



EUROPEAN ECONOMIC FORECAST

Autumn 2018

EBF'S CHIEF ECONOMISTS' GROUP - 26 NOV. 2018

BJÖRN DÖHRING

Key messages



GDP growth set to ease into a slower pace...



... as external support is fading



Numerous interrelated downside risks



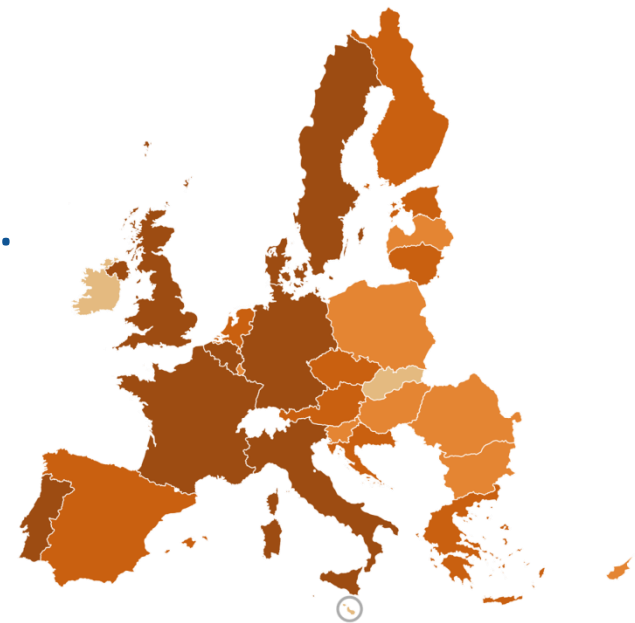
Fiscal stance to turn slightly expansionary in 2019



Labour market tightening translates into higher wages

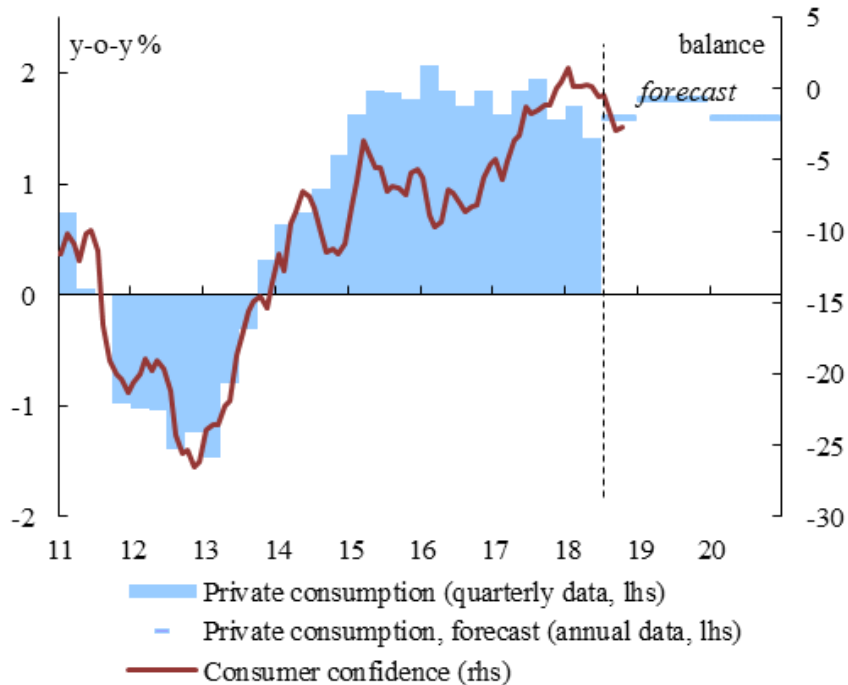


Inflation temporarily above 2% due to oil

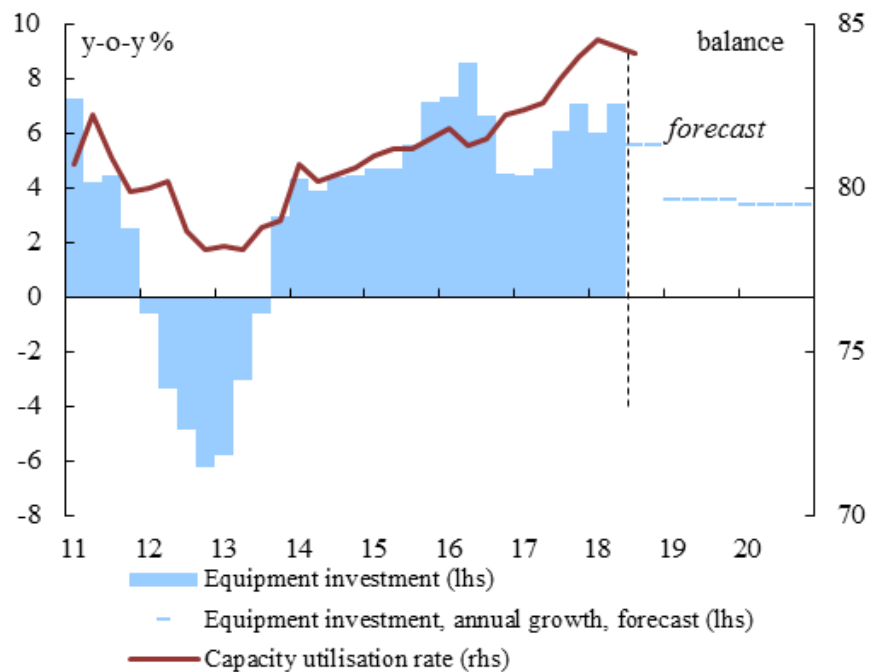


Domestic fundamentals still rather robust

Private consumption and consumer confidence, euro area

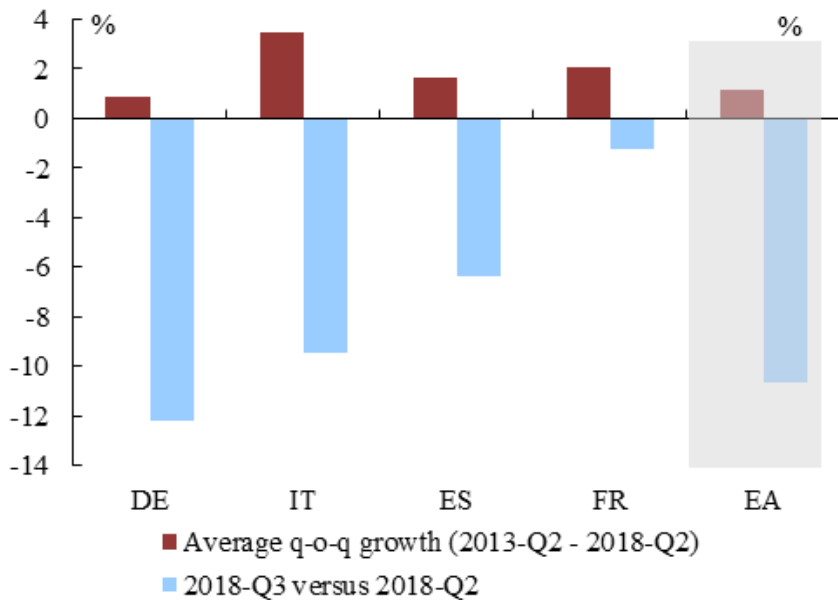


Equipment investment and capacity utilisation, euro area

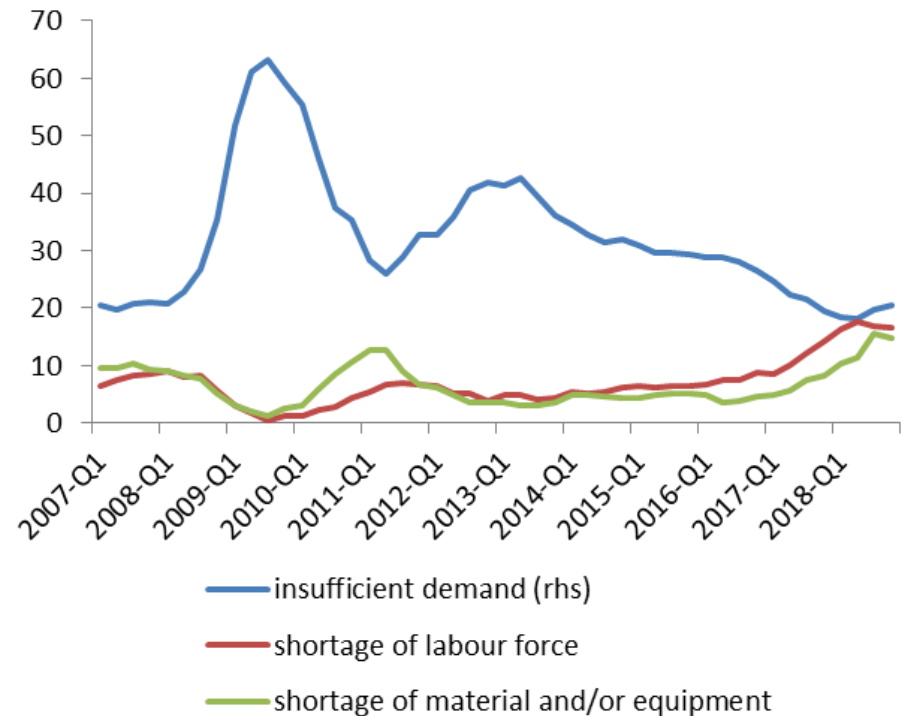


Temporary weakness or turn of the cycle?

Production of motor vehicles in 2018Q3

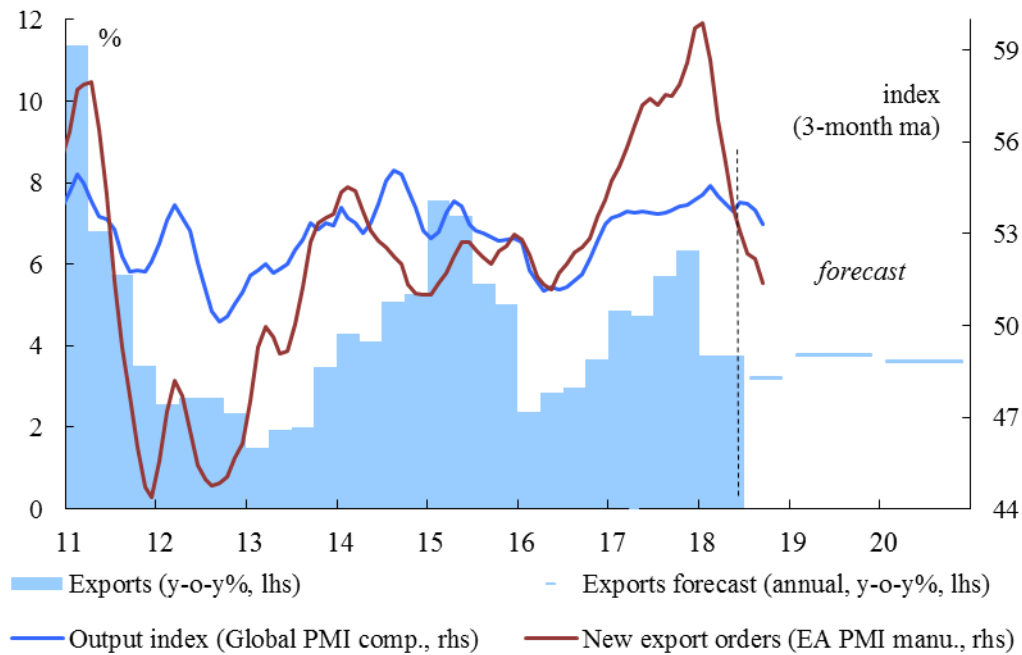


Supply and demand elements affecting production (Business surveys, euro area)



The external environment is weakening

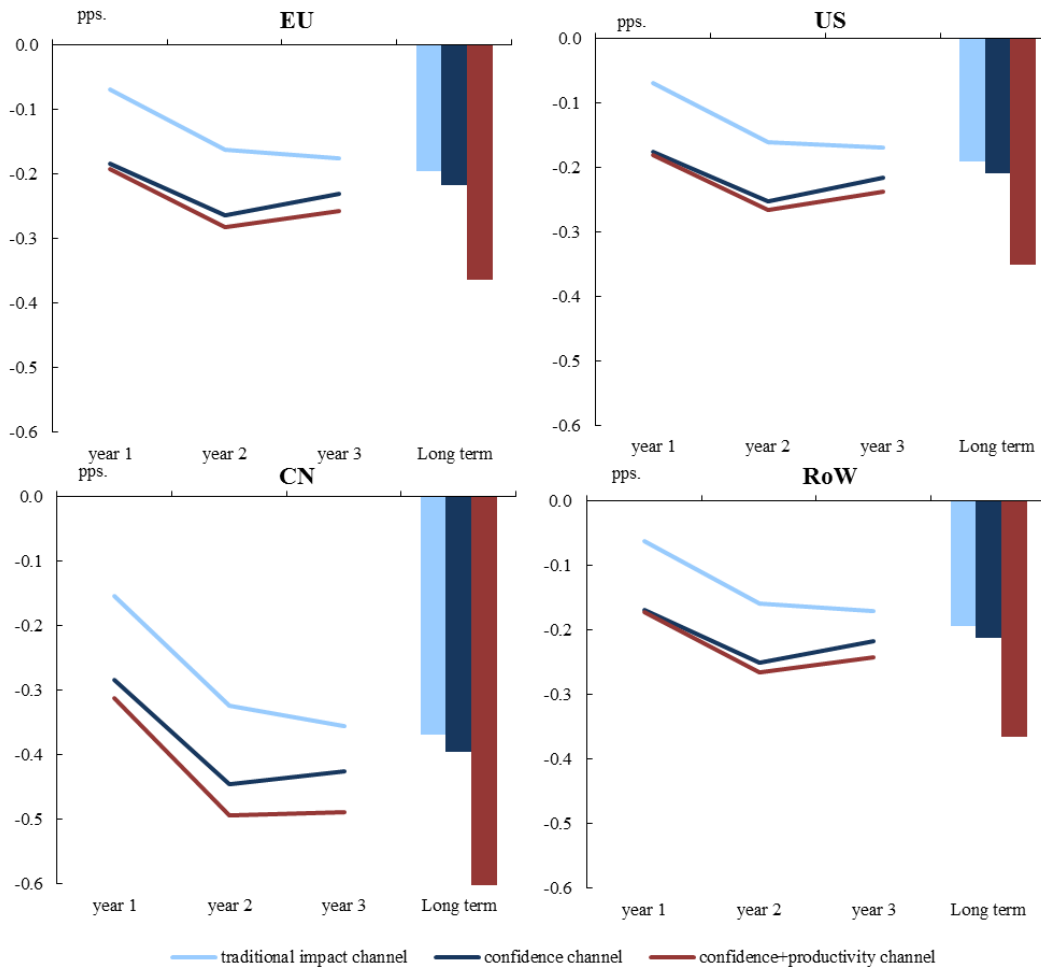
Global demand, euro area exports and new export orders



Source: EC, Markit Group Limited

Generalised trade restrictions would harm all

GDP impact of a scenario of 2pp generalised tariff increase

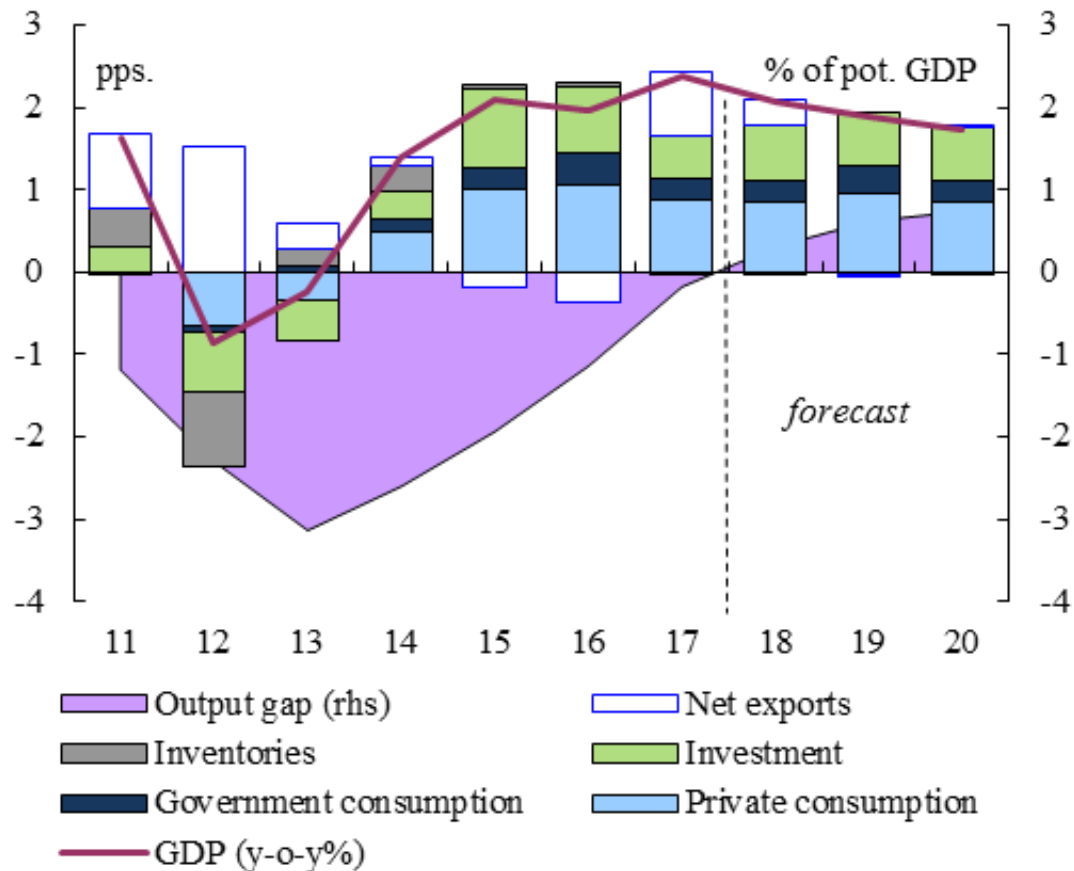


Simulation of a generalised multilateral increase in tariffs by 2 pp. in a four-region version of the QUEST model.

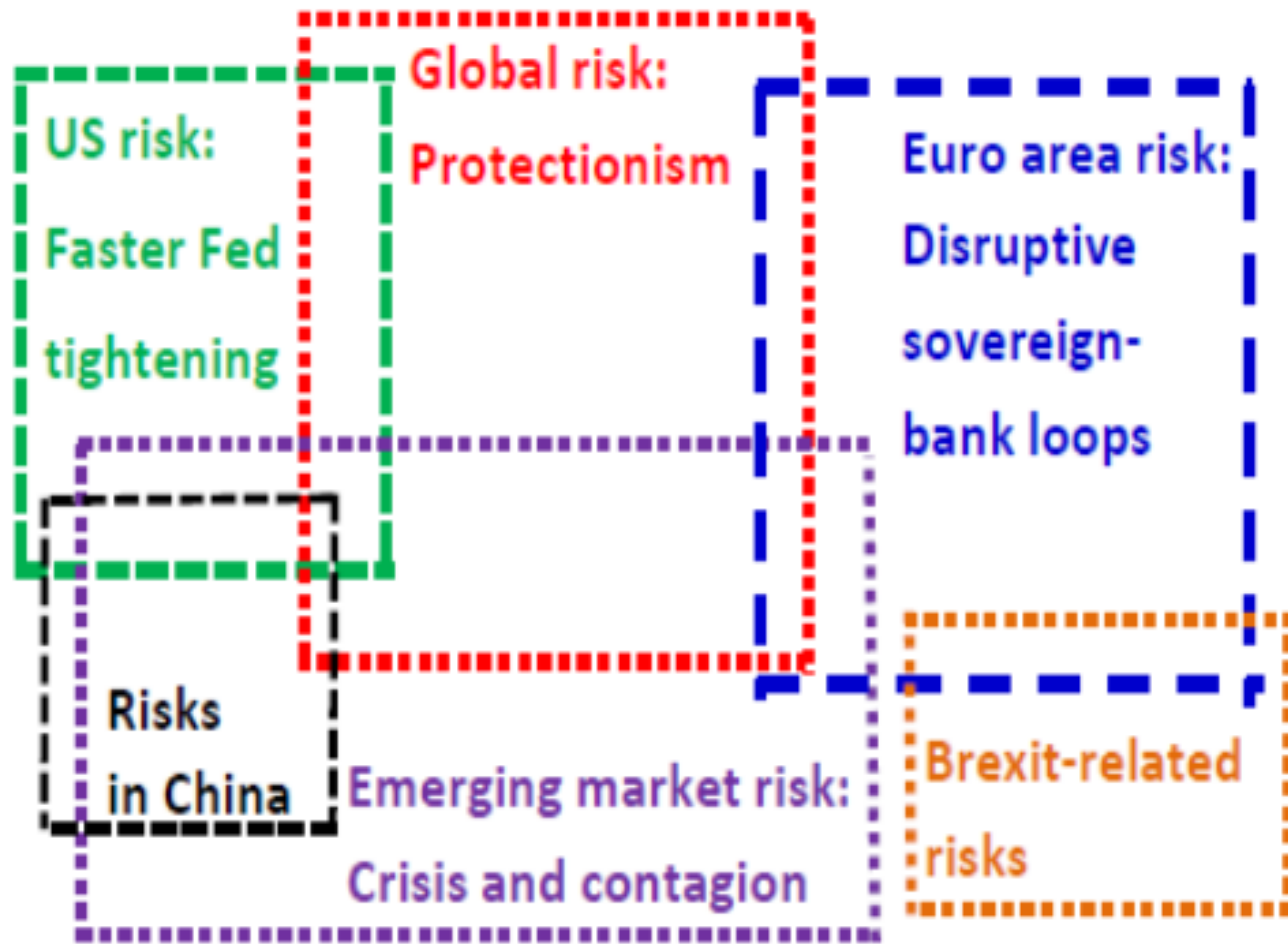
Direct trade impact compared to trade and confidence shock and trade, confidence and productivity shock.

GDP growth is forecast to ease

Real GDP and its components, euro area

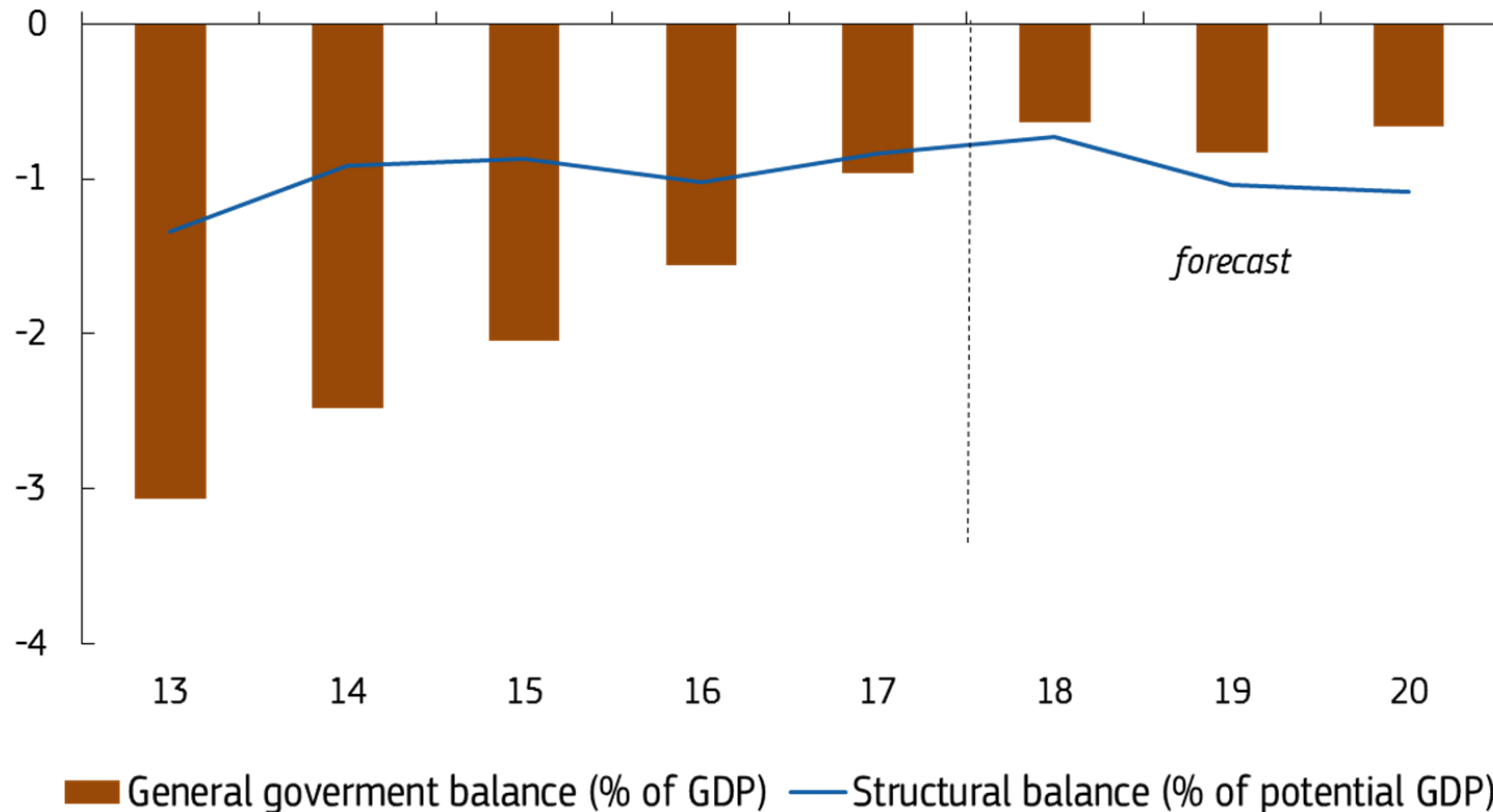


Risks are interrelated and strongly on the downside



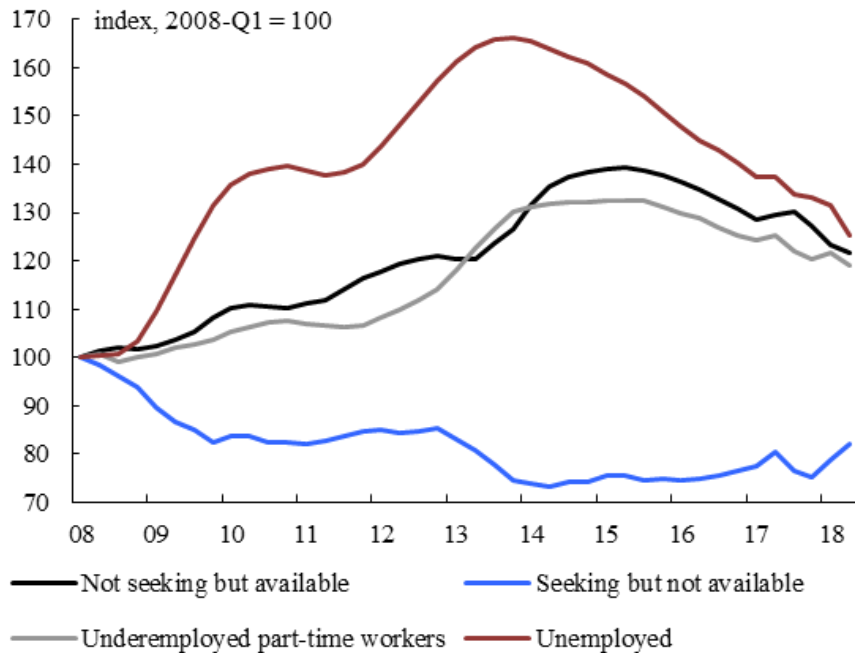
Fiscal stance slightly expansionary in 2019

Headline deficit and structural balance, euro area



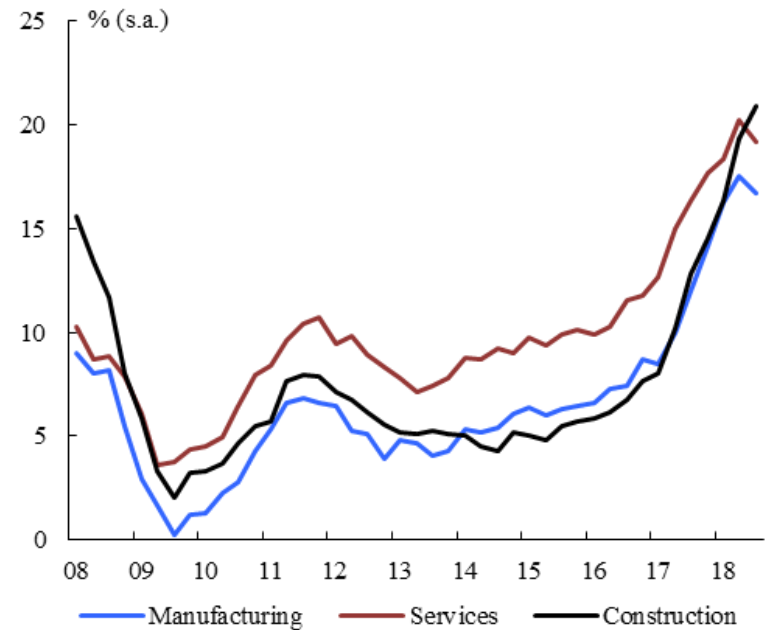
Labour market slack is fading

Underemployment, euro area



Note: four-quarter moving averages as compared to the base period 2008-Q1.

Labour as factor limiting production, euro area



Headline inflation temporarily above 2%

Components of inflation, euro area

