

January 8th, 2020

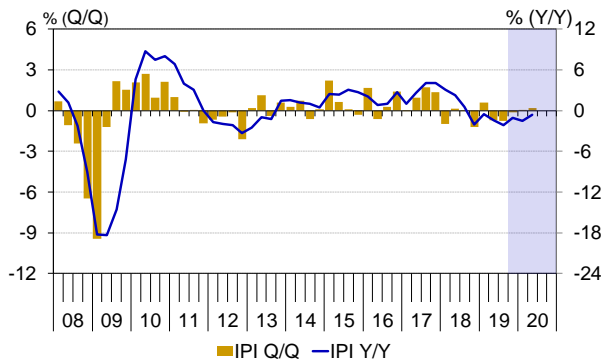
Eurozone growth at moderate pace

- The sectoral divide between falling industrial production and resilient turnover in services persists. However, business survey indicators convey first signals of optimism in manufacturing. Economic growth is projected to slightly increase its pace to moderate growth rates of 0.3% over the forecast horizon.
- Private consumption will continue to drive growth. In the first half of 2020, industrial production and investment are expected to pick up after a negative performance in Q4 2019.
- Annual inflation remains low in 2019, with a moderate acceleration in the first half of 2020.
- New risks to the outlook emerge from tensions between the US and Iran and strikes in France, while longer-standing risks about Brexit and trade tensions between the US and China have eased somewhat.

Eurozone growth remained sluggish

The expansion of GDP in the euro area continued to be sluggish in Q3 (+0,2%, as in Q2). The main driver was private consumption. Reflecting weak external demand, the contribution of net exports was slightly negative. Industrial production kept falling and is now on a downward trend since Q1 2018. The slow-down in China and the weakness in the automotive sector weighed especially on capital and intermediate goods producers. This is particularly relevant for the German economy, which only recovered slightly in Q3 (+0,1%) from negative growth in Q2 (-0,2%). France and Spain, which have a higher share of services and consumer goods production, performed better, while the Italian economy remained weak.

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



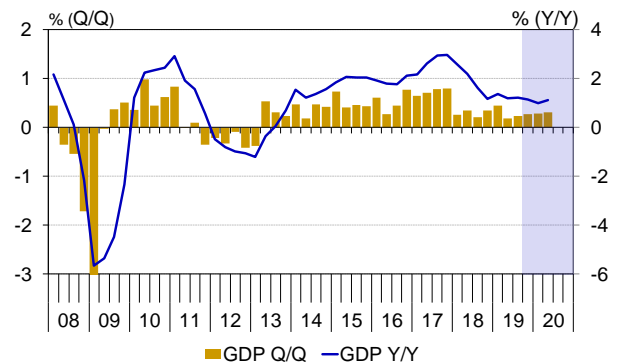
Source: Eurostat and Ifo-Istat-KOF Forecasts

According to leading indicators, the outlook stabilized in the recent months. The consumer sentiment indicator by the European Commission signals little change, but the sentiment indicator related to manufacturing seems to have bottomed out - after a deterioration since the beginning of 2018. Markit's purchasing manager's index

confirms this broad picture. Its manufacturing sub-index stabilized during Q4 2019.

However, industrial production still declined in September and October, with monthly changes of -0,1% and -0,5%. After a quarter-on-quarter change of -0,8% in Q3, industrial production is likely to fall again slightly in Q4 (-0,2%), before it is expected to rally moderately with +0,1% and +0,2% in Q1 and Q2 2020.

FIGURE 2 | Eurozone GDP Growth
Seasonally and working day adjusted



Source: Eurostat and Ifo-Istat-KOF Forecasts

GDP growth in the euro area is forecast to increase slightly faster than in Q3. In Q4 2019 and the first two quarters of 2020 it is expected to be +0.3%. For the year 2019, this results in an increase of GDP by 1.2% compared to the year 2018.

Private consumption is likely to continue to be the main driver of GDP growth, as labor markets remain resilient to the downturn in industrial production. Private consumption is expected to expand with steady quarterly rates of 0.3% over the forecast horizon. Government consumption will also add to growth, as fiscal policy in the euro area is projected to become more expansionary in 2020. After high levels, capacity utilization has decreased in the manufacturing sector, but it is still slightly above the

