

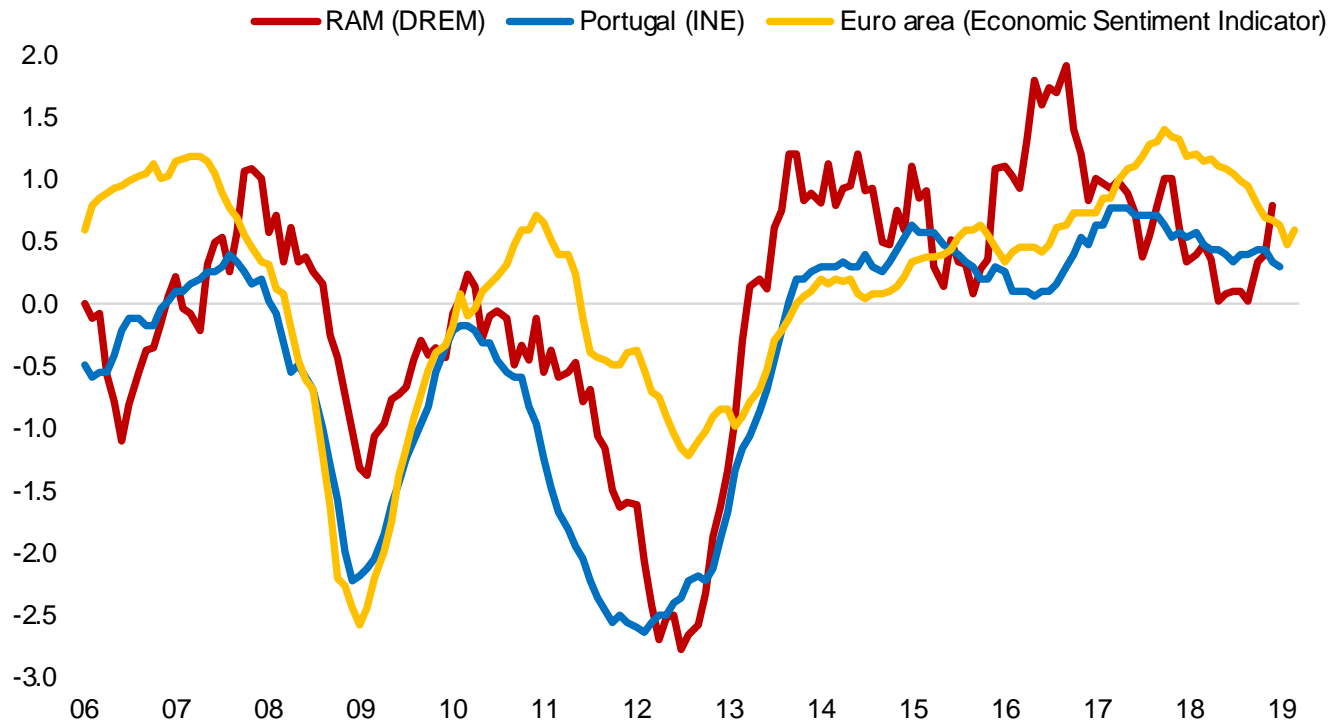


# **Interim Summer Forecast *Narrative***

**Colóquio de Estatística RAM**

**Presentation by João Leal  
ECFIN A3.1  
15 Julho 2019**

## *Porquê a economia Europeia?*



*Sources: European Commission (DG ECFIN),  
Statistical Office of Madeira (DREM),  
Statistics Portugal (INE)*

## Intro perspective: timeline of stories

*WF 2018*

**A solid and lasting expansion**

*SF 2018*

Expansion to continue amid new risks

*AF 2018*

Sustained but less dynamic growth  
amid high uncertainty

*WF 2019*

Growth moderates amid global uncertainty

*SF 2019*

**Growth continues at a more moderate pace**

*Interim SiF 2019*



# Summer Forecast: main messages



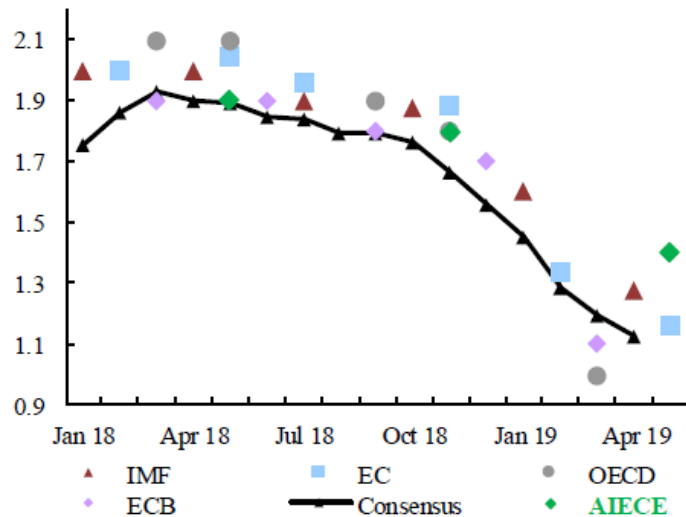
1. **Economic expansion continues at a slower pace due to global and domestic impediments**
2. **Labour market improvements reflected into higher wages**
3. **Inflation remains subdued**
4. **Macroeconomic policies remain supportive**
5. **Downside risks intensified**

# Outline

- 1 **Past growth drivers** have all lost momentum this year
- 2 **What is behind this weakness?**  
*External risks are forming **global cross currents**?*  
*More persistent **domestic impediments**?*
- 3 **What could **support growth** in the euro area?**
- 4 **Inflation remains subdued**
- 5 **Downside risks to the outlook remain prominent**

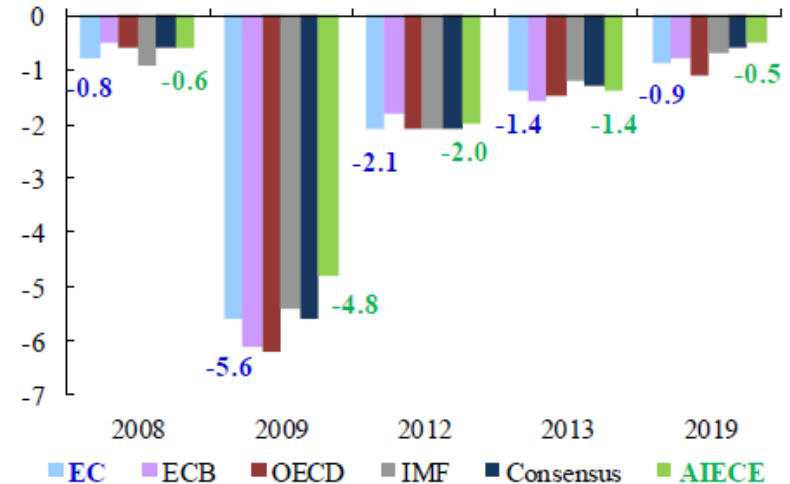
# 1 Diminishing growth expectations

## Euro area GDP growth 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

## Euro area GDP growth downward revisions



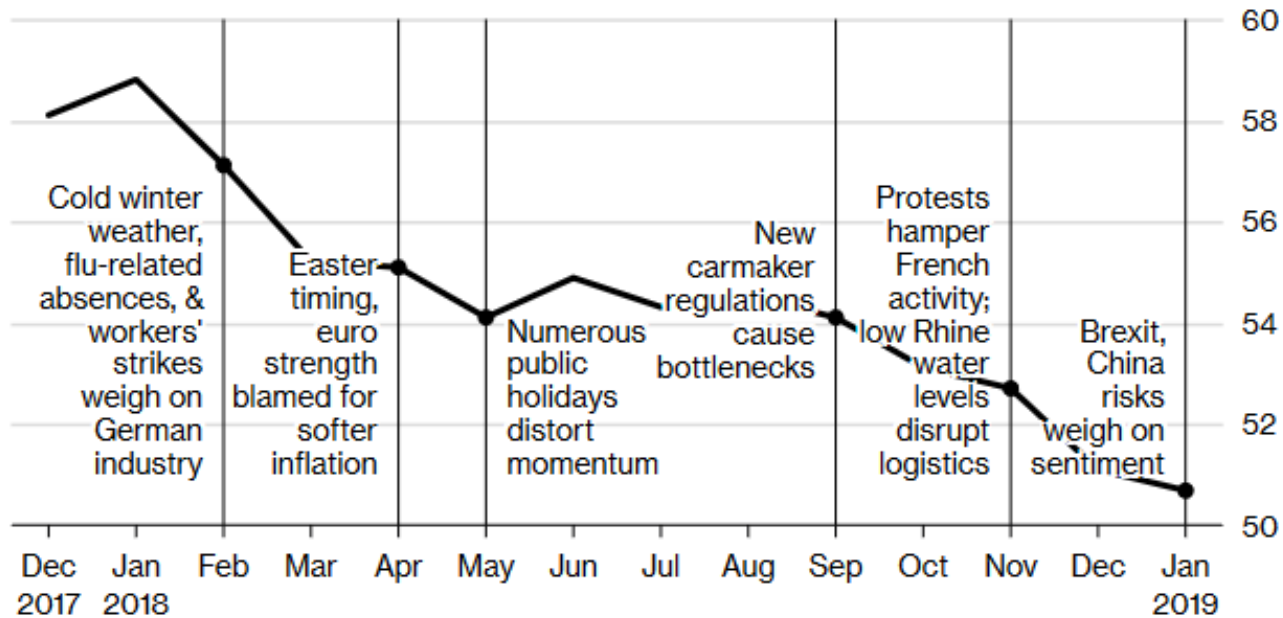
Note: Revisions in forecasts in spring as compared to the forecast one year before. EC (Spring), ECB (June projections), IMF (April WEOs), OECD (May Econ. Outlook), Consensus Economics (March); AIECE (General Report May); ECB & OECD in 2019: latest forecast used.

# 1 Diminishing growth expectations

## Year of Temporary Factors

The euro area's growth slowdown has seen a number of "one-off" drivers

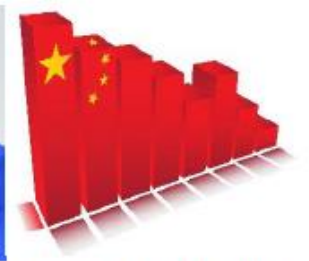
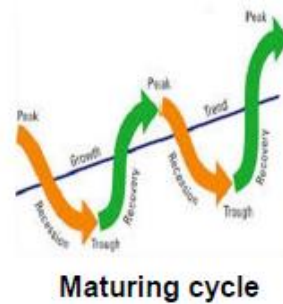
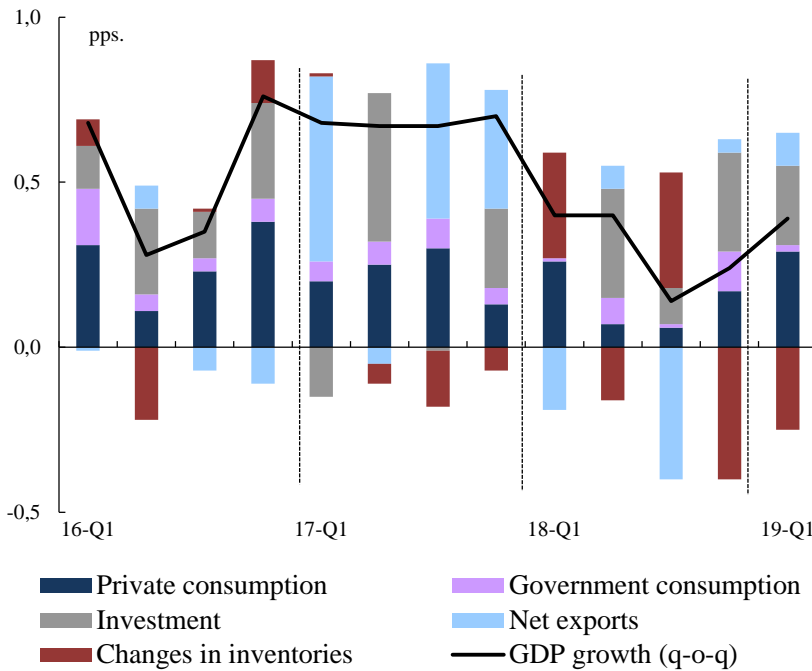
✓ PMI (index points)



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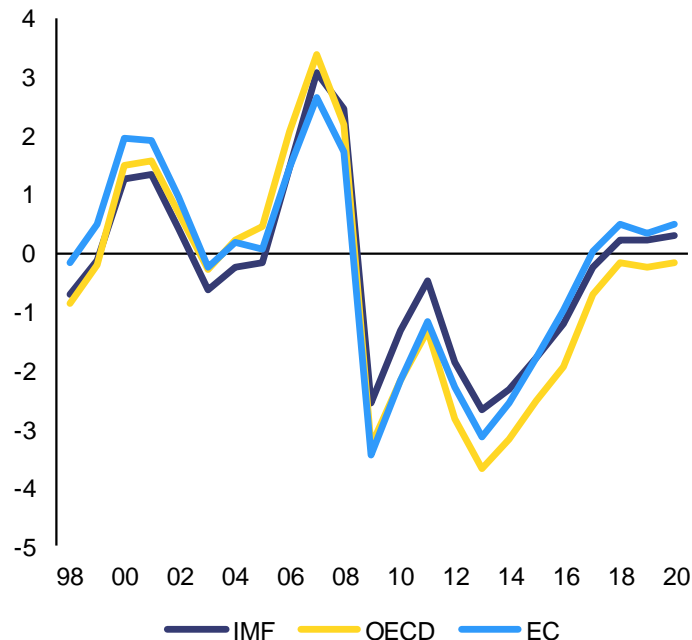
# What is behind the weakness?

## Quarterly GDP growth and contributions, euro area

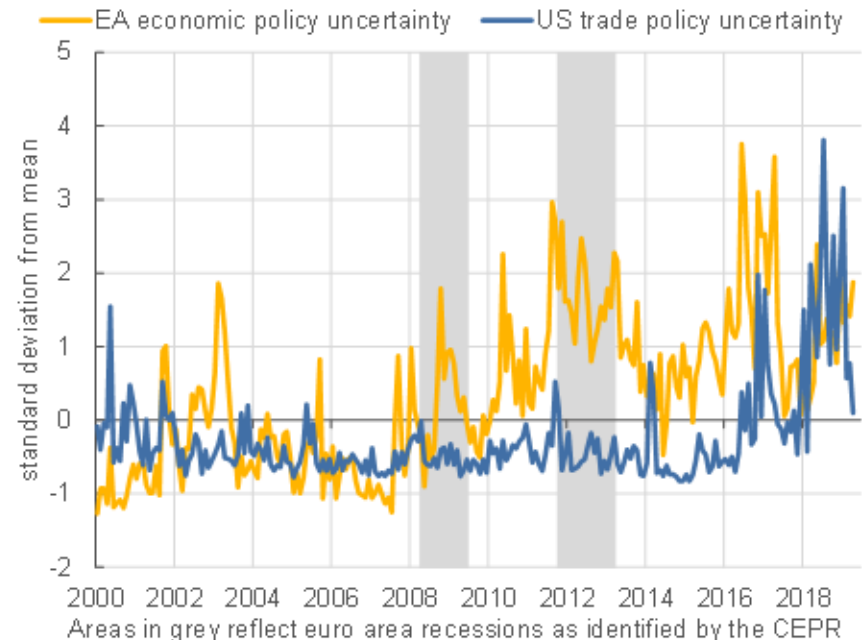


## A maturing cycle? Uncertainty?

### Output gap estimates, euro area (% of potential GDP)



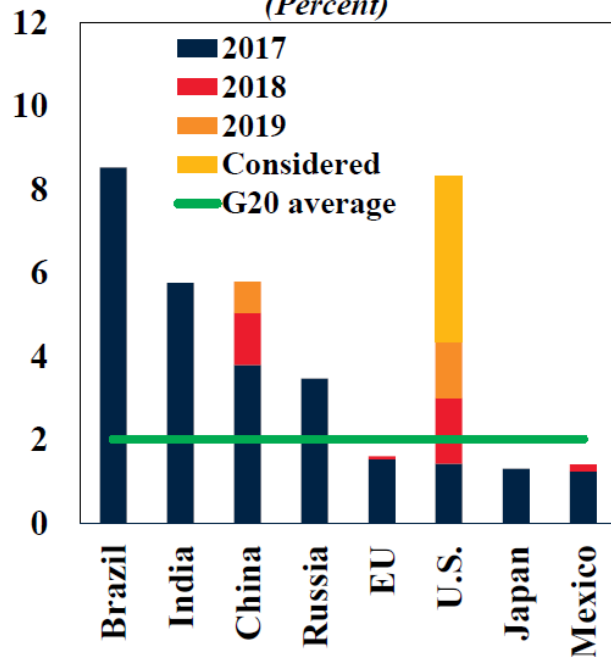
### Economic policy uncertainty and trade policy uncertainty in the US



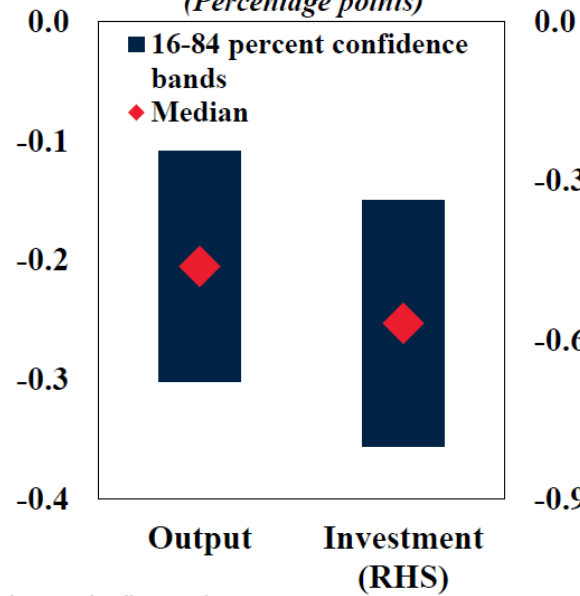
## And uncertainty on growth

Record High Uncertainty; Deteriorating Confidence; Sizeable Impact on EMDEs

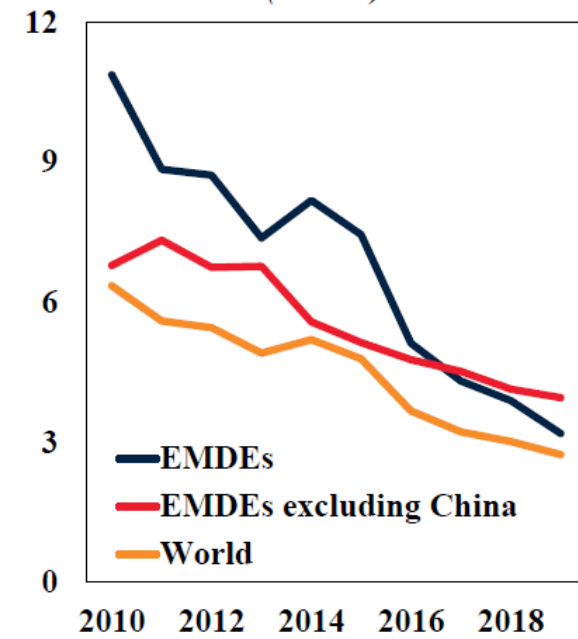
**Import tariffs (Percent)**



**Impact of 10-percent rise in uncertainty on EMDE growth (Percentage points)**

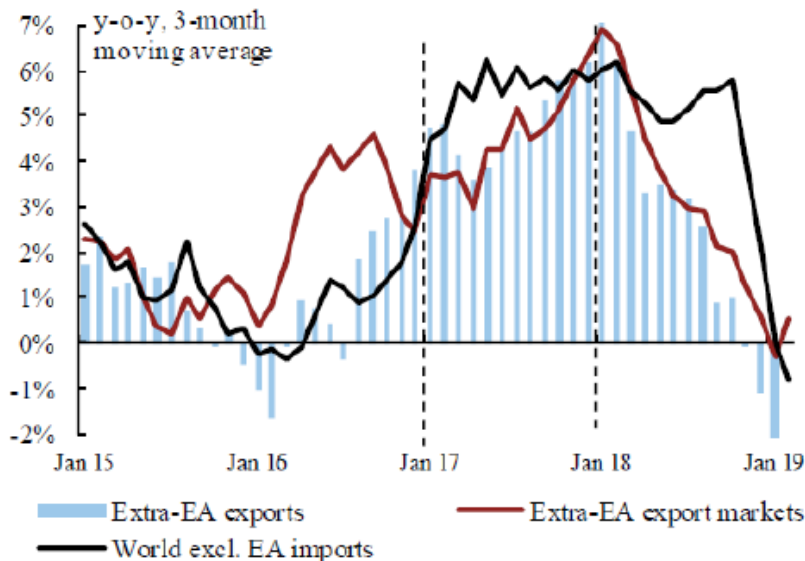


**Long-term investment growth forecasts (Percent)**



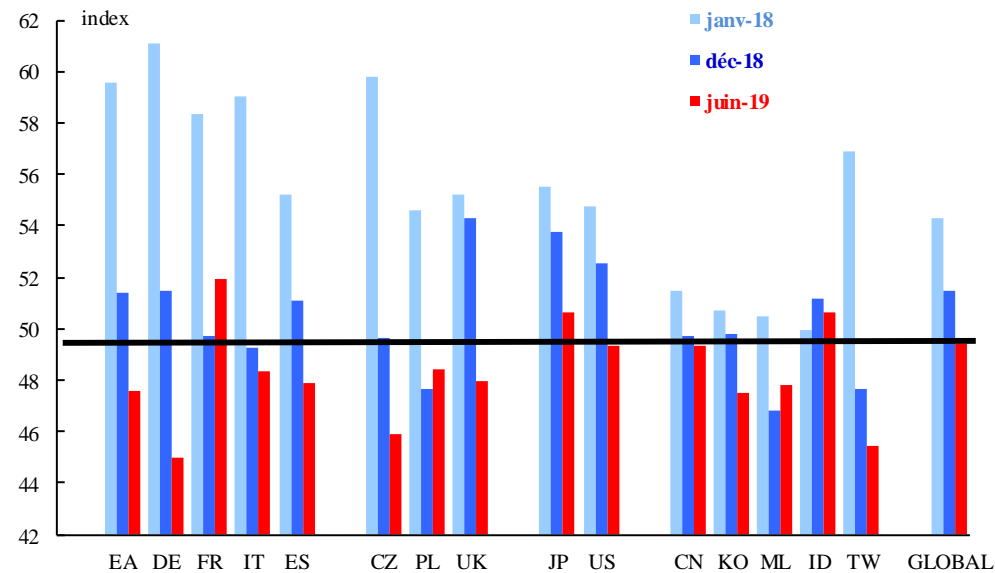
## Weaker external environment? Global manufacturing downturn?

Extra-EA exports, world imports (excl. EA) and extra-EA markets



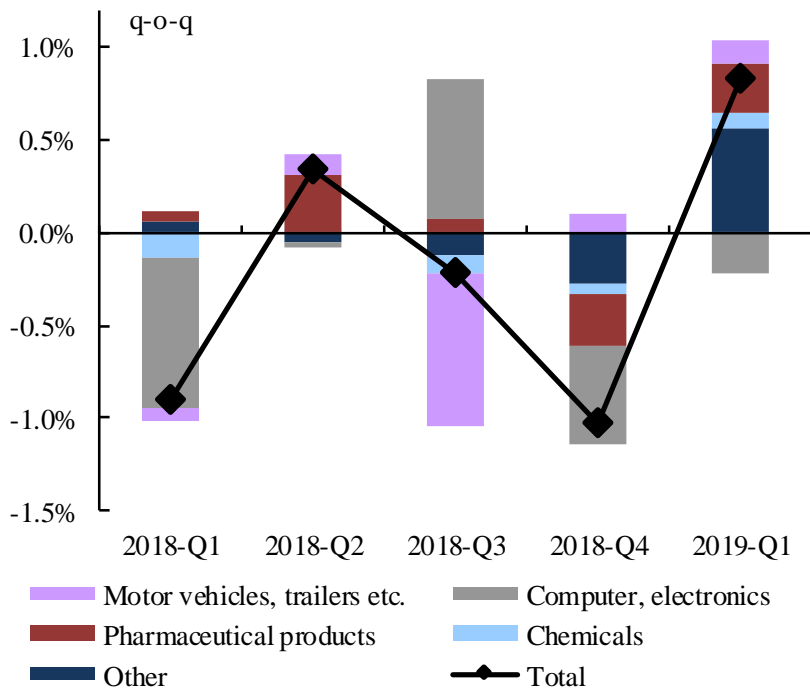
Source: CPB, Eurostat. Data available until February, except for extra-euro area exports where data are available until January 2019.

Manufacturing PMI selected countries and areas

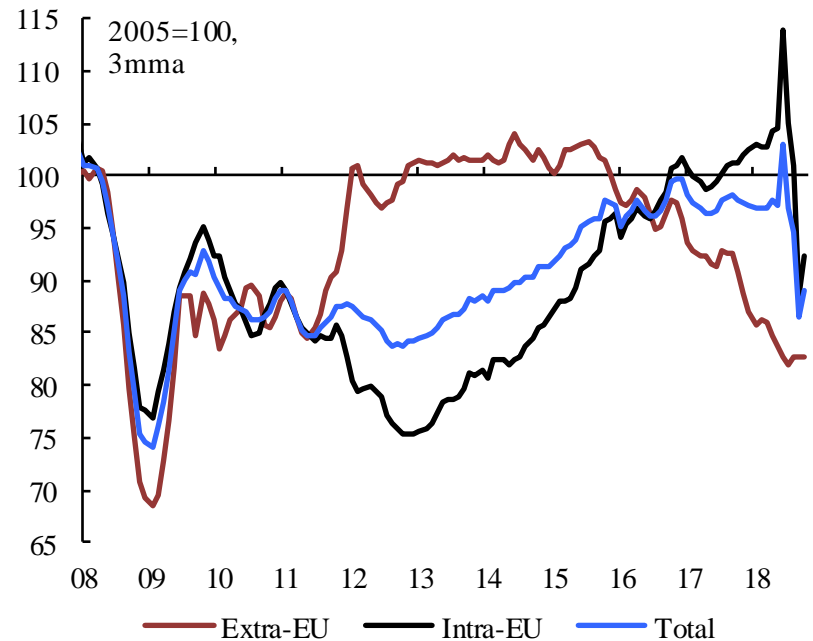


## The euro area manufacturing sector?

### Growth in euro area manufacturing output and its composition



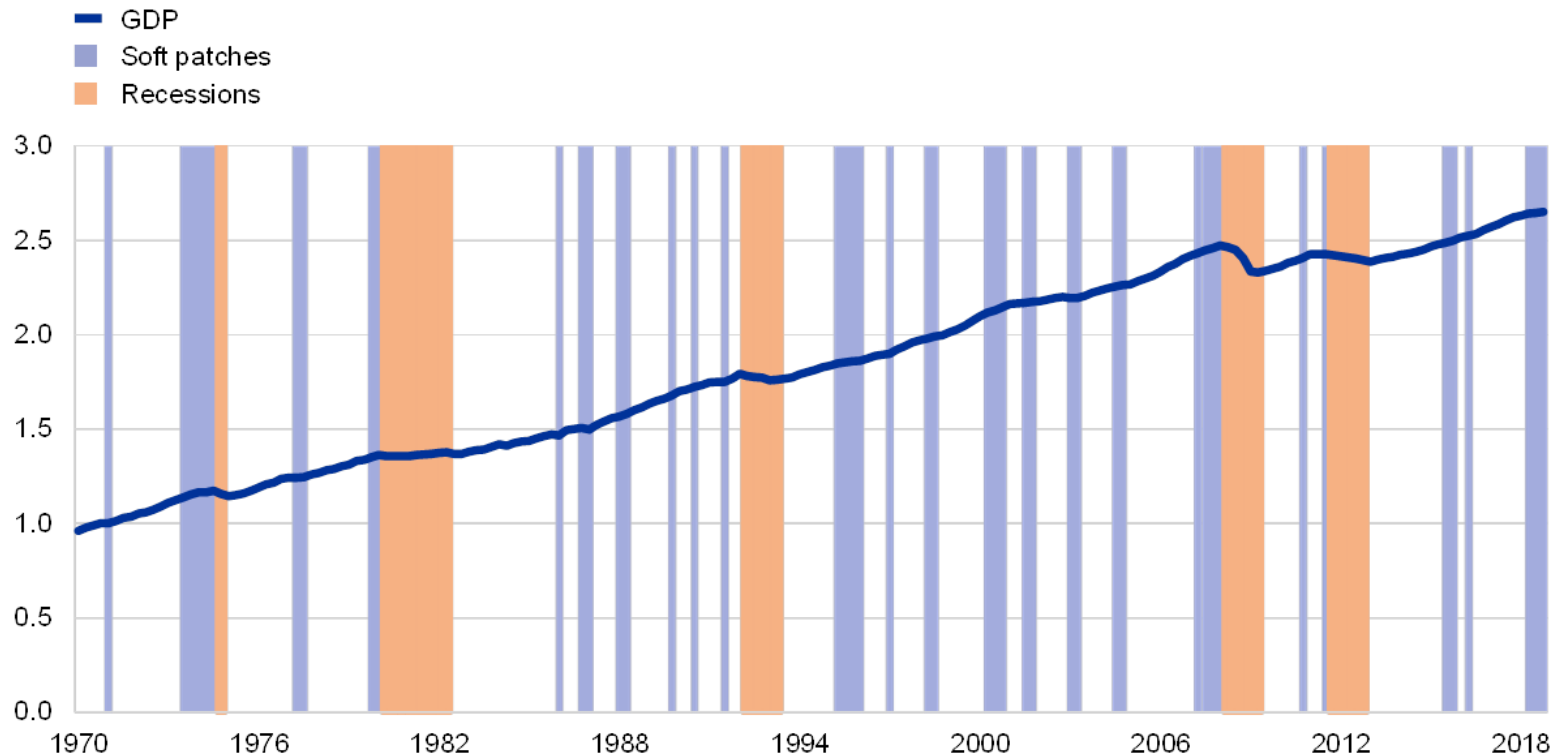
### Composite demand for German passenger vehicles



Note: OECD data on new passenger car registrations by countries weighted by their shares in German car exports.

## A soft patch anticipates a recession?

Quite common during expansionary phases of the cycle and not leading indicators of recessions



Sources: Eurostat, AWM database, ECB staff calculations.

See Duma, M., Forsells, M., and N. Kennedy (2019). 'Definitions and characteristics of soft patches in the euro area'.

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## A stronger external environment?

‘The **outlook** for trade **could worsen further** if heightened trade tensions are not resolved or **if macroeconomic policy fails to adjust** to changing circumstances.’

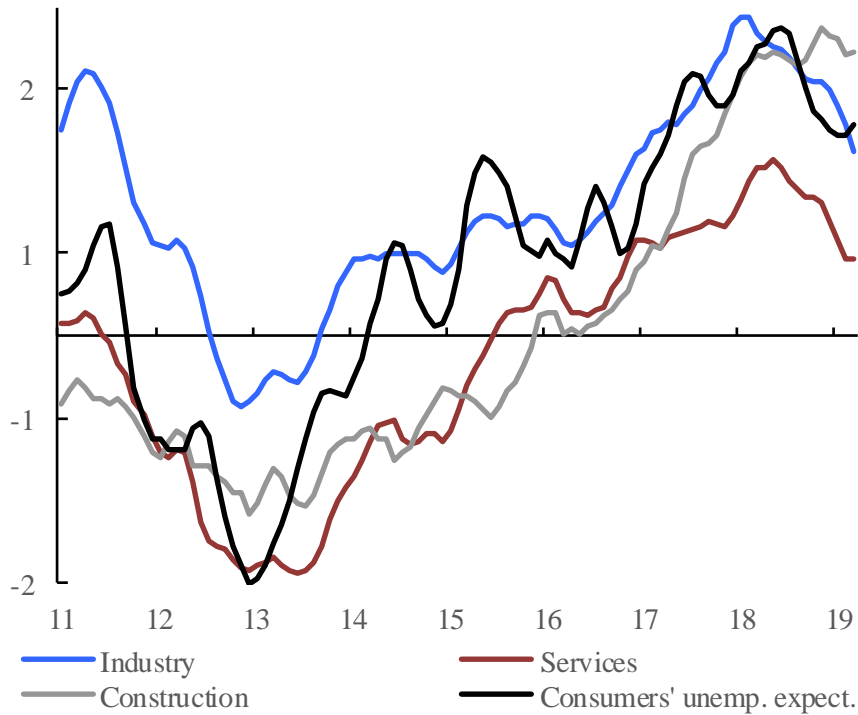


### Drivers of trade

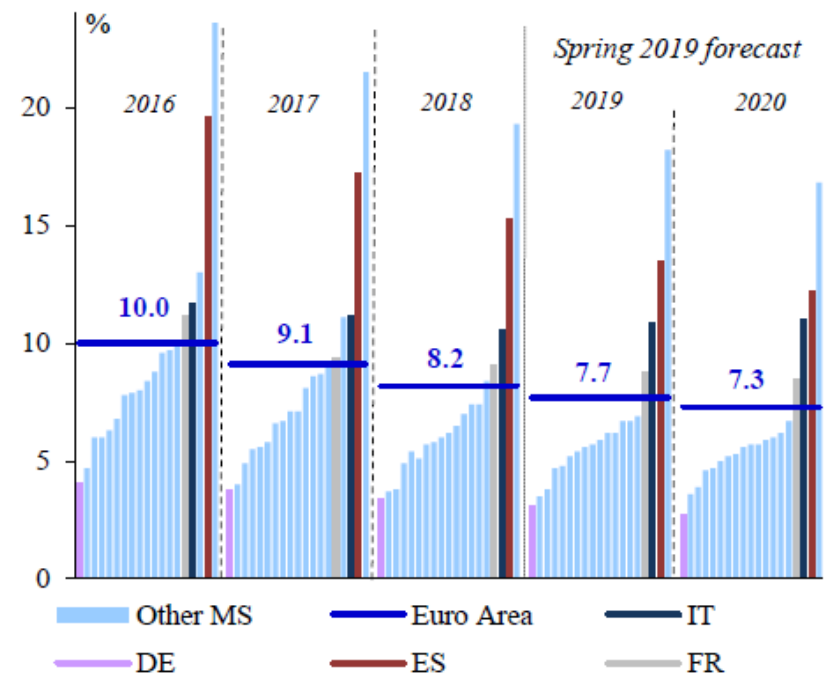
	Level of Index	Direction of change
Merchandise trade volume (Q4)	100.2	↓
Export orders	96.6	↑
International air freight (IATA)	92.3	↓
Container port throughput	101.0	↓
Automobile production and sales	92.2	↓
Electronic components	96.7	→
Agricultural raw materials	92.4	↓

## 3 A (still) strong labour market situation?

### Employment expectations



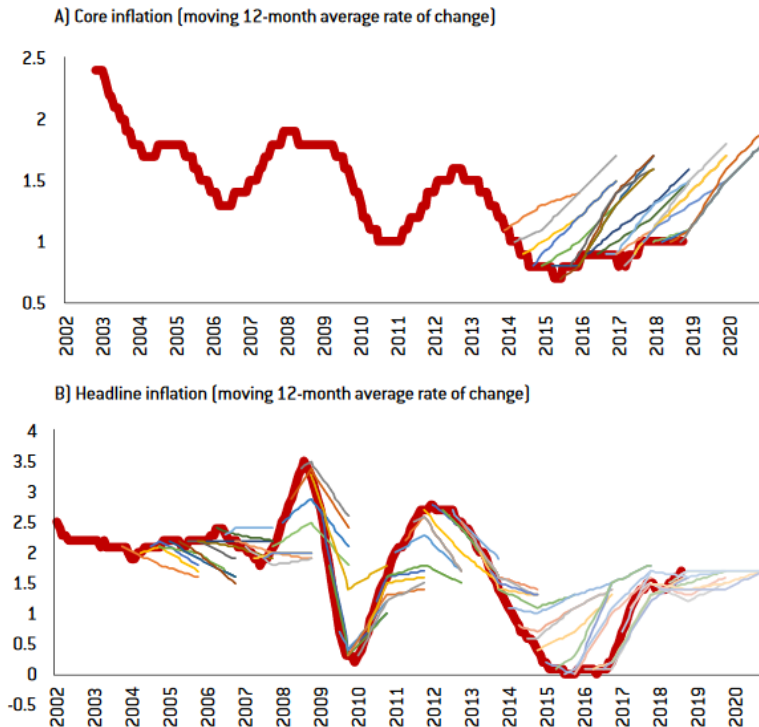
### Unemployment rates, euro area and Member States



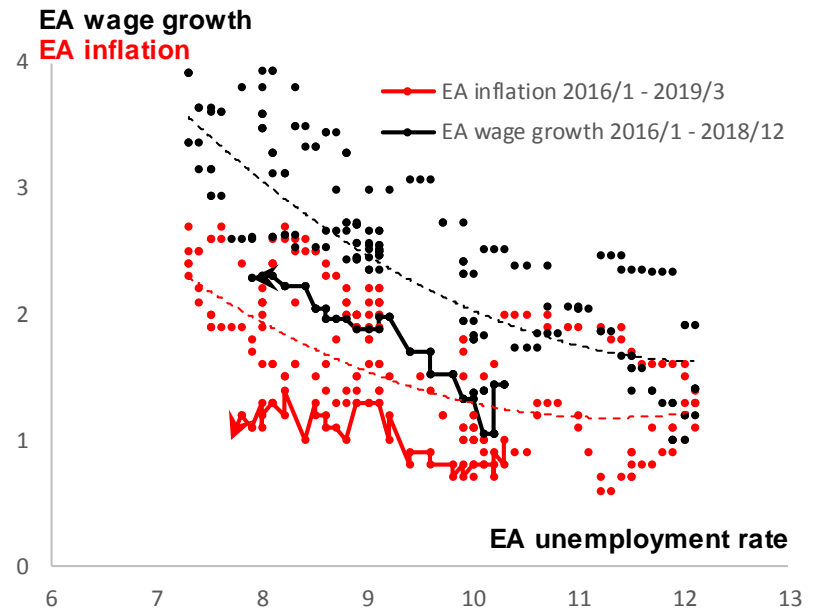
In each period, the bars for all 19 euro area economies are ranked by size.

# 4 Remaining doubts about the inflationary process

## ECB staff macroeconomic projections for the euro area



## Wage and price Phillips Curves, euro area



## 5 Risks to the outlook

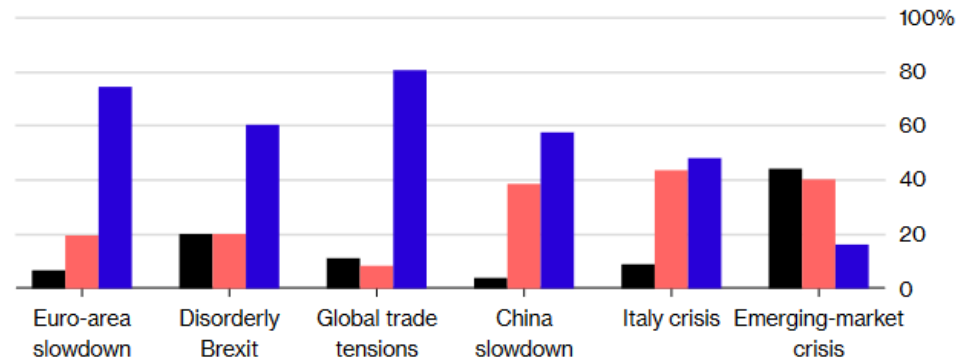
Respondents cited **trade tensions** as the biggest risk to the outlook, though said a **cyclical downturn** may also be underway. Bloomberg, 30 May.



### Risks to Euro-Area Economy

Economists see global trade tensions as biggest threat to outlook

■ Low risk ■ Balanced risk ■ High risk



Source: Bloomberg survey of economists conducted May 24-29

Note: Risks were rated from 1 (none) to 5 (significant). Chart shows weighted averages

"There are no winners in trade wars, just different degrees of losers"



European  
Commission



**THANK YOU!**

