



EBF ECONOMIC OUTLOOK FOR THE EURO AREA 2018-2019

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CEG's Chairman

Brussels, 26 November 2018





A bi-annual report prepared with contributions from the European Banking Federation's Chief Economists' Group. This report reflects a consensus on the outlook for the Euro area economy, which is based on arithmetic averages.



EBF AUTUMN 2018 ECONOMIC OUTLOOK

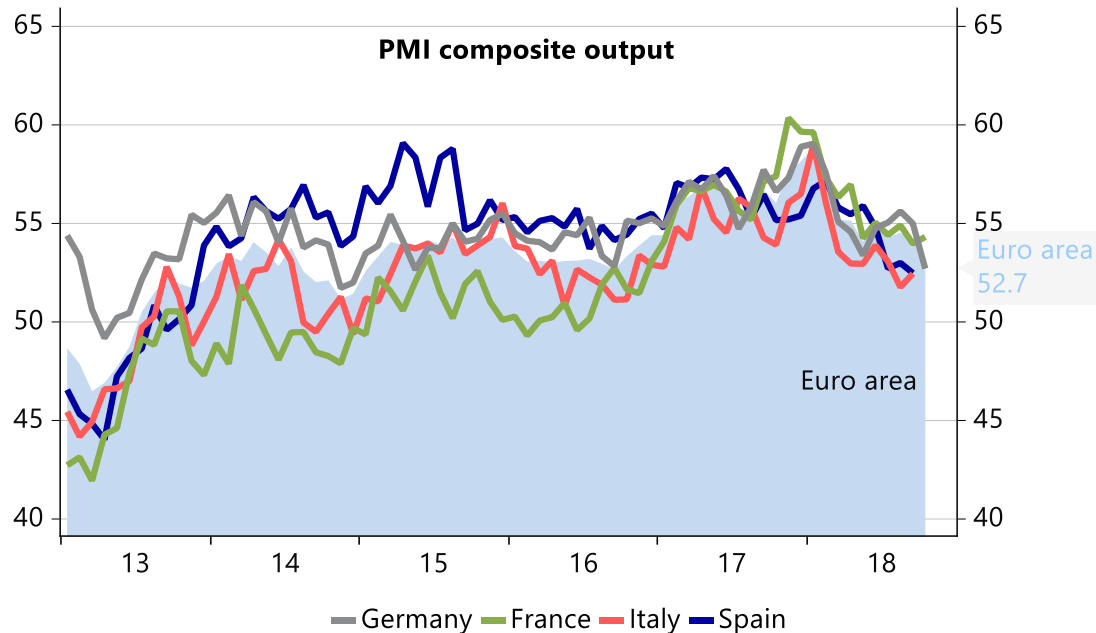
UNCERTAINTY DIMS EURO AREA GROWTH

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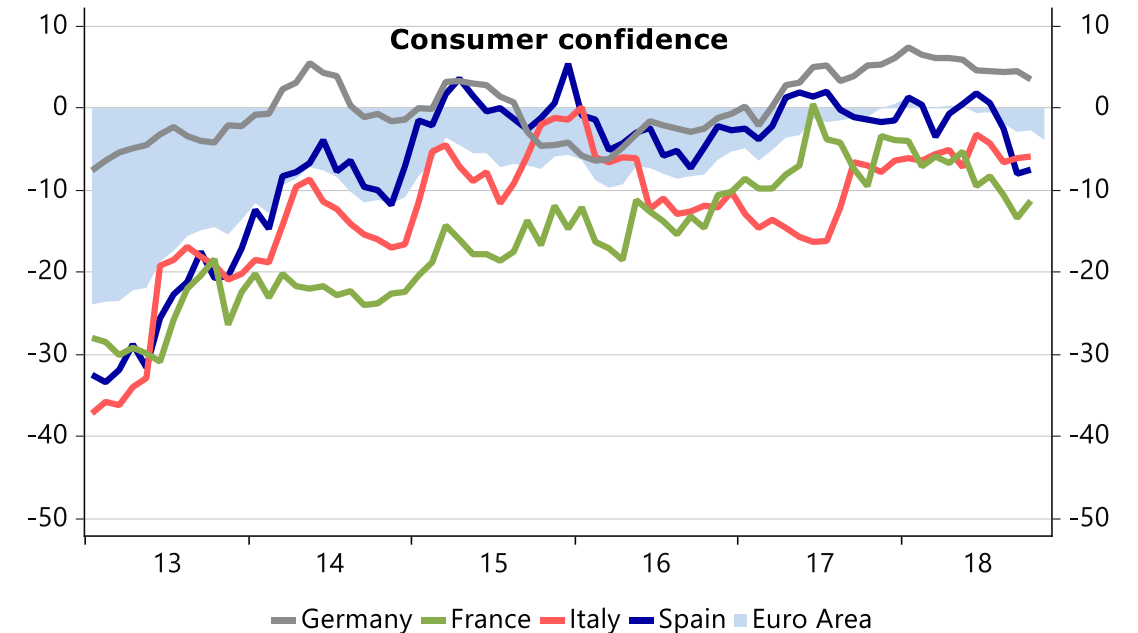
- Trade war and political uncertainty weighs on global growth
- Confidence indicators are dropping from high levels
- Monetary policy will get tighter but remain accomodative for growth
- Risk appetite has been hit by trade disputes, inflation fear (in the USA) and political uncertainty in Europe and the Middle East



European business sentiment on a soft patch

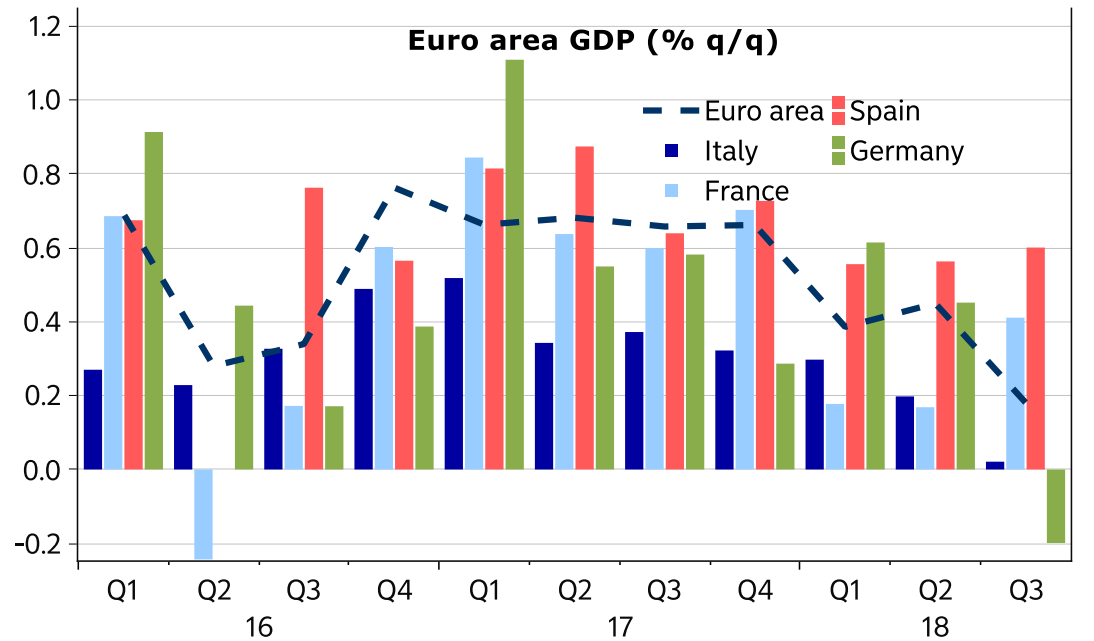


Source: Nordea Markets and Macrobond

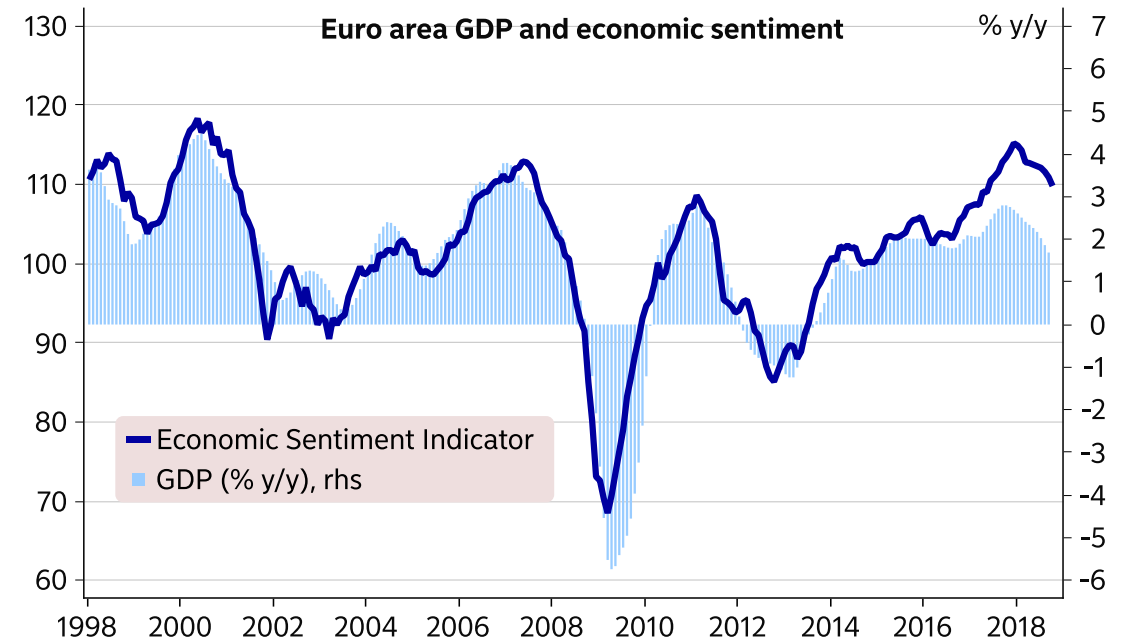


Source: Nordea Markets and Macrobond

GDP growth is decelerating in line with ESI

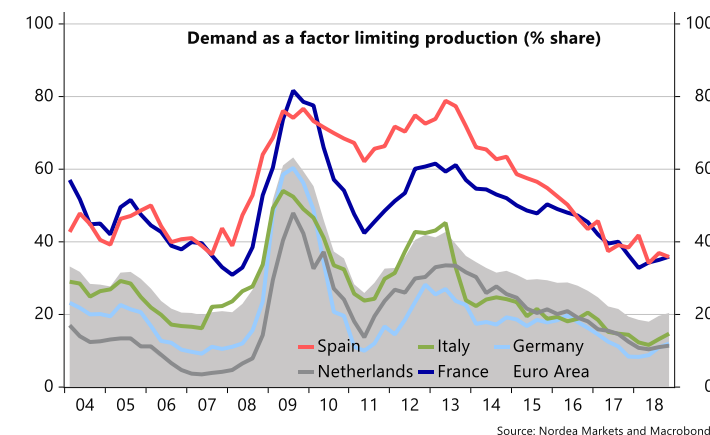
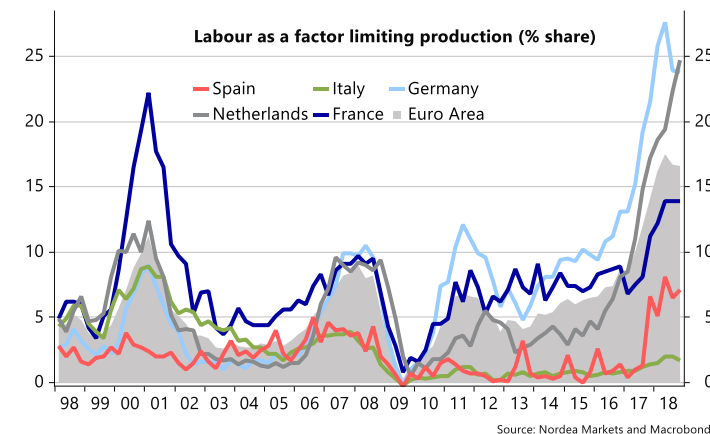
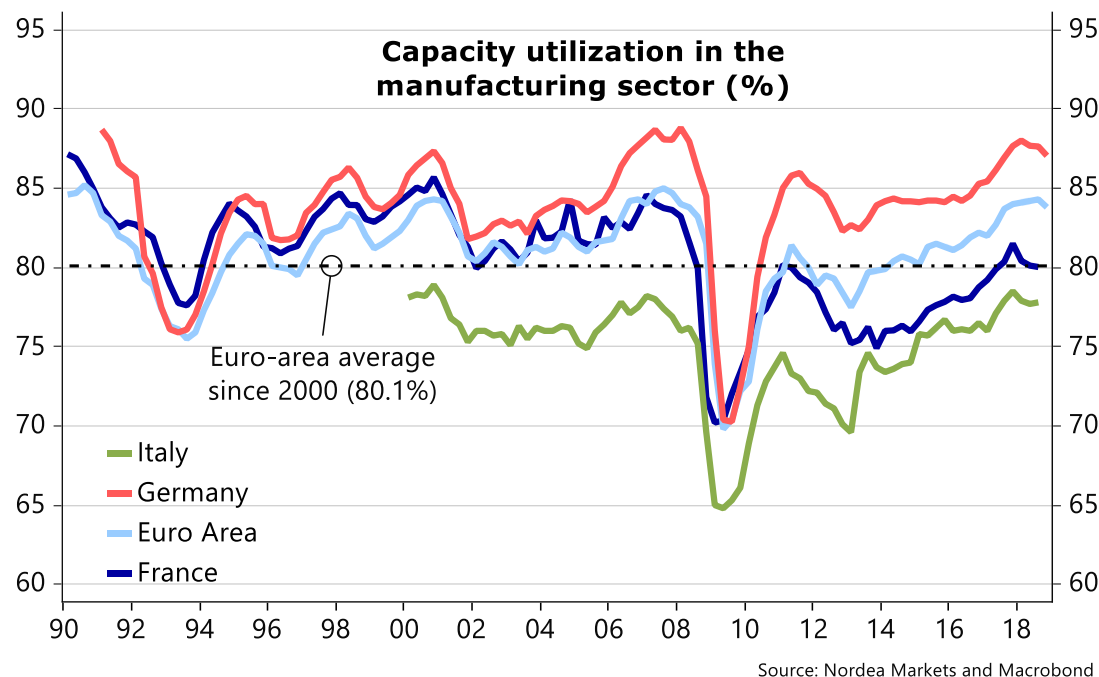


Source: Nordea estimate and Macrobond

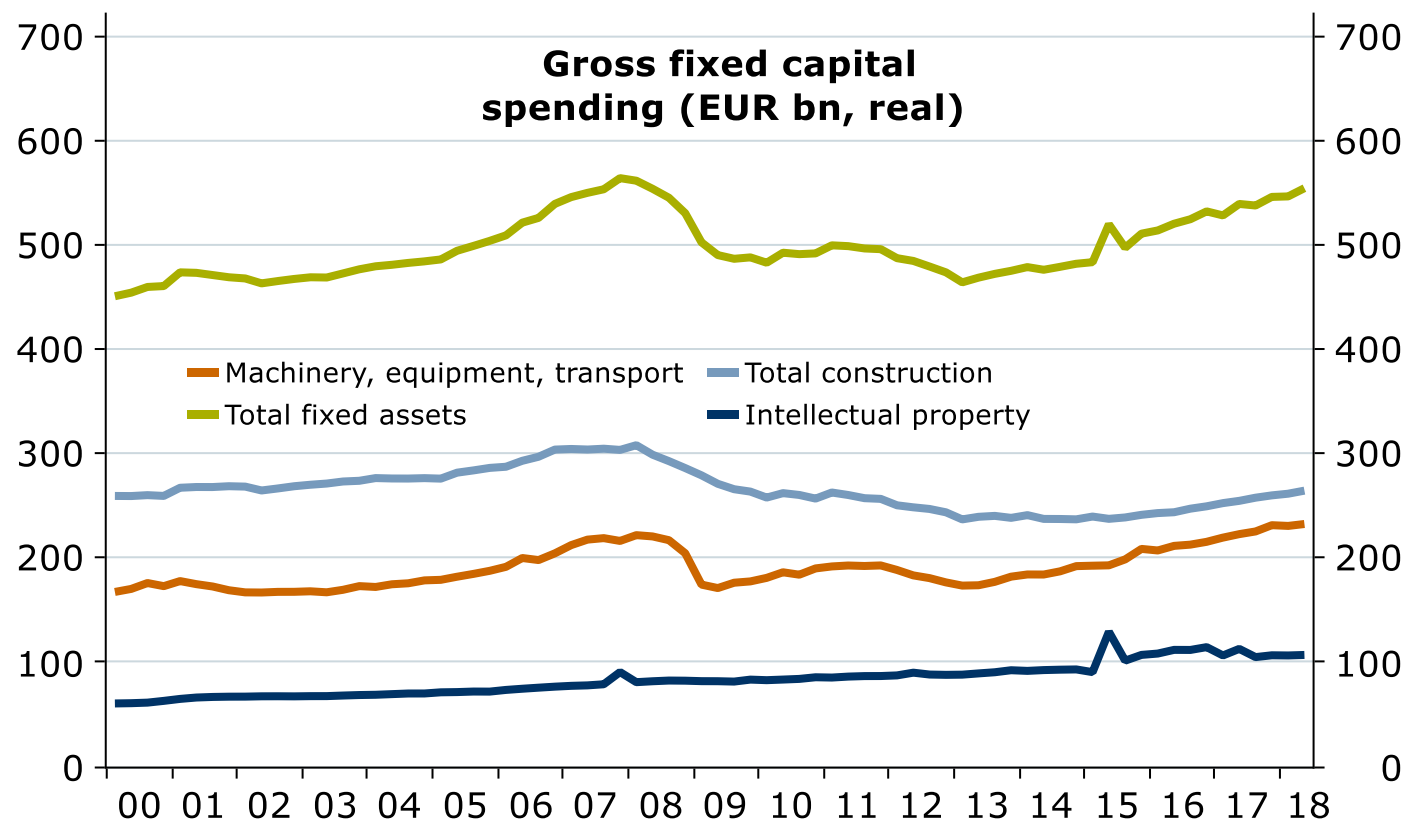


Source: Nordea Markets and Macrobond

Capacity utilization is well above the historic average – paving the way for new investments

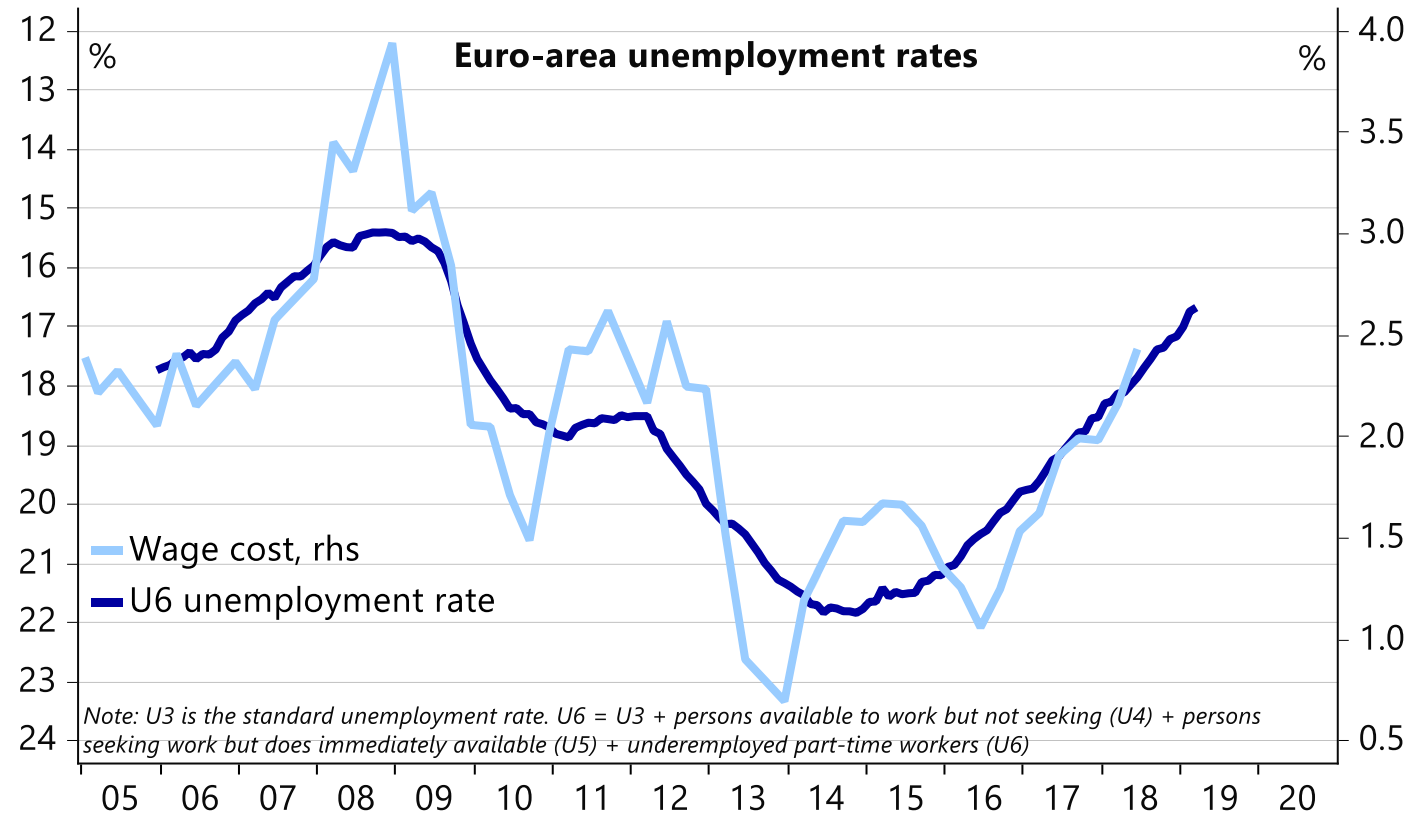


Investment activity is rising but still below the peak in 2007-08



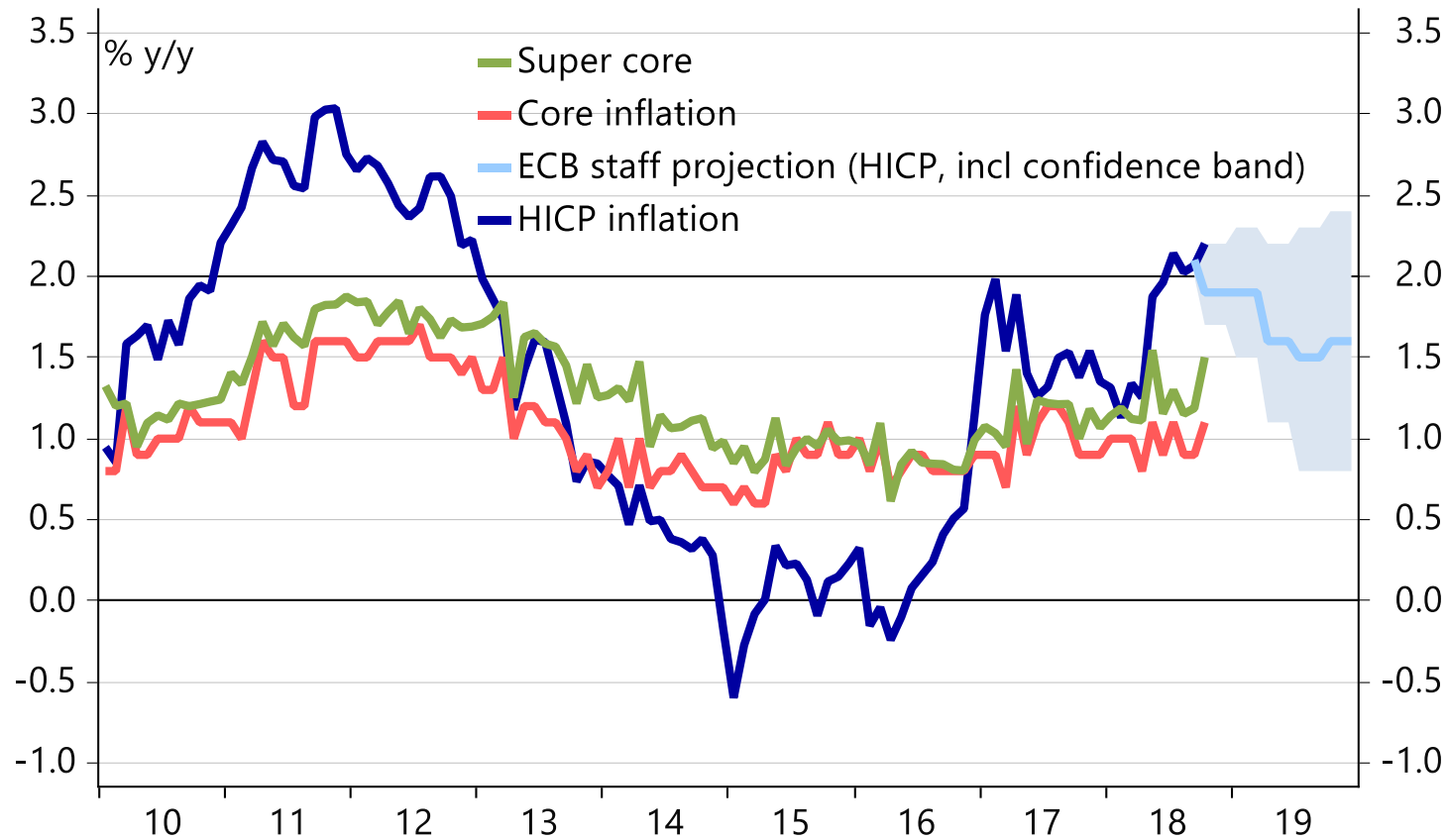
Source: Nordea Markets and Macrobond

The strong labour market will lead to higher wage growth



Source: Nordea Markets and Macrobond

And eventually higher inflation



Source: Nordea Markets and Macrobond

ECB confirms plan to end stimulus programme

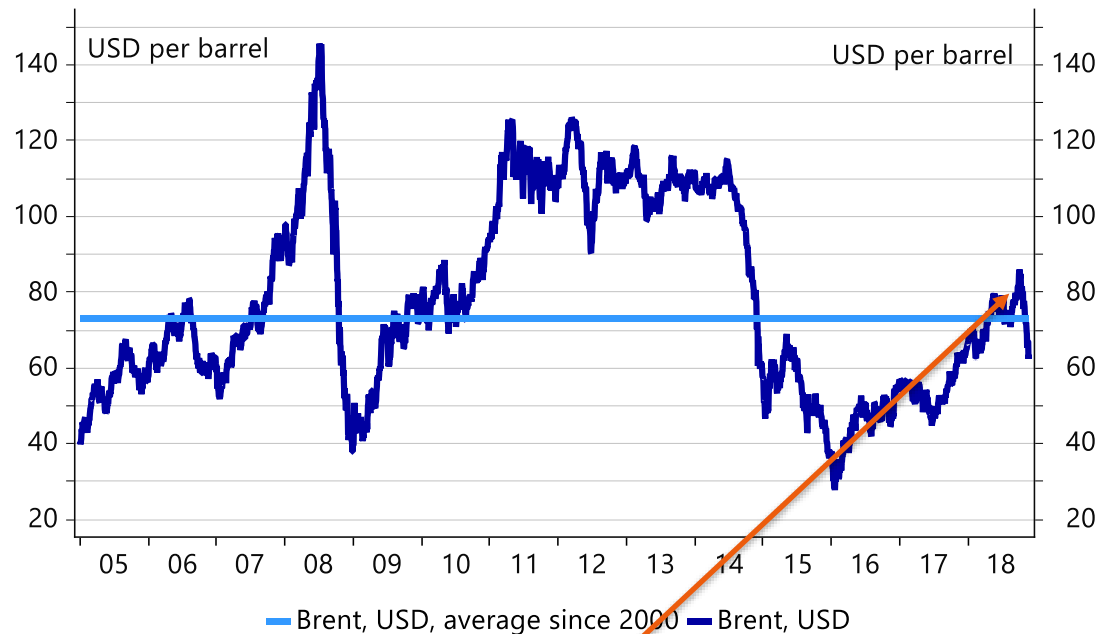
“Based on our regular economic and monetary analyses, we decided to keep the **key ECB interest rates** unchanged. We continue to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.”

“Regarding **non-standard monetary policy measures**, we will continue to make net purchases under the asset purchase programme (APP) at the new monthly pace of €15 billion until the end of December 2018. We anticipate that, subject to incoming data confirming our medium-term inflation outlook, we will then end net purchases. We intend to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of our net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.”



Mario Draghi, Frankfurt, 25 October 2018

The oil price has collapsed. This will have an impact on inflation and act as an automatic stabiliser to growth.



Kilde: Nordea Markets og Macrobond

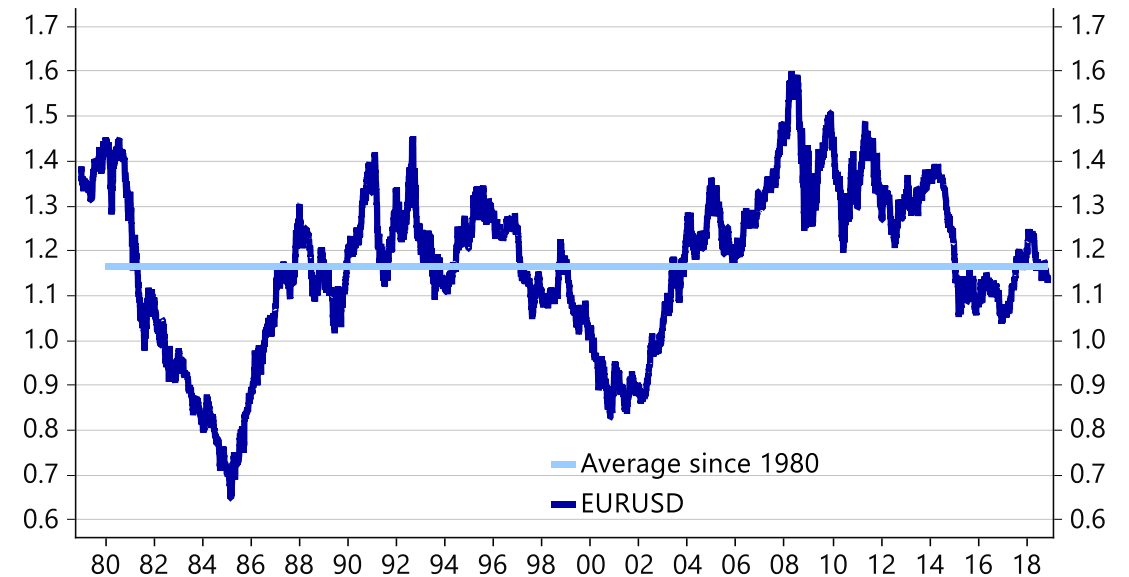


Donald J. Trump @realDonaldTrump · 1h

Looks like OPEC is at it again. With record amounts of Oil all over the place, including the fully loaded ships at sea, Oil prices are artificially Very High! No good and will not be accepted!

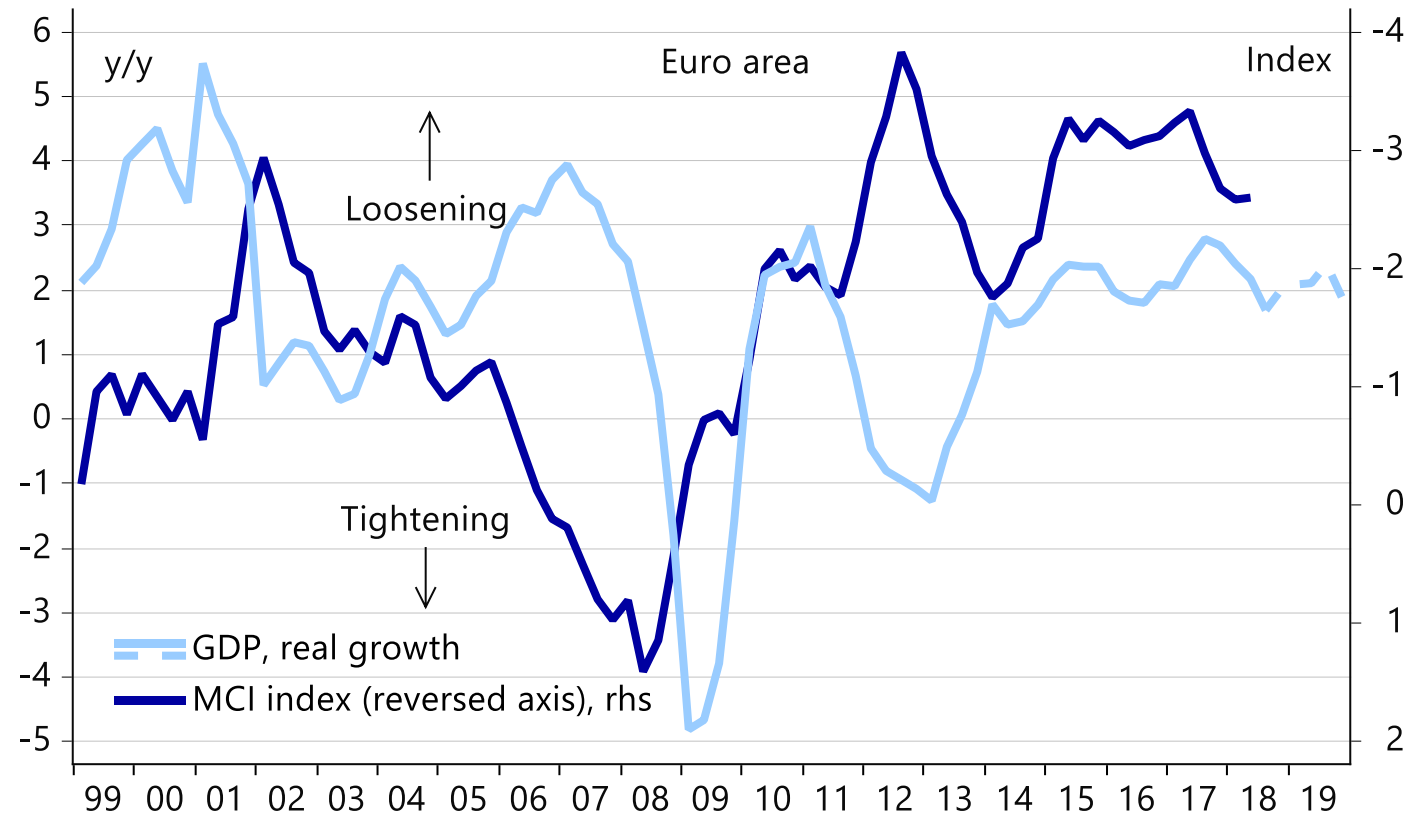
4.7K 6.5K 24K

EURUSD



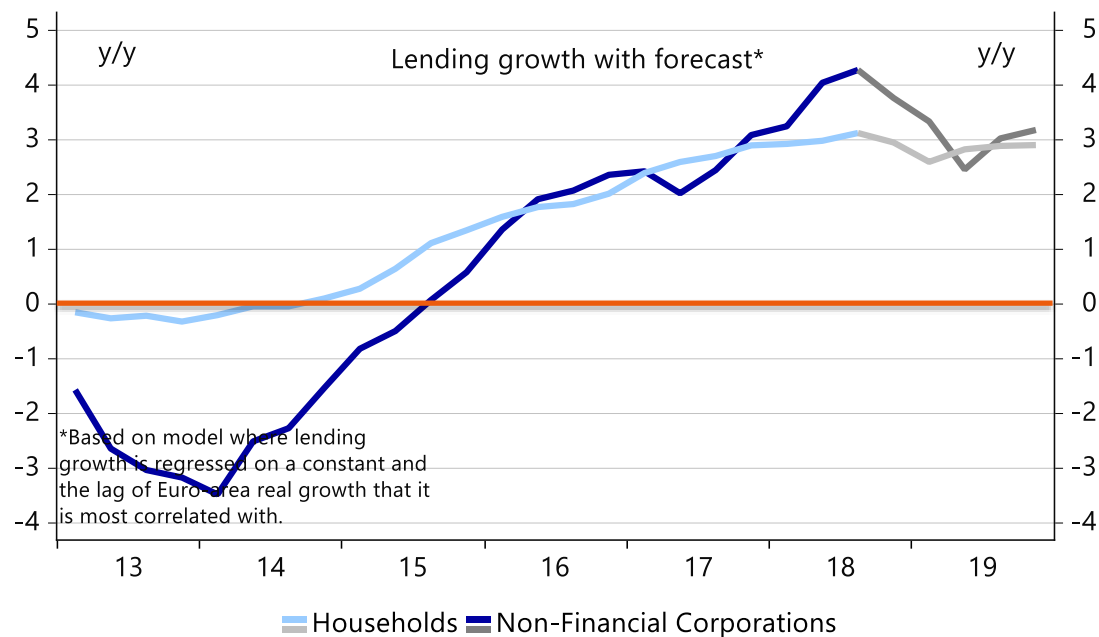
Source: Nordea Markets and Macrobond

Monetary conditions are getting tighter...

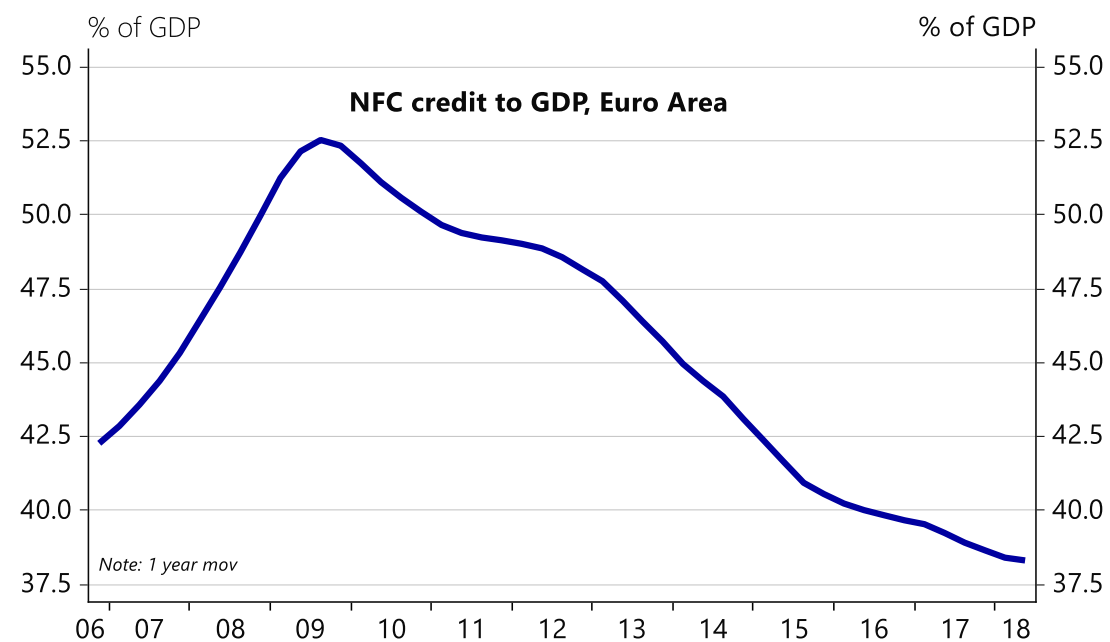


Source: Nordea Markets and Macrobond

...and lending growth is likely to dampen

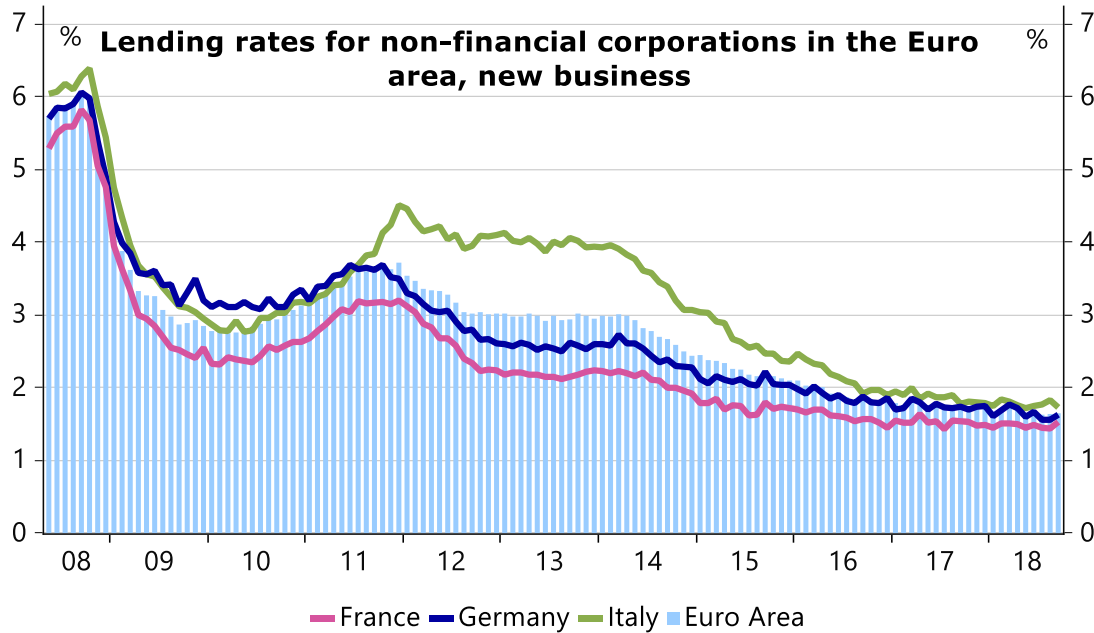


Source: Nordea Markets and Macrobond

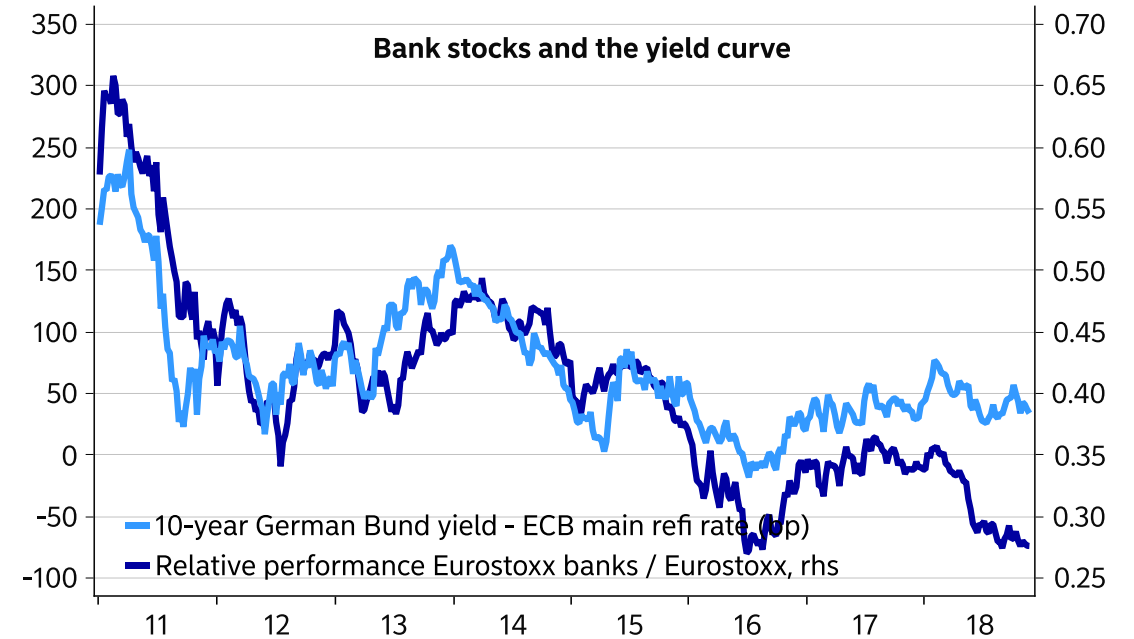


Source: Nordea Markets and Macrobond

In spite of favourable lending rates

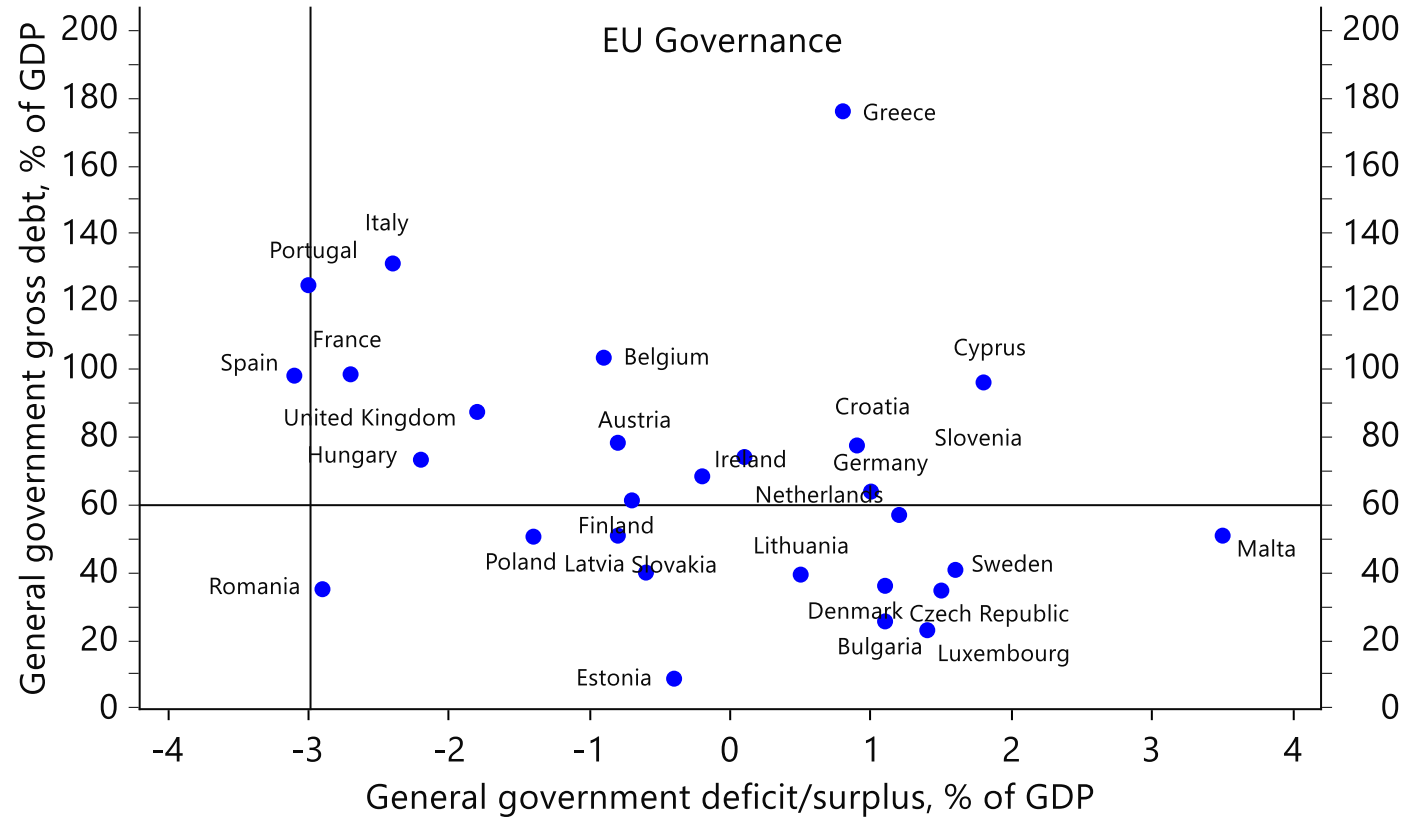


Source: Nordea Markets and Macrobond



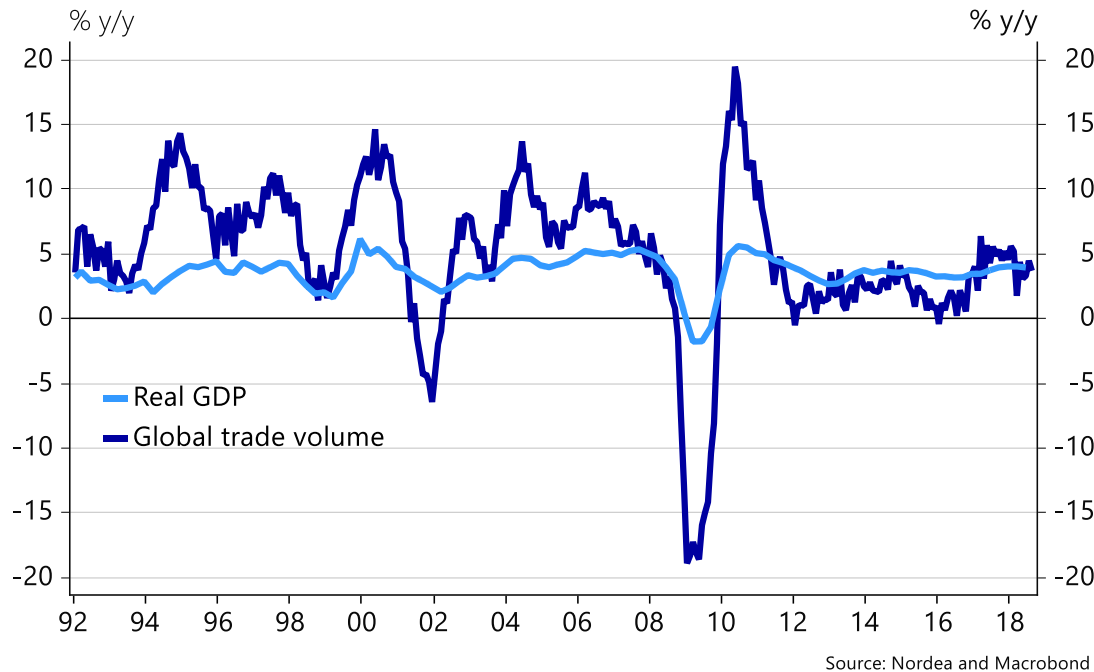
Source: Nordea Markets and Macrobond

Economic governance has improved but a number of countries still break the rules



Source: Nordea Markets and Macrobond

Has world trade entered a new paradigm?

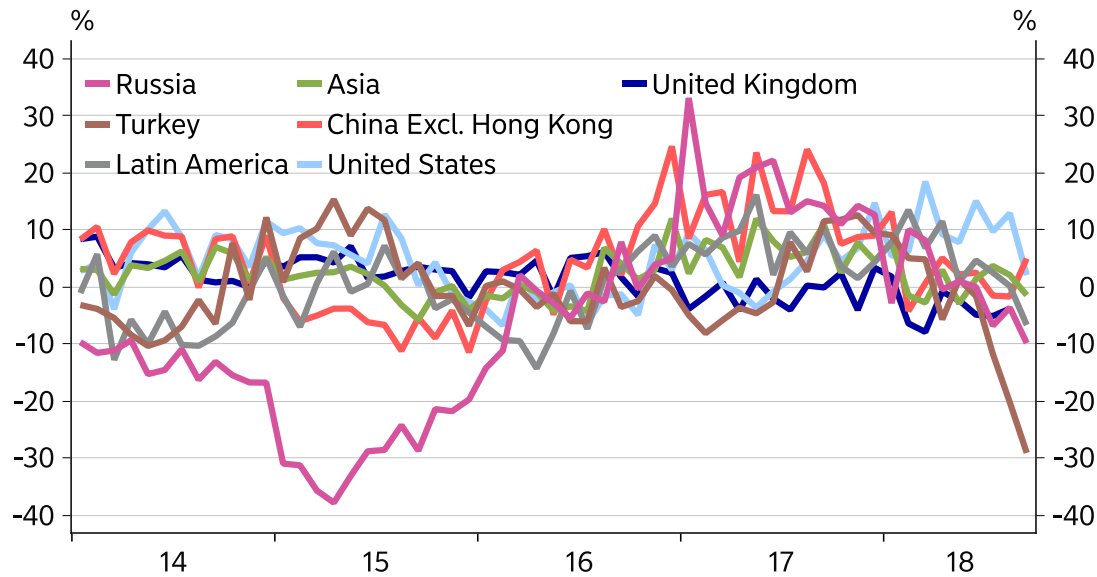


- Weak demand in Europe which is a trade intensive region
- Weak investment which is a trade intensive component of expenditure have exacerbated the weakness in world trade.
- China's gradual withdrawal from GVC's matters.
- The rise of the services which is a less trade intensive sector than manufacturing

Trade/GDP ratio: 1992-2008 = 2.25; 2012- = 0.75

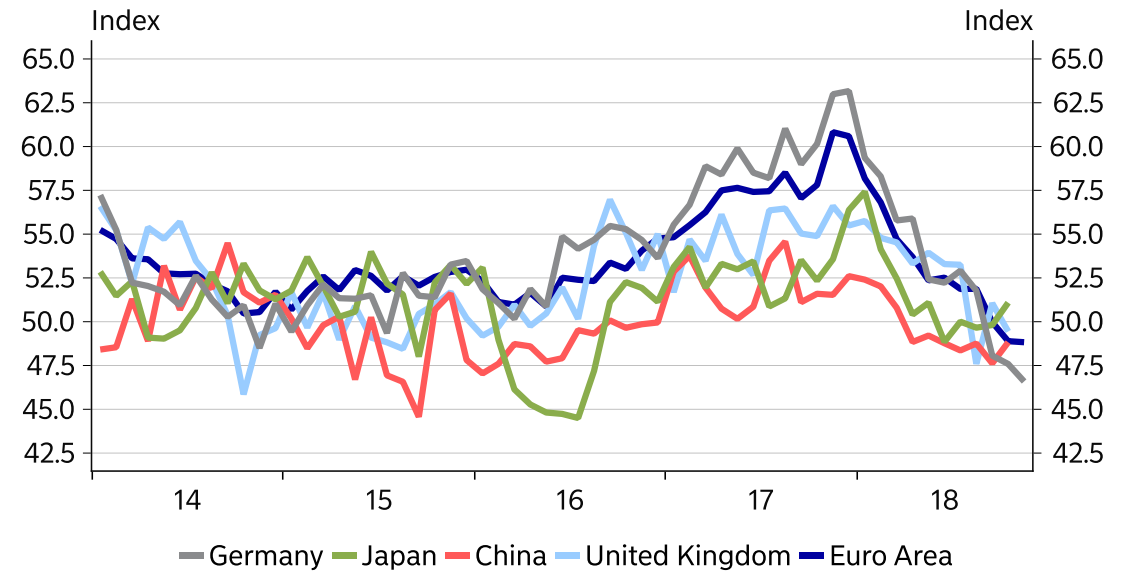
A worrisome development in foreign trade

Euro Area 19, Exports volume



Source: Nordea and Macrobond

New export orders, PMI



Source: Nordea and Macrobond

The CEG consensus forecast for the Euro area in 2018 and 2019

Main indicators of CEG consensus

year-on-year growth rates unless specified otherwise, in %

| | 2017 | 2018p | 2019p |
|--|------|-------|-------|
| <i>Gross domestic product</i> | 2.4 | 2.0 | 1.8 |
| <i>Private consumption</i> | 1.6 | 1.4 | 1.4 |
| <i>Public consumption</i> | 1.2 | 1.2 | 1.2 |
| <i>Gross fixed investment (GFCF)</i> | 2.6 | 3.3 | 2.6 |
| <i>Exports</i> | 5.2 | 4.1 | 4.0 |
| <i>Imports</i> | 3.9 | 3.7 | 4.0 |
| <i>Unemployment rate</i> | 9.1 | 8.3 | 7.9 |
| <i>Prices (HICP)</i> | 1.5 | 1.8 | 1.8 |
| <i>General Government balance (% of GDP)</i> | -1.0 | -0.6 | -0.7 |
| <i>General Government debt (% of GDP)</i> | 88.9 | 85.5 | 83.6 |

Risks to the baseline scenario

• UPSIDE RISKS

- + Soft landing of the US economy accompanied by neutral monetary policy.
- + Stronger than expected domestic demand growth if wage dynamics pick up more decisively.
- + Expansionary fiscal policies in some Euro area countries (which have real budgetary room for manoeuvre), potentially bringing support to Euro area economic growth.
- + Stabilisation of global economic activity leading to slight acceleration of Euro area exports.
- + Successful political monitoring of the 'Italian risk' and a Brexit outcome that is economically acceptable.

• DOWNSIDE RISKS

- Escalation of the fiscal conflict in Europe with clash between the European Commission and Italy -Euro area's third biggest economy- over Italy's government budget plans.
- Worsened trade outlook with further escalation of trade tensions between the US and China triggering a trade battle that would harm global economy. The Euro area economy, that is relatively highly exposed to external trade, would be severely hit if EU-US trade frictions materialise and US tariffs are imposed on EU sectors.
- Although negotiations between the European Union and the United Kingdom seem to be progressing, as seen by the recent draft agreement on the withdrawal of the United Kingdom from the European Union, the final outcome remains a major concern.
- Further slowdown of global growth with weakened emerging economies.
- Increasing geopolitical tensions having the potential to spark a period of further decline in world trade.

**The risks to the growth outlook are tilted to the downside,
according to the Chief Economists' Group**

Thank you!

