



# Economic situation and outlook in the euro area

AIECE  
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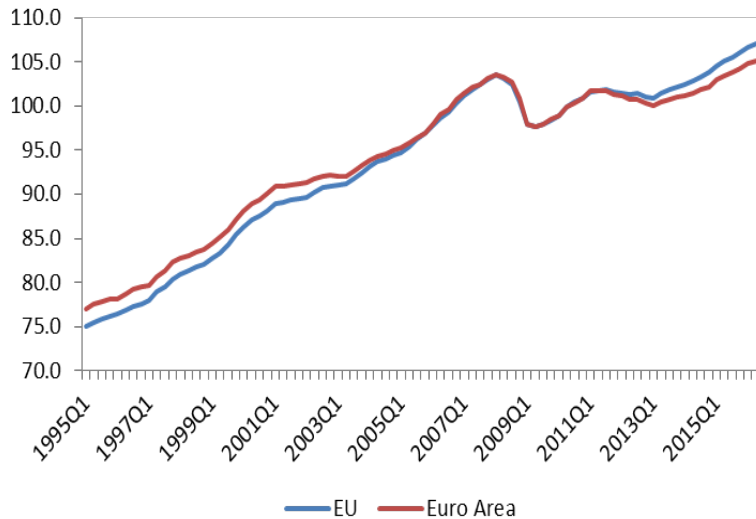
DG ECFIN

# Slow and incomplete recovery so far

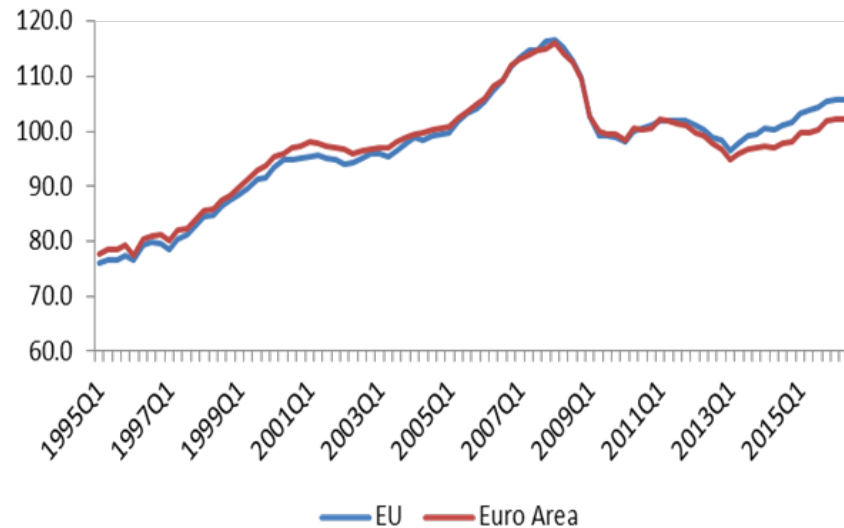
Activity just surpassed its pre-crisis levels

Investment has remained depressed

**Real GDP**



**Total Investment**

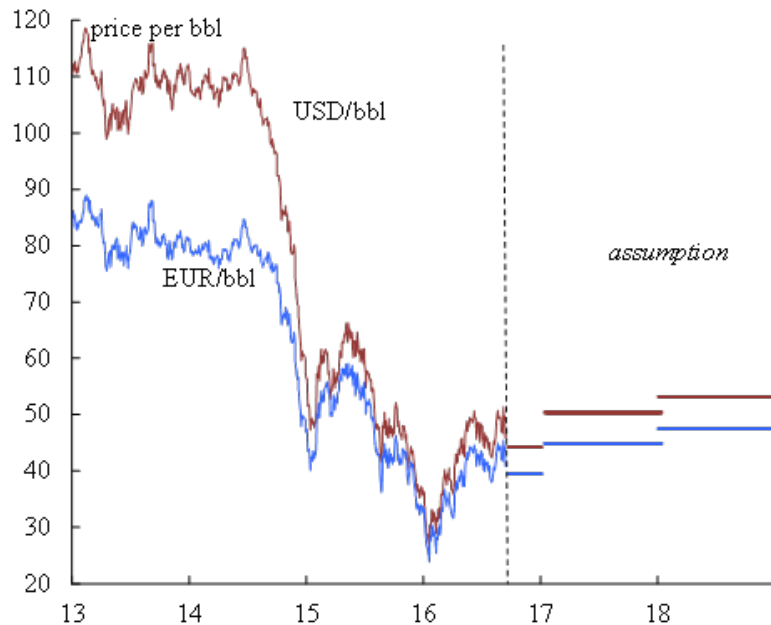


## Tailwinds are already fading

**Oil price fall boosted real income, but less so going forward**

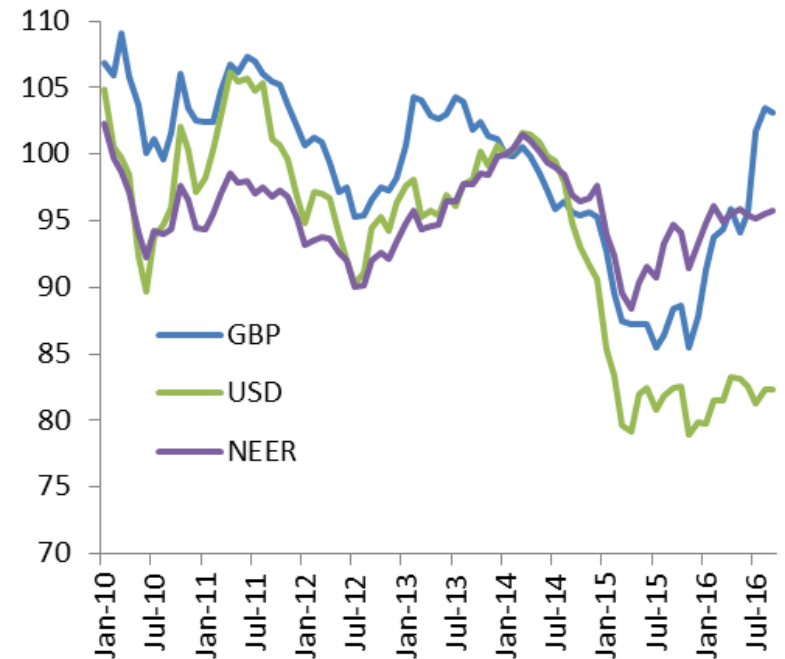
**Depreciation?  
What depreciation?**

**Brent (spot and futures)**

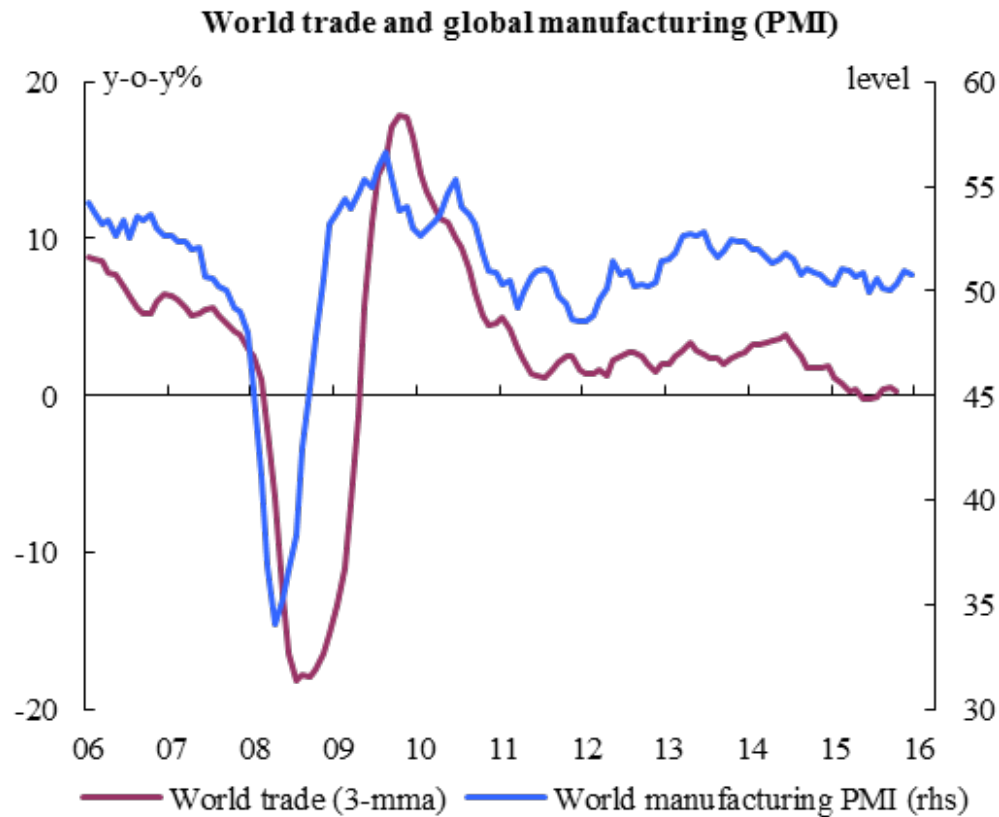


Source: ICE

**Euro bilateral exchange rates and NEER  
(Jan 2014 = 100)**



## Little impulse from world trade

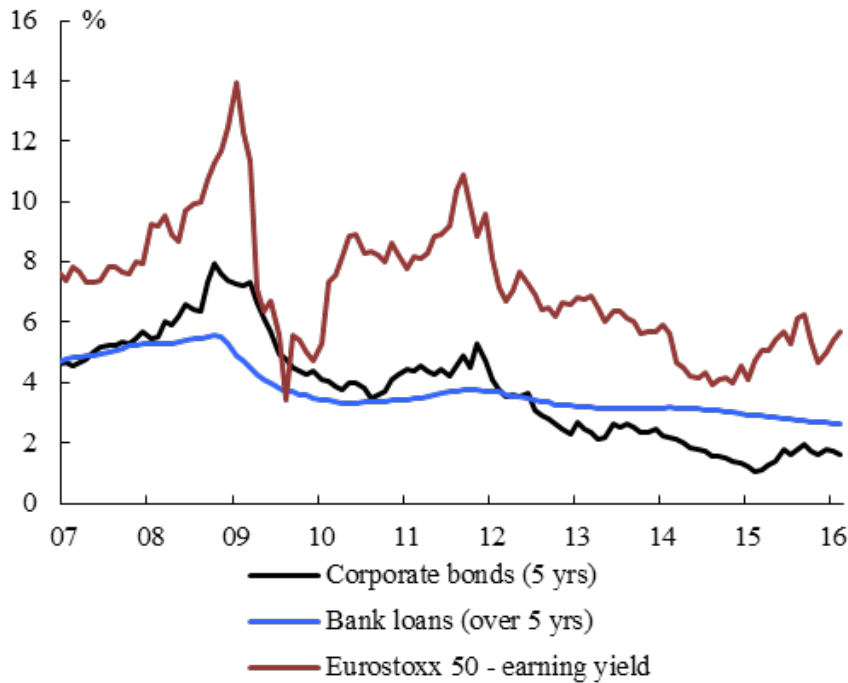


# Policy remains supportive

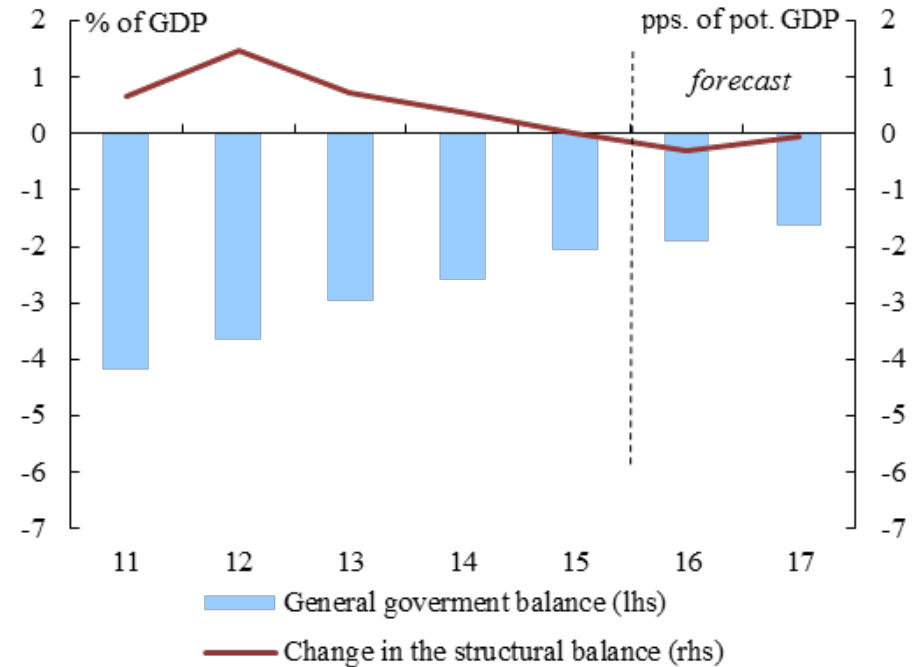
Monetary easing has brought down financing costs

Slight fiscal easing in 2016

Cost of corporate funding, euro area

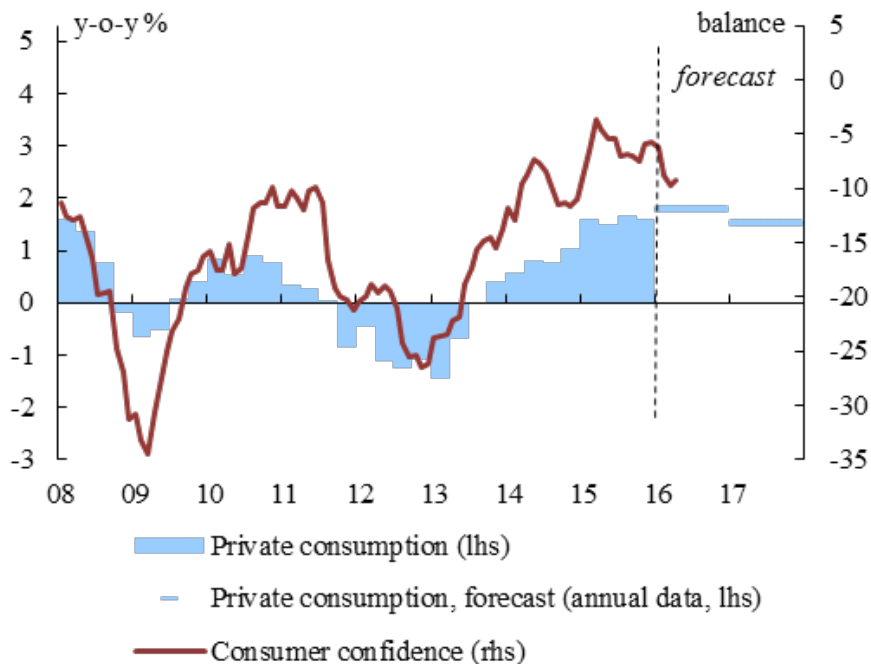


Headline deficit and dSB, euro area



# Resilient private consumption but likely to slow down

Graph I.9: Private consumption and consumer confidence, euro area

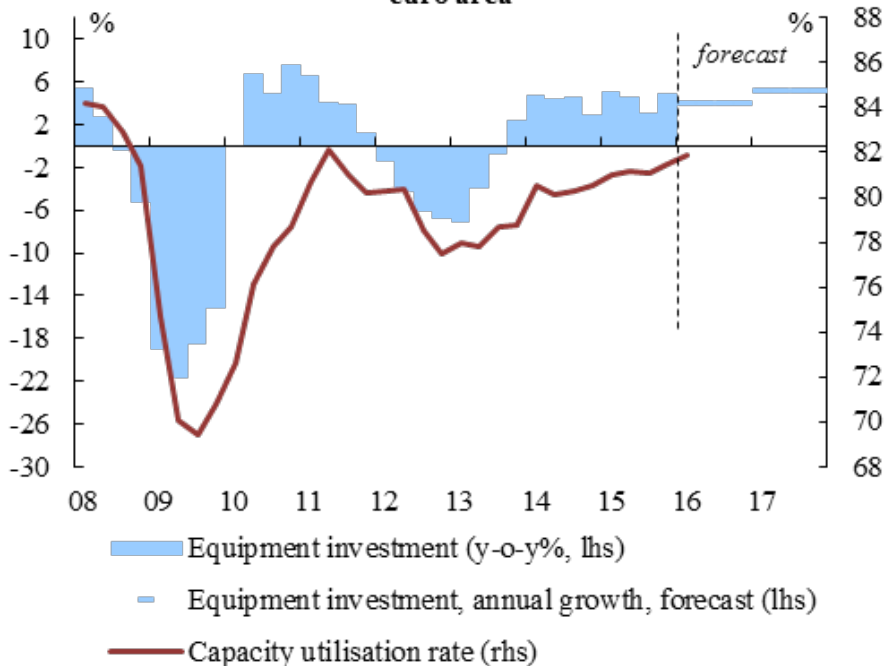


- (+) Still relatively robust employment growth
- (+) Improving housing markets
- (--) Lower real disposable income growth

Graph from spring forecast

## Investment pick-up?

Graph I.13: Equipment investment and capacity utilisation, euro area



- (+) Expected external demand
- (+) End of the adjustment in construction
- (+) Investment Plan
- (+) EU funds new programming period
- (-- ) Heightened uncertainty (including Brexit)
- (-) Deleveraging
- (-) Weak potential growth expectations

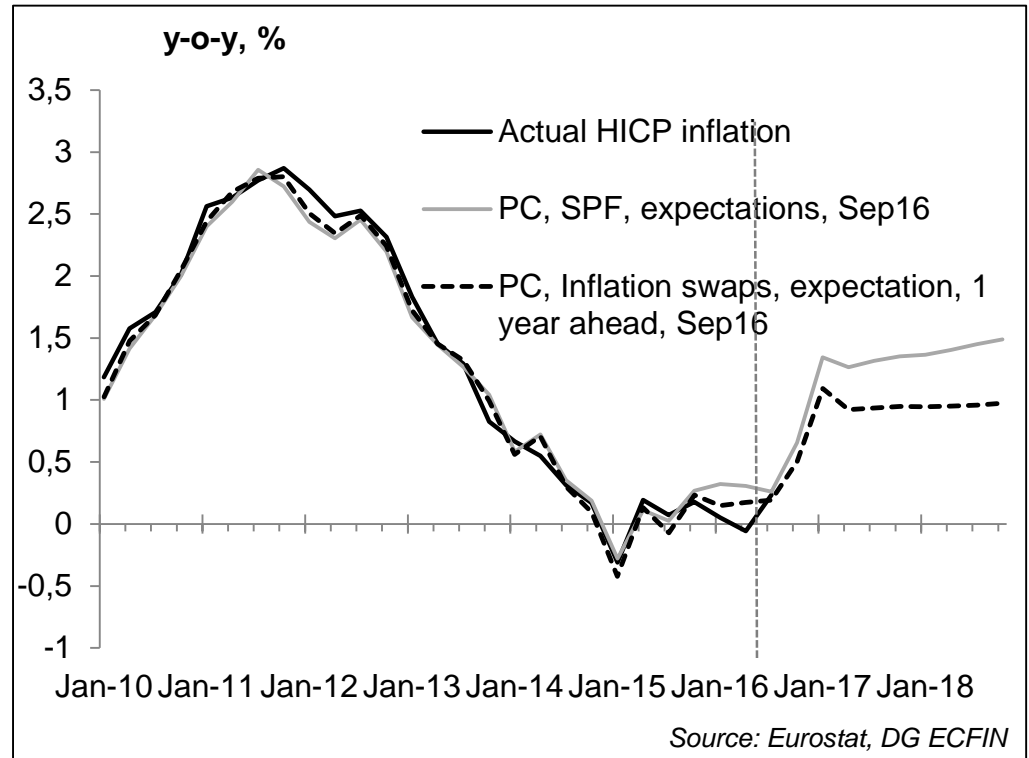
Graph from spring forecast

# Inflation uptick triggered by base effects

Illustration of oil price base effects



Phillips curve-based inflation projections, euro area



Source: Eurostat, DG ECFIN





# Issues for the Autumn Forecast

## Impact of BREXIT

- Short-term impact: policy uncertainty and currency
- No information yet about future relationship. Cannot build a path into the forecast yet

## The "new backlash against globalisation"

- Inequality and growth
- Trade liberalisation vs trade restrictions
- Political uncertainty

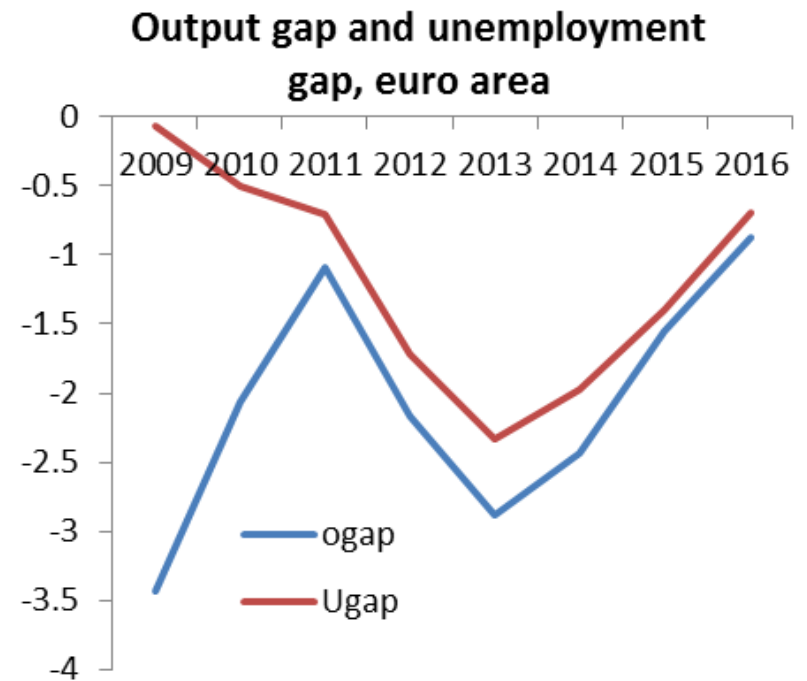
# Issues for the Autumn Forecast

## *How much slack remains? (1)*

**Faster employment growth than expected**



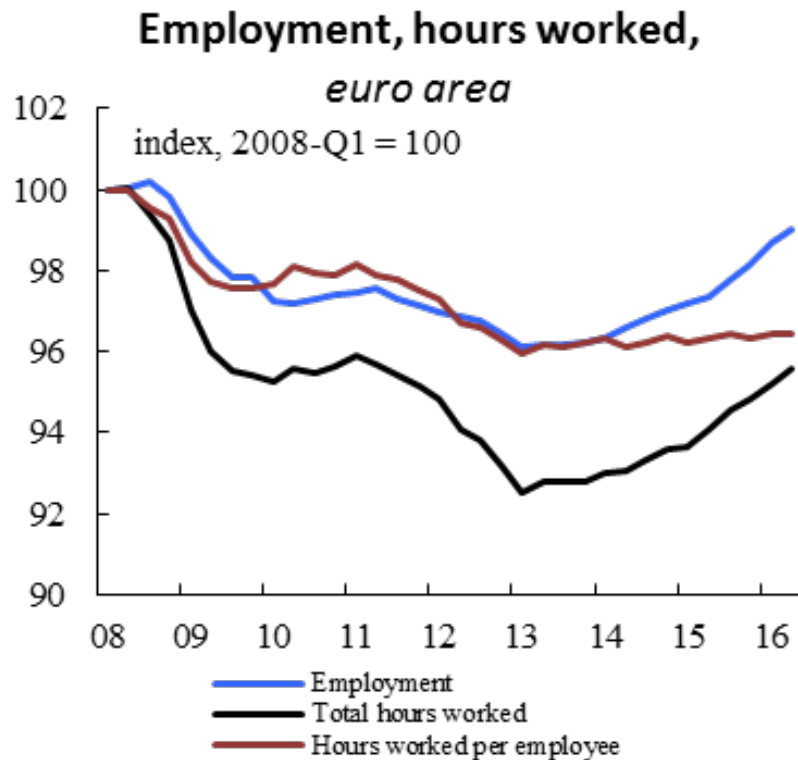
**Output gap gradually closing**



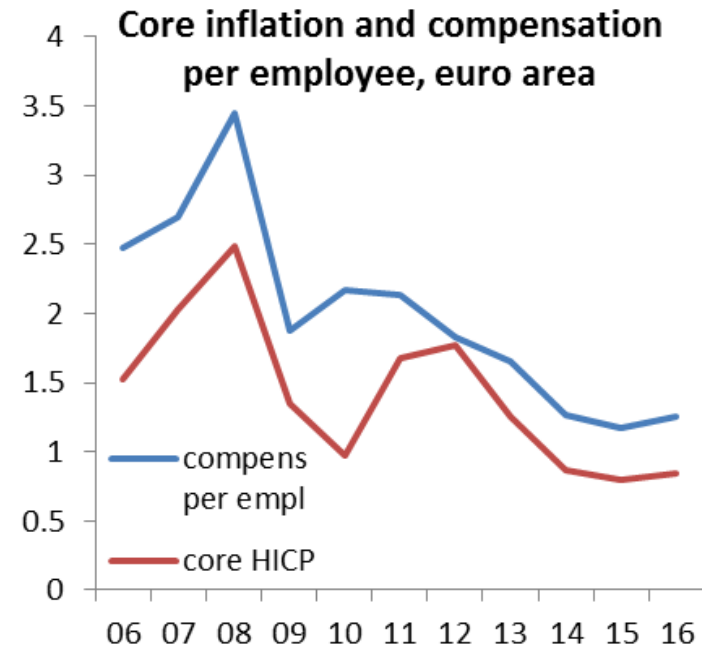
# Issues for the Autumn Forecast

## *How much slack remains? (2)*

### Hours worked per employee still flat



### Wage growth hardly picking up





# Policy agenda

## Responsible public finances

- sustainability
- stabilisation
- growth-friendly public finances

## Re-launching investment

- financing conditions (EFSI; banking-sector health)
- investment conditions (3<sup>rd</sup> pillar)
- Targeted public investment

## Structural reforms to raise potential growth

## Complete EMU