

October 1<sup>st</sup>, 2019

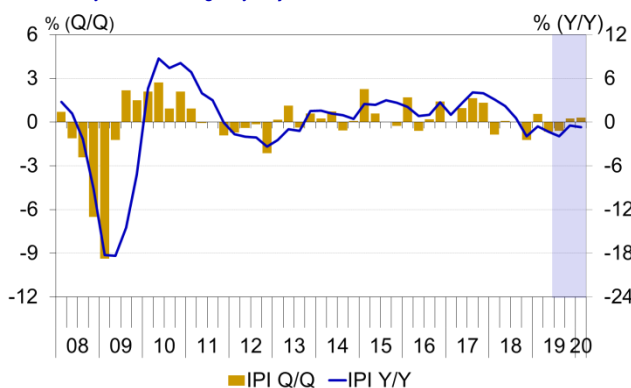
## Growth continues but at a slower pace

- Geopolitical turbulences, associated to the negative evolution of the world merchandise trade, affected negatively the international outlook. In this context the economic growth for the euro area is forecast to be sluggish.
- Private consumption expenditures are expected to be the main driver while gross fixed capital formation remains modest.
- Annual inflation is expected to be around 1% until the end of the year and to pick up at the beginning of 2020.
- Risks to the outlook are to the downside and continue to originate from global trade tensions and the uncompleted Brexit process.

### Eurozone economy decelerated

Euro area GDP increased by 0.2% in Q2, slowing down compared to the first quarter (+0.4%) due to the negative contribution from net exports (-0.1 percentage points) and weakness in manufacturing sector value added (-0.7%). A divergence continues to be evident between the weak export-oriented manufacturing sector and the more resilient services sector which is however starting to show some signs of weakness. The slowdown was stronger in Germany (-0.1% in Q2 compared to +0.4% in Q1), while France and Spain continued to outperform but at a decreasing pace. The Italian economy remained weak with GDP being stable.

**FIGURE 1 | Eurozone Industrial Production Index**  
Seasonally and working day adjusted



Source: Eurostat and Ifo-Istat-KOF Forecasts

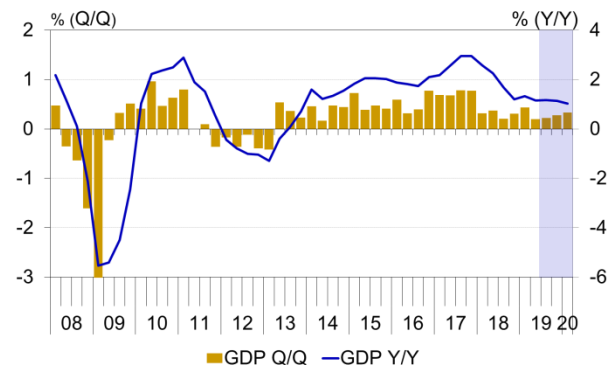
Composite and sentiment indicators give negative signal. In September, the €-coin index continued its decline. In the same month, the economic sentiment indicator decreased markedly as a result of a sharp decline in confidence in the industry sector and a minor one in retail trade. Instead, consumer confidence improved slightly reflecting households more positive expectations about the general economic situation.

In July, industrial production contracted (-0.4% m/m), extending the negative performance of the second quarter (-0.7% q/q). Despite the increase in July, the production of capital goods remained negative on a three-month moving-average (-1.9% q/q) while the production of intermediate goods registered a contraction of the same intensity.

In July, retail trade volumes and production in the construction sector declined as well (by -0.6% and -0.7% m/m respectively).

Industrial production is expected to confirm the negative tone in Q3 (-0.6%) and then increase in the following quarters slightly (+0.2% in Q4 and +0.3% in Q1 2020)

**FIGURE 2 | Eurozone GDP Growth**  
Seasonally and working day adjusted



Source: Eurostat and Ifo-Istat-KOF Forecasts

Over the forecast horizon, Eurozone GDP will grow by 0.2% in Q3 2019 with a slight acceleration in the following two quarters (+0.3% in both Q4 2019 and Q1 2020).

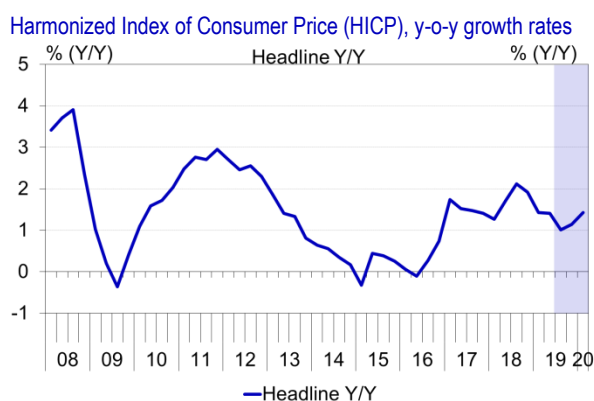
The main driver of growth will be private consumption supported by good labor market conditions. The number of persons employed increased by 0.2% in Q2 and, in July, the unemployment rate remained at a historically low level (7.5%), unchanged compared

with June. In Q2, even the job vacancy rate confirmed its highest levels. Private consumption expenditures are expected to increase steadily along the forecast horizon (+0.3% in Q3, Q4 and Q1 2020 respectively). In Q3, capacity utilization in manufacturing declined further. Gross fixed capital formation is projected to decrease in Q3 (-0.1%) and to rebound by 0.2% in Q4 2019 and 0.3% in Q1 2020.

### Inflation remains stable

Given the deteriorating growth and inflation outlook, the European Central Bank (ECB) has recently announced a new stimulus program including a cut of the deposit rate and a return to quantitative easing. Price pressures are currently modest due to the moderate level of economic activity.

**FIGURE 3 | Eurozone Inflation**



Source: Eurostat and Ifo-Istat-KOF Forecasts

In August, headline inflation, measured as annual changes in the Harmonized Index of Consumer Prices (HICP), was at 1.0%. Inflation is forecast to remain at 1.0% in Q3 and then to increase to 1.1% in Q4 and 1.4% in Q1 2020. The inflation forecast is based on the technical assumption that the Brent oil price remains stable at 62 USD per barrel and that the dollar/euro exchange rate stays at 1.10 over the forecast horizon.

### Risks from global environment

The major risks to the outlook are related to geopolitical turbulences: heightened uncertainty stemming from the global trade conflict, adverse political developments with an increased probability of a hard Brexit and recent terrorist attacks to a major oil installation. As perspectives for international trade remain negative, the performance of Germany could deteriorate further with exports and manufacturing activity continuing to struggle providing negative spillover to the rest of the euro area.

	2019	Q3 19		Q4 19		Q1 20	
		q/q	y/y	q/q	y/y	q/q	y/y
Industrial Production	-1.1	-0.6	-1.9	0.2	-0.5	0.3	-0.7
Gross Domestic Product	1.2	0.2	1.2	0.3	1.1	0.3	1.0
Private Consumption Expenditures	1.2	0.3	1.3	0.3	1.2	0.3	1.1
Gross Fixed Capital Formation	2.4	-0.1	2.2	0.2	0.8	0.3	0.9
Headline Inflation	1.2	-0.1	1.0	0.3	1.1	-0.4	1.4

Change in % seasonal and working day adjusted

Source: ifo-Istat-KOF Forecasts

### Methodological note

This quarterly publication is prepared jointly by the German ifo Institute, the KOF Swiss Economic Institute, and the Italian Istat Institute. The forecast results are based on consensus estimates building on common macroeconomic forecast methods by the three institutes. They are based on time-series models using auxiliary indicators from business surveys by national institutes, Eurostat, and the European Commission. The joint three-quarter forecast covers Eurozone industrial production, GDP, consumption, investment, and inflation. Further country-specific and global economic analysis is available by:

- ifo Institute Christian Grimme +49 89 92 24 1285
- Istat Roberto Iannaccone +39 06 46 73 73 02
- KOF Swiss Economic Institute Heiner Mikosch +41 44 632 42 33