

**Eurozone  
economic  
outlook**

April, 6<sup>th</sup> 2017

**Solid growth prospects**

Business indicators of the euro area have been positively oriented in the last months, suggesting a continuation of the recovery process. In Q1 2017 the Eurozone economy is expected to grow at a similar pace as registered at the end of 2016 (+0.4%), then slightly faster in Q2 (+0.5%) before returning to +0.4% in Q3 2017. The main force behind the expansion in aggregate activity should be private consumption which benefits from the increase in disposable income and favourable labour market conditions and despite the upturn in inflation which is eroding household purchasing power. Moreover investment is forecast to strengthen, driven by improved expectations about near term outlook. Also investment in construction should accelerate. Finally, the positive international environment will likely reinforce external demand growth and exports.

**Global economy on an optimistic mood**

Despite intensified political uncertainties and the upturn in inflation, the prospects for global economic activity have improved in recent months. World trade has accelerated strongly for three quarters, especially Chinese imports due to the impulse from investments. Business surveys indicate an improvement in the near-term outlook. The more favourable prospects mainly reflect expectations about a more expansionary stance of fiscal policy, especially in the US. Furthermore, international trade is expected to continue to recover and to boost sales abroad during 2017.

**Growth should remain robust in the Eurozone**

In spite of uncertainties regarding the elections in important Member states, as well as the future relations between the UK and the EU, the Eurozone strengthened its growth (+0.4% in Q4 2016, as in Q3), generating an increase of +1.7% on a yearly basis. The unemployment rate lied at 9.5% in February 2017 which is the lowest level recorded in the euro area since June 2009. Coincident and leading business cycle indicators confirm an optimistic outlook in early 2017: in March the Economic Sentiment Indicator remained stable clearly above its long term average.

**TABLE 1 | Forecasts 2017**

% Change, seasonal and working day adjusted

	Q1/2017		Q2/2017		Q3/2017		2017 Overhang
	q/q	y/y	q/q	y/y	q/q	y/y	
IPI	0.6	1.8	0.5	2.4	0.4	2.4	2.0
GDP	0.4	1.6	0.5	1.7	0.4	1.7	1.6
Consumption	0.4	1.5	0.4	1.6	0.4	1.7	1.5
Investment	0.5	1.6	0.7	1.1	0.6	2.4	1.7
Inflation		1.8		1.8		1.7	1.6

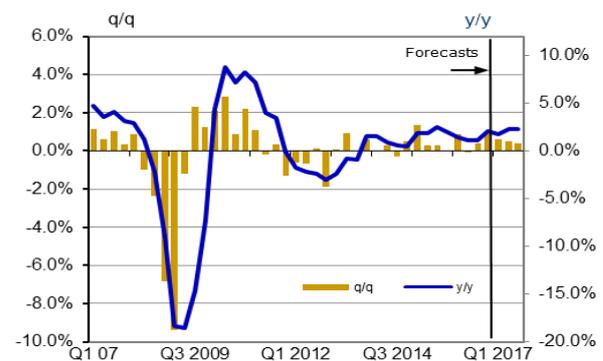
Source: Eurostat and Ifo-Insee-Istat forecast

In industry, manager's views on order books improved, especially on export order books. In January 2017

compared with December 2016, seasonally adjusted industrial production increased by 0.9% in the euro area with the strongest increase for capital goods (+2.8%). This signals a high likelihood of steady growth in industrial production during the horizon forecast (+0.6% in Q1 2017, +0.5% in Q2 and +0.4% in Q3).

GDP growth in Q4 2016 was driven by domestic demand with positive contribution both from household final consumption expenditure and gross fixed capital formation. Despite the upturn in inflation which is eroding household purchasing power, growth in private consumption is forecast to keep the same pace of expansion as in Q4 2016 (+0.4%) over the whole forecasting period due to expected wage increases and a slight decrease in the savings ratio. The steady growth in employment should also boost income. This forecast is in line with a robust increase in consumer confidence in March 2017 that offset the decrease registered in February.

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

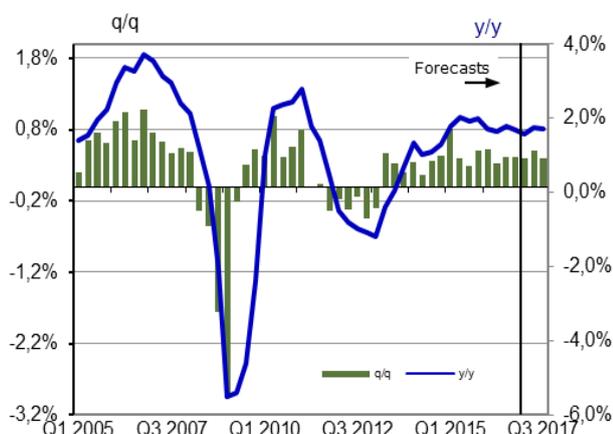


Source: Eurostat and Ifo-Insee-Istat forecasts

Regarding gross fixed capital formation the forecast reflects a slowdown in construction investment in Q1 2017 as suggested by a strong decline in construction activity registered in January, as an effect of an exceptionally cold winter. The marked rise in business confidence since February, boosted by an upward

tendency in both managers' employment expectations and their assessment of the level of order books, together with upward trend in building permits, indicate a fast recovery of construction investment already in Q2 2017. The production capacity utilization rate is still following an upward trend suggesting a greater propensity to invest for firms. Investments will also benefit from the expected increase in external demand and favorable financing conditions. Overall, aggregate investment is forecast to consolidate in 2017. Total investment is expected to slightly decelerate in Q1 2017 (+0.5%), then to gather pace in Q2 (+0.7%) before slowing down slightly (+0.6% in Q3).

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



Source: Eurostat and forecasts Ifo-INsee-Istat

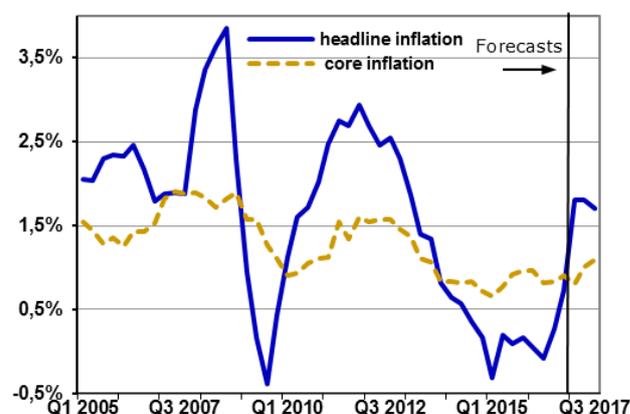
Overall, Eurozone economy is expected to continue to grow at a similar pace over the forecasting period. GDP is forecast to increase by +0.4% in Q1 2017, to accelerate to +0.5% in Q2 before going back to +0.4% in Q3. The main forces behind this trend should be mainly the steady growth in private consumption and investment.

### Inflation increased

Consumer price accelerated in Q1 2017 mainly due to rising energy and unprocessed food prices. The

harmonized index of consumer prices (HICP) stood at 1.5% in March from 2.0% in February. Over the forecasting period, annual growth of HICP is not expected to increase furthermore: +1.8% both in Q1 and Q2 and +1.7% in Q3 2017. The outlook for headline inflation is based on the assumption of the Brent oil price remaining stable at \$52 per barrel and the USD/Euro exchange rate fluctuating around 1.08. Core inflation should modestly increase over the forecast horizon in line with a narrowing output gap in the Eurozone and a wage increase especially in Spain and in Germany.

**FIGURE 3 | Eurozone Inflation**  
Harmonised Index of Consumer Price (HICP), year-on-year growth rates



Source: Eurostat and forecasts Ifo-INSEE-Istat

### Risks

Uncertainty remains elevated especially about the future relations between the UK and the EU, together with the political consequences of elections in France and Germany. Moreover, higher inflation could undermine the growth due to the effect of real wages on household spending trend. Uncertainty as to the new political direction of the US also remains considerable.

### Methodological note

This quarterly publication is prepared jointly by the German IFO institute, the French INSEE 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 economic analysis for each country (Germany, France and Italy) is available by:

- Ifo Konjunkturprognose, Ifo
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