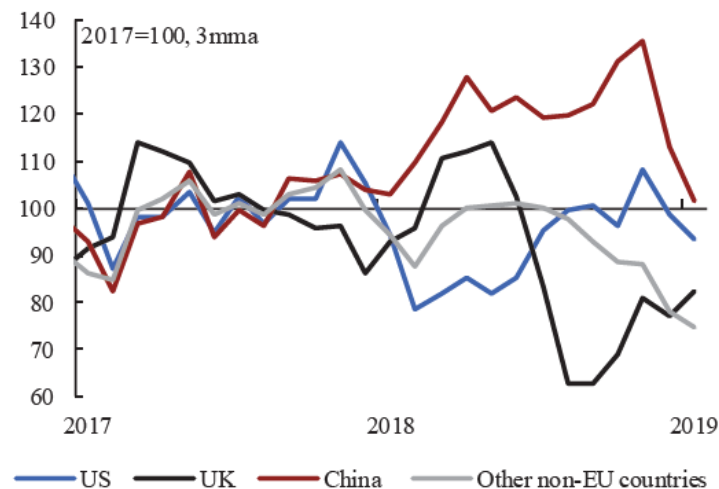
Graph 19: Manufacturing of motor vehicles and export of passenger cars, Germany



Note: Seasonally adjusted by the Census X-13/SEATS procedure
Source: German Association of the Automotive Industry (VDA),
German Federal Statistical Office (Destatis)

...with car exports to key markets declining.

Graph 20: Value of German car exports to key non-EA export markets



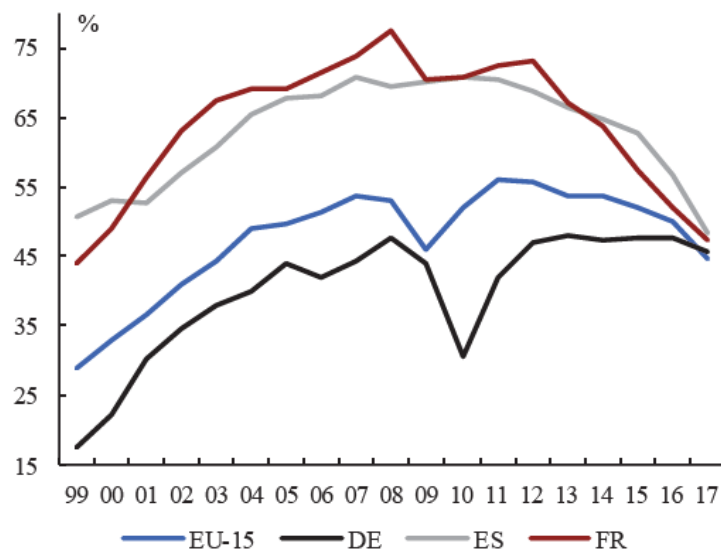
Source: German Federal Statistical Office (Destatis)

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Other domestic growth impediments?

Structural changes in car manufacturing (e.g. Diesel)

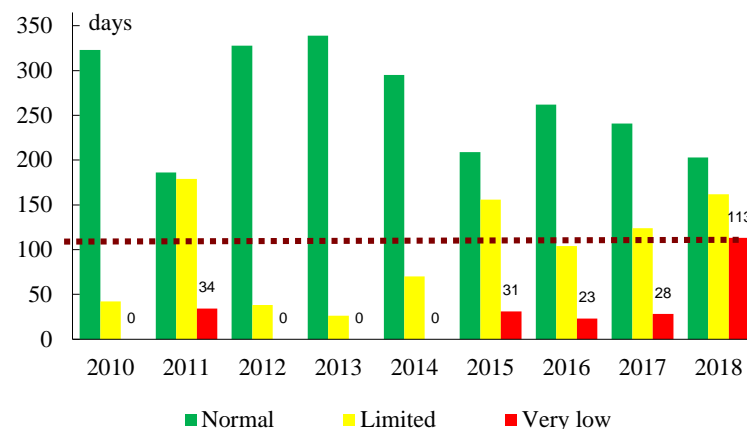
Graph 21: Share of Diesel cars in new passenger car registrations, selected countries



Source: Association Auxiliaire de l'Automobile (AAA)

...**drought**-related transport problems, social **unrest**, **fiscal** policy concerns, **health** problems, and **strikes**.

Graph 22: Water level of the Rhine, assessment based on levels measured in Kaub (Germany)



Note: "Very low": 0-80 cm, "Limited": 81-200 cm, "Normal": 200 cm or more
Historical minimum: 25 cm (22 Oct. 2018), max: 825 cm (5 Jan. 1983)
Source: Interrijn Group

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Where do we stand?

Some **survey indicators** continue declining...

Graph 23: Economic Sentiment Indicator and PMI Composite Output, euro area



Source: EC, IHSMarkit



...but recent **hard data** showed some firming

- **industrial production**: in the first two months in 2019 it was on average 0.8% higher than in 2018-Q4
- the number of **new passenger car registrations** increased in 2019-Q1 (7.4% q-o-q, -11.4% in the 2018-Q4)
- **construction output** increased strongly in February and was about 5% higher than one year before
- **retail trade volumes** increased in the first two months in EA/EU and the average was higher than in 2018-Q4

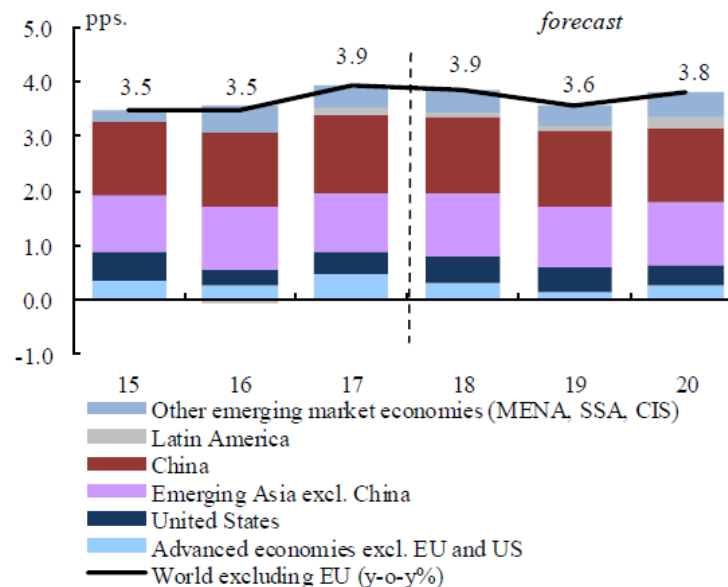
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What to expect on the external side? (1/2)

1. Recent **monetary policy** decisions by the **Fed** have eased global financial conditions, which should support **emerging markets** and high-debt countries.
2. An assumed relaxation in **trade disputes** between the **US** and **China** should lower policy uncertainty and help trade.
3. Additional **policy measures** in **China** should in the short term benefit the Chinese economy.

Uptick in **non-EU GDP growth** in 2020 after weaker 2019

Graph 24: Non-EU GDP growth and contributions by country/region

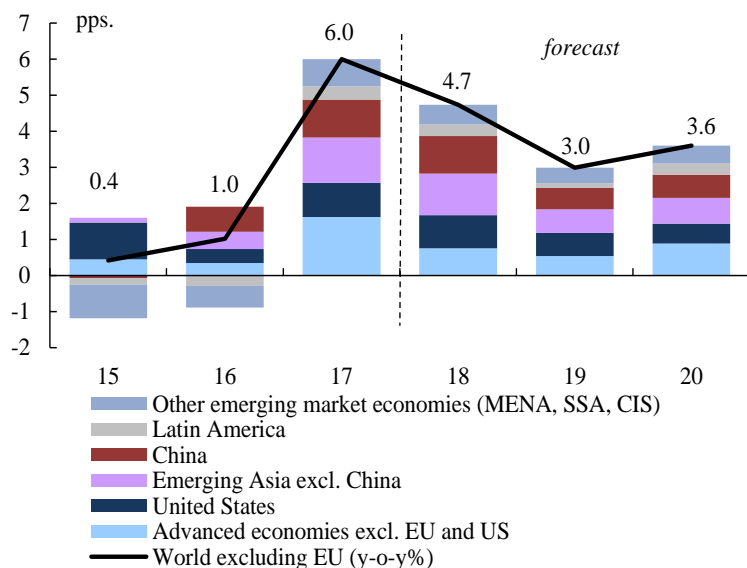


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What to expect on the external side? (2/2)

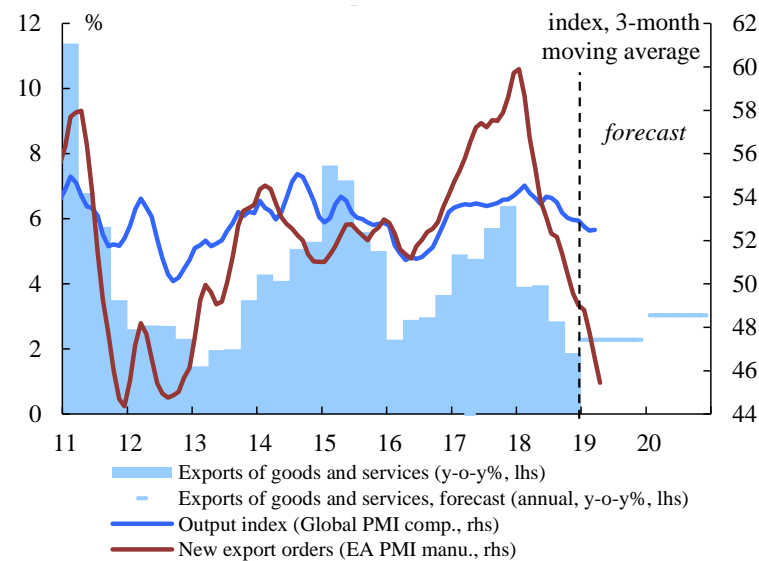
Global trade growth is expected to rebound...

Graph 25: World import growth (excl. EU)



... with euro area export growth increasing slightly

Graph 26: Global demand, euro area exports and new export orders



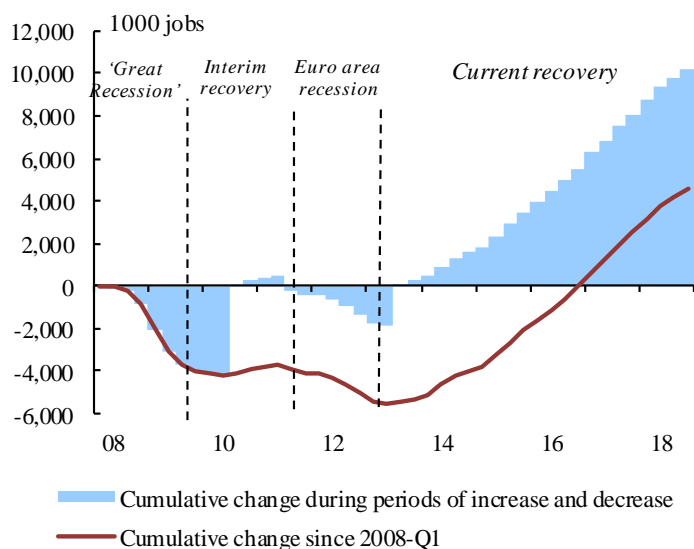
Source: EC, Markit Group Limited.

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What to expect on the domestic side?

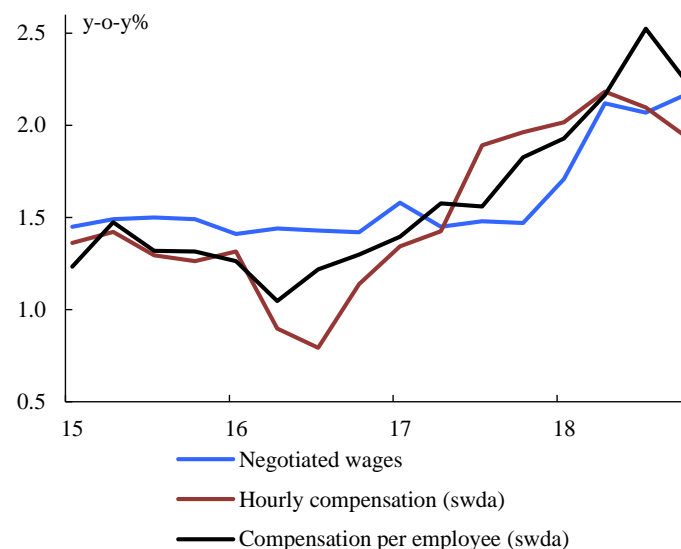
Support from a (still) strong labour market situation...

Graph 27: Employment growth (2008-2018),
euro area (persons)



..and somewhat stronger wages increases...

Graph 28: Wage growth, euro area (2015-Q1 to 2018-Q4)

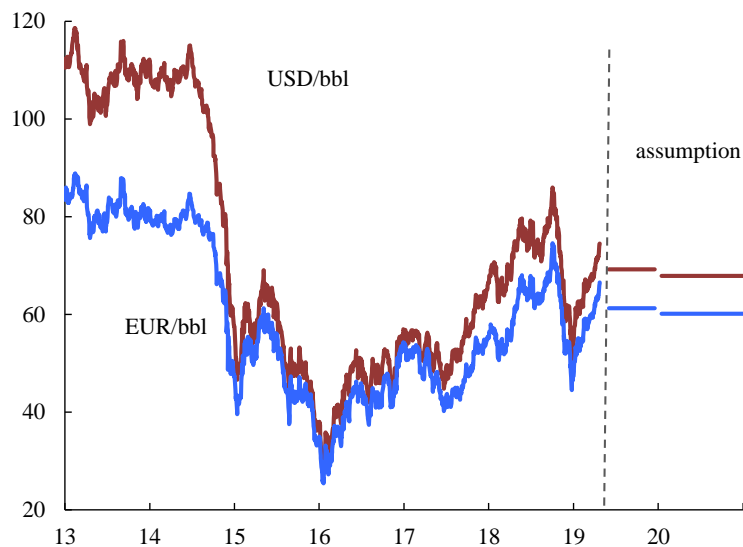


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Inflation and households' real incomes

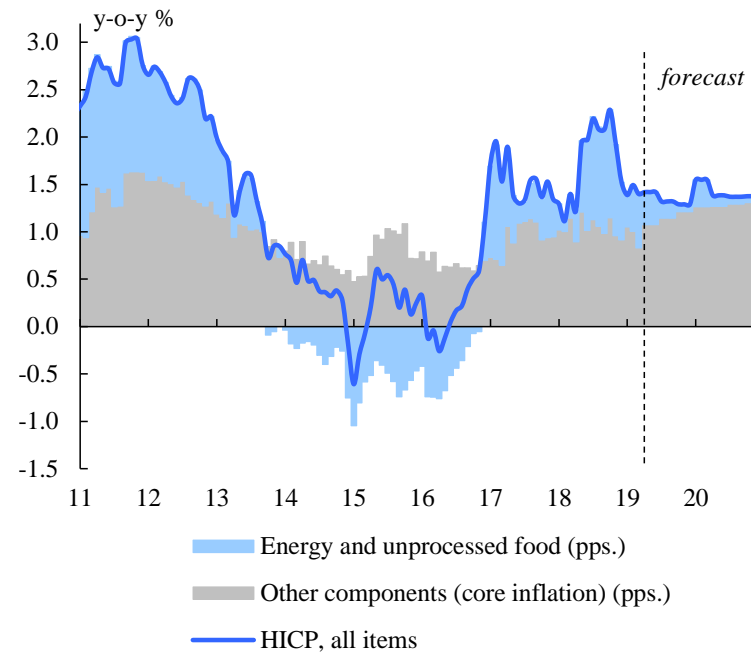
**Muted inflationary pressures
from oil prices...**

Graph 29: Oil price assumptions



... suggest subdued **inflation
that supports real incomes.**

Graph 30: Inflation breakdown, euro area

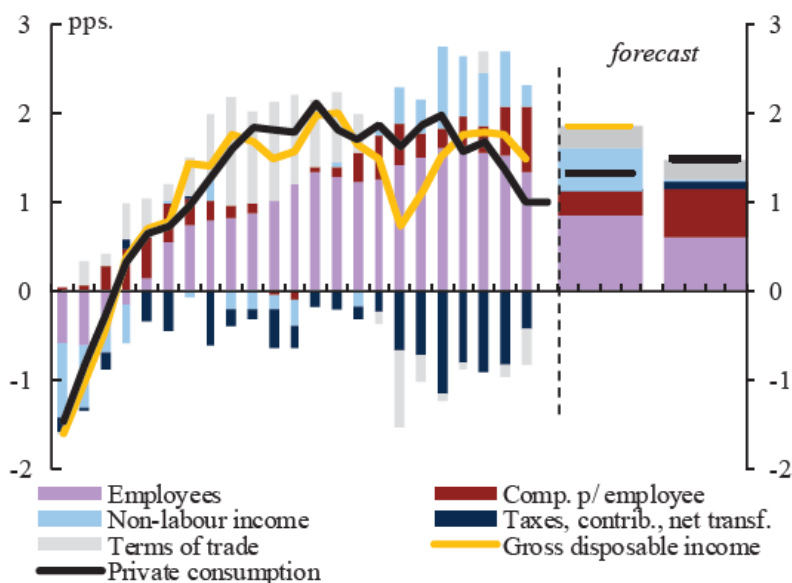


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Private consumption

With disposable incomes growth edging up...

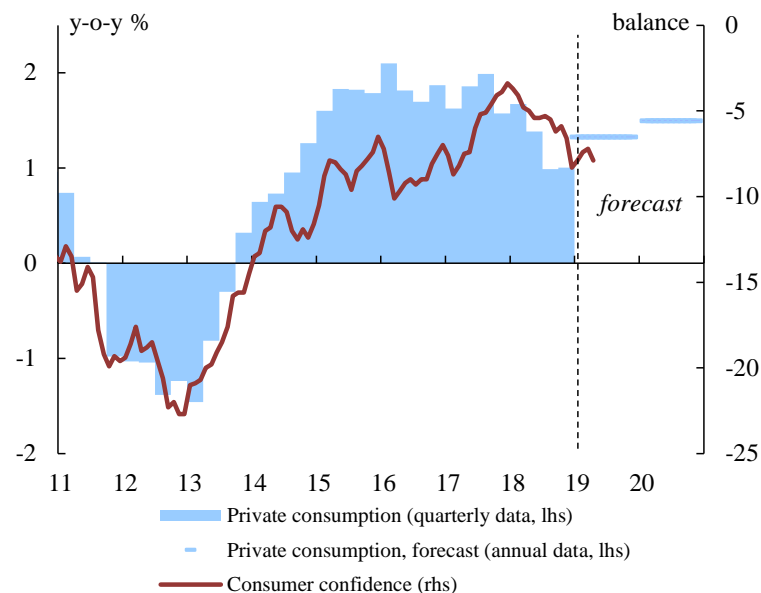
Graph: Real gross disposable income (GDI) and
its components, euro area



Note: Forecast figures are annual data.

...private consumption growth set to remain solid

Graph 32: Private consumption and consumer
confidence, euro area

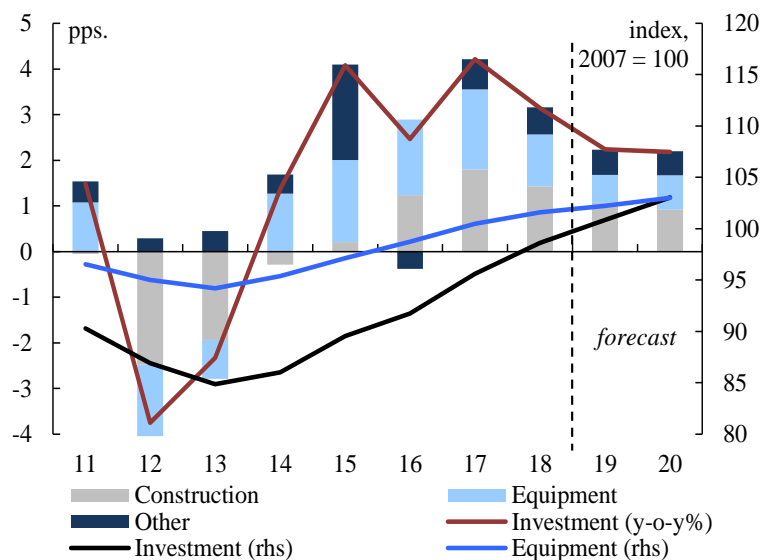


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Investment

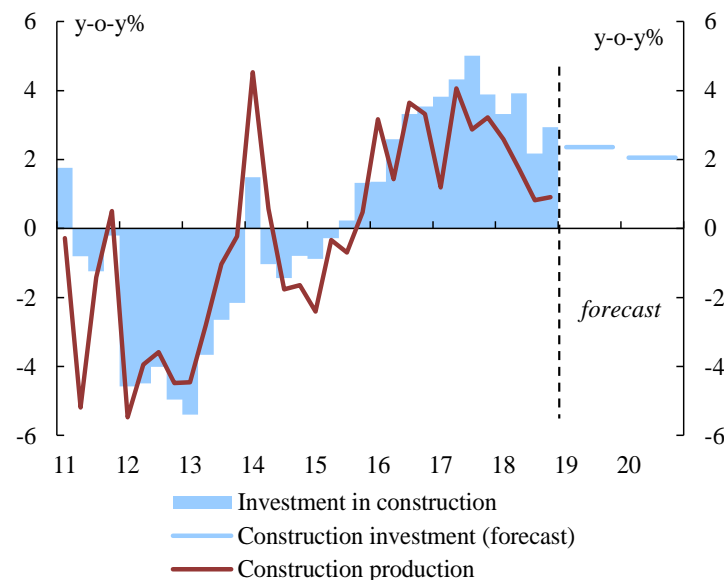
Investment growth set to moderate ...

Graph 33: Investment and its components, euro area excluding Ireland



..with the construction component expanding solidly

Graph 34: Investment and production in construction, euro area

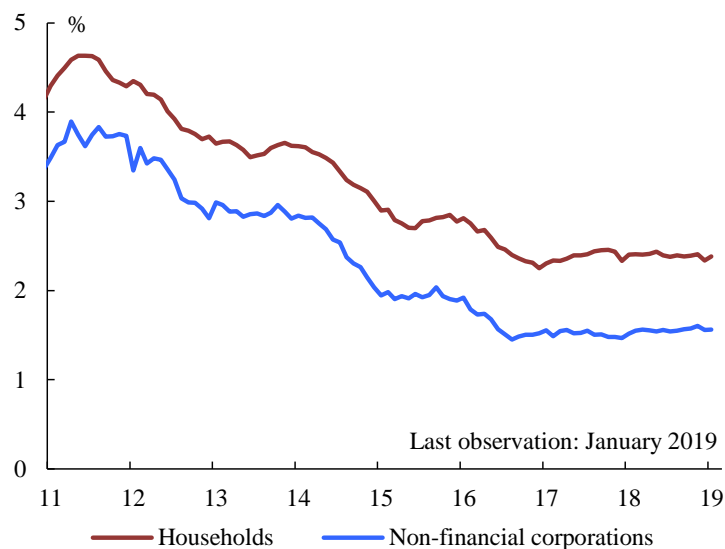


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What can policies contribute? (1/2)

The **ECB** has confirmed its accommodative stance...

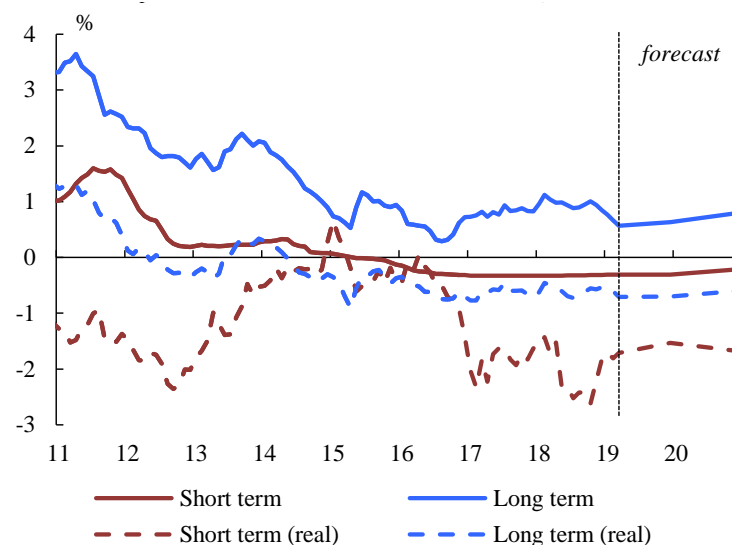
Graph 35: Composite credit cost indicators,
euro area



Sources: ECB, Bloomberg, own calculations

...with **interest rates** remaining growth-supportive

Graph 36: Nominal and real interest rates,
euro area



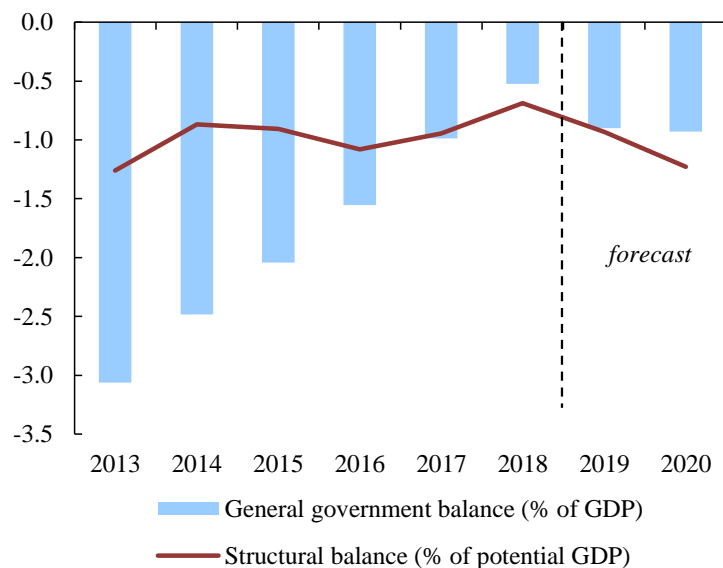
Note: Short term rate: 3M Euribor; Long term rate: 10Y interest swap

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What can policies contribute? (2/2)

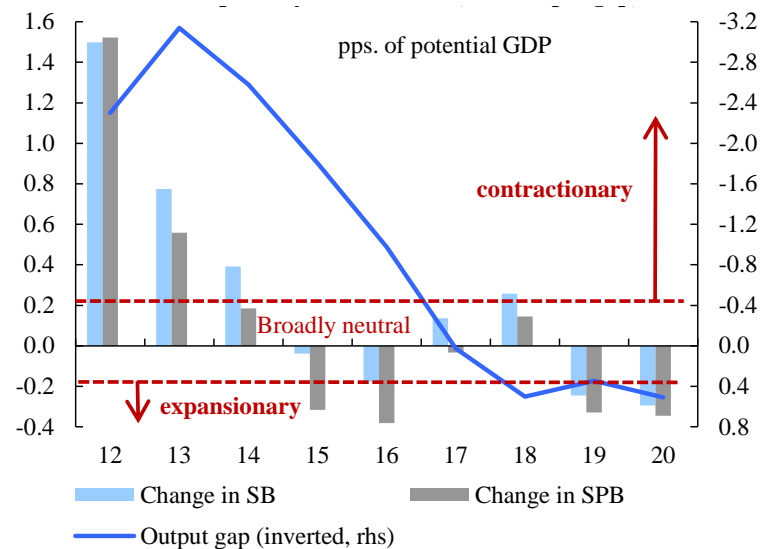
Slightly higher headline and structural **deficits**...

Graph 37: General government balance and structural balance, euro area



...with the **fiscal stance** set to turn mildly expansionary...

Graph 38: Change in the structural balance (SB) and structural primary balance (SPB), and output gap, euro area

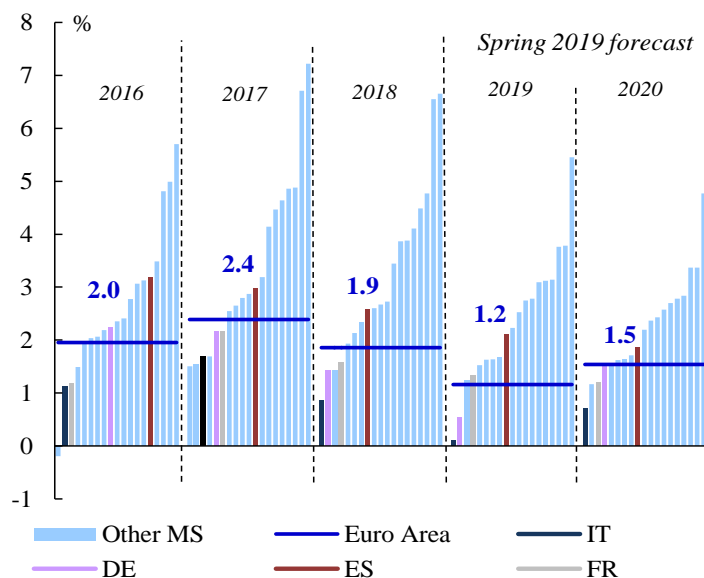


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GDP growth in 2019-2020

More moderate economic growth in the euro area...

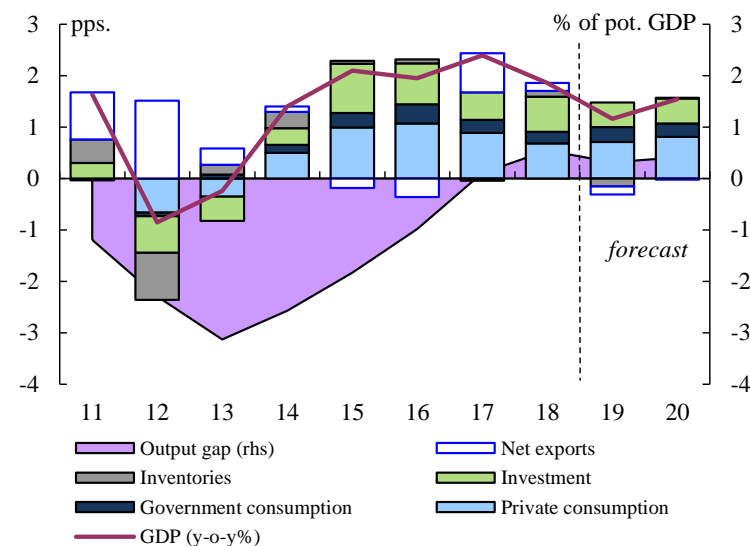
Graph 39: Real GDP growth, EU and Member States



Note: in each period, the bars for all 19 euro area economies are ranked by size.

...with growth contributions from domestic demand only

Graph 40: Real GDP and components, euro area

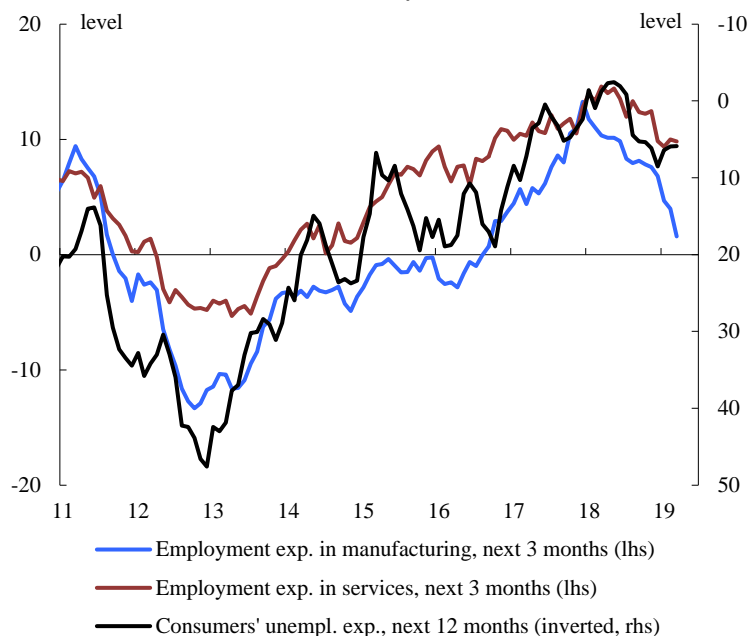


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Labour markets

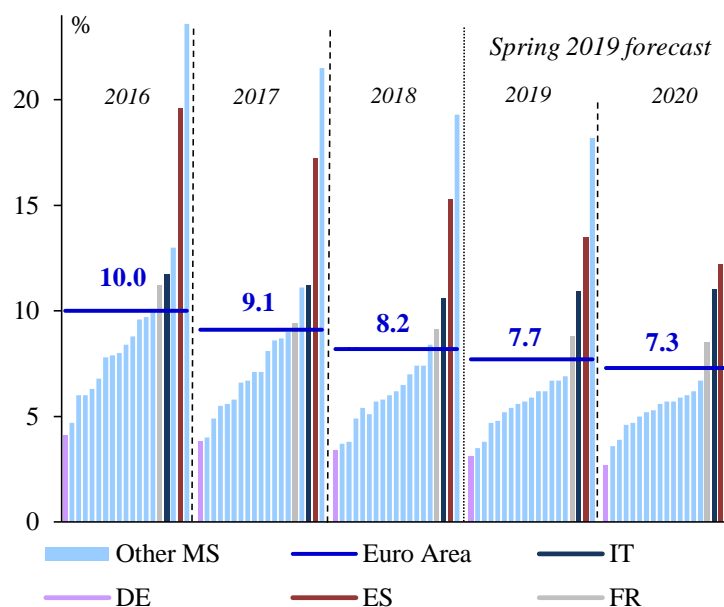
**Employment expectations
lower but still forecast of...**

Graph 41: Employment expectations,
Commission surveys, euro area



**...lower employment growth and
falling unemployment rates.**

Graph 42: Unemployment rates, euro area and
Member States (2016-2020)



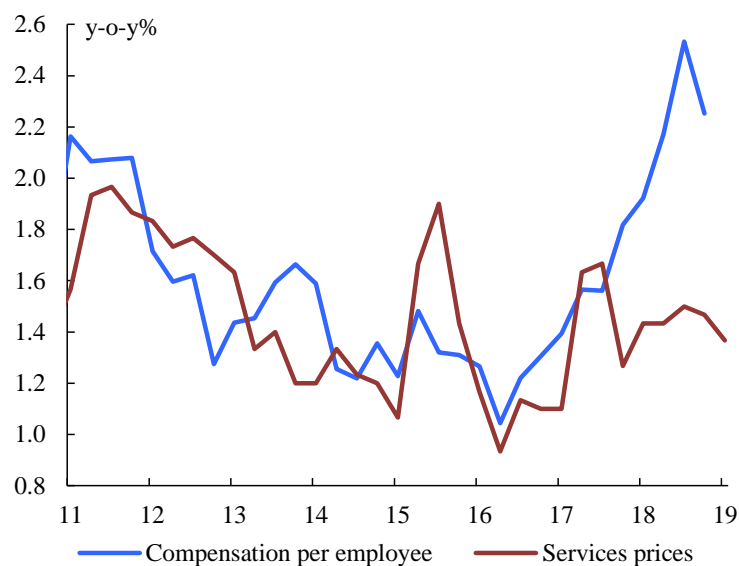
In each period, the bars for all 19 euro area economies are ranked by size.

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Wages and inflation

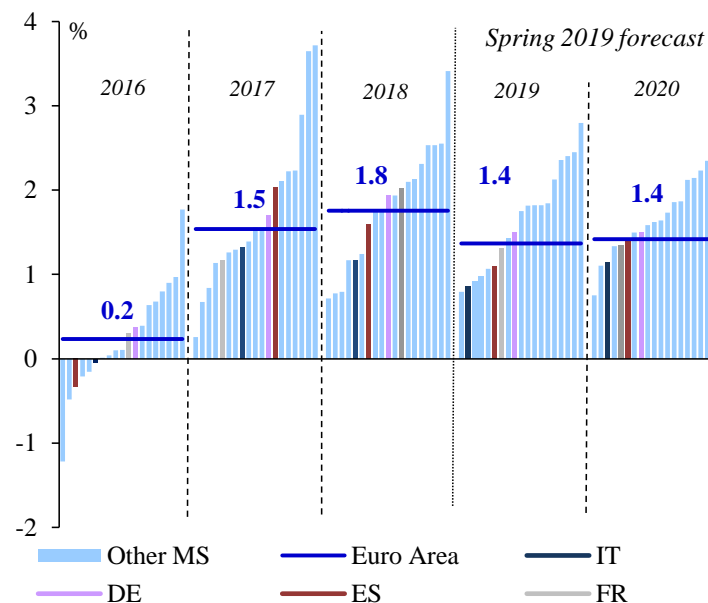
Wages rising as the expansion continues...

Graph 43: Wage growth in the euro area



but HICP inflation set to remain at 1.4% 2019-20

Graph 44: Inflation rates (EA and MS)



Note: In each period, the bars for all 19 euro area economies are ranked by size.

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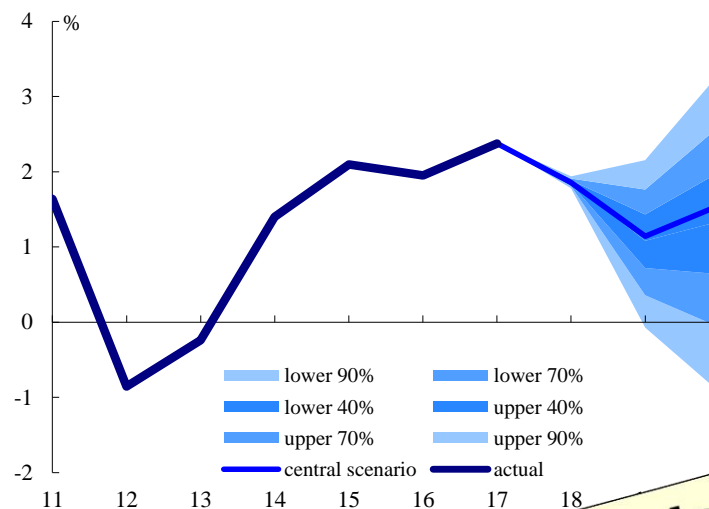
Risks

Elevated uncertainty with prominent downside risks

- Some risks from previous forecasts have **materialised or diminished** (slowing global growth, US fiscal cliff, faster-than expected tightening by the Fed and emerging markets).
- Substantial **downside risks** still exist with many of them interrelated, e.g. escalating trade tensions, a 'no deal' Brexit, financial market turmoil, debt-related vulnerabilities, downturn in China, and political uncertainty.
- New **tariffs on US imports of cars and car parts** from the EU could be highly disruptive.
- **Upside risks** exist in the external environment (stronger global rebound, fading uncertainty) but also on the domestic side (more resilient domestic demand,...).

Overall, risks are/remain tilted to the downside

Graph 47: EA GDP growth forecast – uncertainty linked to the balance of risks



Thank you for your attention

Annex 1: Spring 2019 Forecast (overview)

Overview - the spring 2019 forecast

	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Belgium	1.4	1.2	1.2	2.3	1.8	1.6	6.0	5.6	5.3	0.2	0.2	0.0	-0.7	-1.3	-1.5
Germany	1.4	0.5	1.5	1.9	1.5	1.5	3.4	3.1	2.7	7.6	6.8	6.5	1.7	1.0	0.8
Estonia	3.9	2.8	2.4	3.4	2.4	2.2	5.7	5.7	5.7	1.5	1.4	1.4	-0.6	-0.3	-0.5
Ireland	6.7	3.8	3.4	0.7	1.0	1.3	5.8	5.4	5.0	9.1	8.5	7.9	0.0	0.0	0.3
Greece	1.9	2.2	2.2	0.8	0.8	0.8	19.3	18.2	16.8	-1.4	-1.0	-0.8	1.1	0.5	-0.1
Spain	2.6	2.1	1.9	1.7	1.1	1.4	15.3	13.5	12.2	0.9	0.9	0.9	-2.5	-2.3	-2.0
France	1.6	1.3	1.5	2.1	1.3	1.4	9.1	8.8	8.5	-0.6	-0.6	-0.6	-2.5	-3.1	-2.2
Italy	0.9	0.1	0.7	1.2	0.9	1.1	10.6	10.9	11.0	2.4	2.5	2.5	-2.1	-2.5	-3.5
Cyprus	3.9	3.1	2.7	0.8	0.9	1.1	8.4	6.7	5.9	-6.5	-8.0	-9.4	-4.8	3.0	2.8
Latvia	4.8	3.1	2.8	2.6	2.8	2.4	7.4	6.9	6.7	-0.5	-0.2	-0.2	-1.0	-0.6	-0.6
Lithuania	3.4	2.7	2.4	2.5	2.1	2.1	6.2	6.2	6.0	0.0	-0.1	-0.4	0.7	0.3	0.0
Luxembourg	2.6	2.5	2.6	2.0	1.8	1.7	5.4	5.2	5.2	4.8	4.6	4.7	2.4	1.4	1.1
Malta	6.6	5.5	4.8	1.7	1.8	1.9	3.7	3.8	3.9	11.2	9.8	9.5	2.0	1.1	0.9
Netherlands	2.7	1.6	1.6	1.6	2.5	1.5	3.8	3.5	3.6	11.0	10.1	9.5	1.5	1.4	0.8
Austria	2.7	1.5	1.6	2.1	1.8	1.9	4.9	4.7	4.7	2.5	2.4	2.6	0.1	0.3	0.2
Portugal	2.1	1.7	1.7	1.2	1.1	1.6	7.0	6.2	5.7	-0.9	-1.0	-1.1	-0.5	-0.4	-0.1
Slovenia	4.5	3.1	2.8	1.9	1.8	2.1	5.1	4.8	4.6	7.3	6.7	6.1	0.7	0.7	0.9
Slovakia	4.1	3.8	3.4	2.5	2.4	2.3	6.5	5.9	5.6	-1.1	-0.5	-0.1	-0.7	-0.5	-0.6
Finland	2.3	1.6	1.2	1.2	1.4	1.6	7.4	6.7	6.2	-1.9	-1.5	-1.4	-0.7	-0.4	-0.2
Euro area	1.9	1.2	1.5	1.8	1.4	1.4	8.2	7.7	7.3	3.6	3.3	3.2	-0.5	-0.9	-0.9
Bulgaria	3.1	3.3	3.4	2.6	2.0	1.8	5.2	5.0	4.8	2.5	1.6	1.5	2.0	0.8	1.0
Czechia	2.9	2.6	2.4	2.0	2.4	2.0	2.2	2.2	2.3	0.1	-0.5	-0.6	0.9	0.2	-0.2
Denmark	1.4	1.7	1.6	0.7	1.3	1.5	5.0	4.8	4.7	6.1	6.3	6.3	0.5	0.6	-0.1
Croatia	2.6	2.6	2.5	1.6	1.0	1.2	8.5	7.8	6.9	2.9	2.6	1.9	0.2	0.1	0.5
Hungary	4.9	3.7	2.8	2.9	3.2	3.2	3.7	3.5	3.5	0.5	-1.2	-1.4	-2.2	-1.8	-1.6
Poland	5.1	4.2	3.6	1.2	1.8	2.5	3.9	3.8	3.5	-0.5	-1.0	-1.4	-0.4	-1.6	-1.4
Romania	4.1	3.3	3.1	4.1	3.6	3.0	4.2	4.1	4.0	-4.7	-5.2	-5.3	-3.0	-3.5	-4.7
Sweden	2.3	1.4	1.6	2.0	1.5	1.6	6.3	6.4	6.4	3.4	4.1	4.6	0.9	0.4	0.4
EU27	2.1	1.4	1.7	1.8	1.5	1.6	7.3	6.9	6.6	3.3	3.0	2.9	-0.5	-0.9	-0.9
United Kingdom	1.4	1.3	1.3	2.5	2.0	2.1	4.0	4.1	4.2	-3.9	-3.7	-3.4	-1.5	-1.5	-1.2
EU28	2.0	1.4	1.6	1.9	1.6	1.7	6.8	6.5	6.2	2.2	2.0	1.9	-0.6	-1.0	-1.0
China	6.6	6.2	6.0	2.4	2.0	2.0	:	:	:	0.4	0.3	0.3	:	:	:
Japan	0.8	0.8	0.6	1.0	0.7	0.9	2.4	2.3	2.2	3.5	3.6	3.6	-2.9	-2.8	-2.5
United States	2.9	2.4	1.9	2.4	2.0	2.0	3.9	3.8	3.7	-2.4	-2.5	-2.6	-6.4	-6.5	-6.4
World	3.6	3.2	3.5	:	:	:	:	:	:	:	:	:	:	:	:

Annex 2: European Commission and AIECE forecasts (2007-2019)

European Commission and AIECE forecasts in spring and autumn (2007-2019)

	Real GDP growth, euro area				Revision (Spring vs. Spring)	Spring meeting/release	Autumn meeting/release
	Spring (t-1)	Autumn (t-1)	Spring (t)	Autumn (t)	(pps.)	date	date
European Commission forecasts							
2007	1.8	2.1	2.6	2.2	0.8	May 7	Nov. 9
2008	2.5	2.1	1.7	1.2	-0.8	April 28	Nov. 3
2009	1.6	0.1	-4.0	-4.0	-5.6	May 14	Nov. 3
2010	-0.1	0.7	0.9	1.7	1.0	May 5	Nov. 29
2011	1.5	1.5	1.6	1.5	0.1	May 13	Nov. 10
2012	1.8	0.5	-0.3	-0.4	-2.1	May 11	Nov. 7
2013	1.0	0.1	-0.4	-0.4	-1.4	May 3	Nov. 5
2014	1.2	1.1	1.2	0.8	0.0	May 5	Nov. 4
2015	1.7	1.1	1.5	1.6	-0.2	May 5	Nov. 5
2016	1.9	1.8	1.6	1.7	-0.3	May 3	Nov. 9
2017	1.8	1.5	1.7	2.2	-0.1	May 11	Nov. 9
2018	1.8	2.1	2.3	2.1	0.5	May 3	Nov. 8
2019	2.0	1.9	1.2		-0.8	May 7	
AIECE forecasts							
2007	2.0	2.0	2.4	2.6	0.4	May 10-11 (Helsinki)	Nov. 6-7 (Brussels)
2008	2.3	2.2	1.7	1.3	-0.6	May 8-9 (Budapest)	Nov. 6-7
2009	1.8	0.8	-3.0	-4.0	-4.8	May 7-8 (Vienna)	Nov. 5-6
2010	0.1	0.8	1.0	1.6	0.9	May 6-7 (Milan)	Oct. 28-29
2011	1.5	1.5	1.6	1.6	0.1	May 5-7 (Essen)	Nov. 21-22
2012	1.7	1.0	-0.3	-0.4	-2.0	April 26-27 (Madrid)	Nov. 15-16
2013	1.0	0.3	-0.4	-0.4	-1.4	May 2-3 (Berlin)	Nov. 7-8
2014	1.0	1.0	1.1	NA	0.1	May 8-9 (Dublin)	Nov. 6-7
2015	1.4	NA	1.4	1.5	0.0	May 21-22 (London)	Nov. 5-6
2016	1.7	1.7	1.5	1.6	-0.2	May 12-13 (Bologna)	Nov. 3-4
2017	1.7	1.5	1.6	2.1	-0.1	May 4-5 (Frankfurt)	Nov. 16-17
2018	1.6	1.9	2.3	2.0	0.7	May 17-18 (Warsaw)	Nov. 15-16
2019	1.9	1.8	1.4		-0.5	May 9-10 (The Hague)	