



European
Commission

3 MAY 2016

EUROPEAN ECONOMIC FORECAST

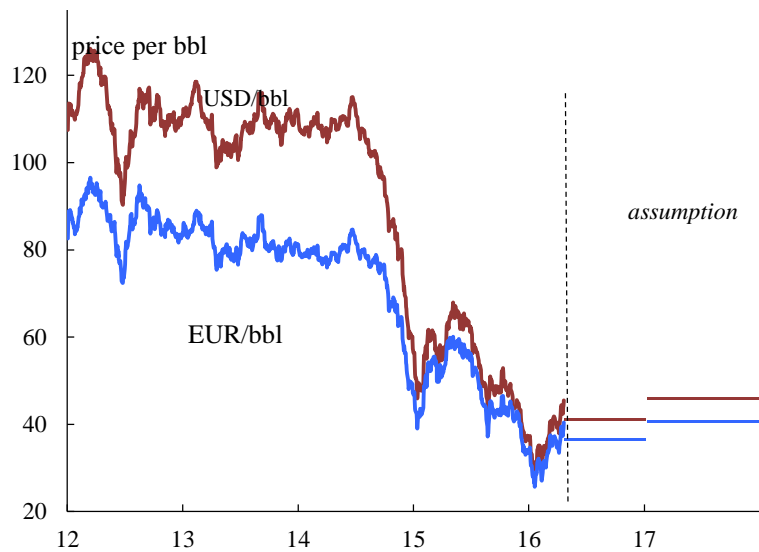
Spring 2016



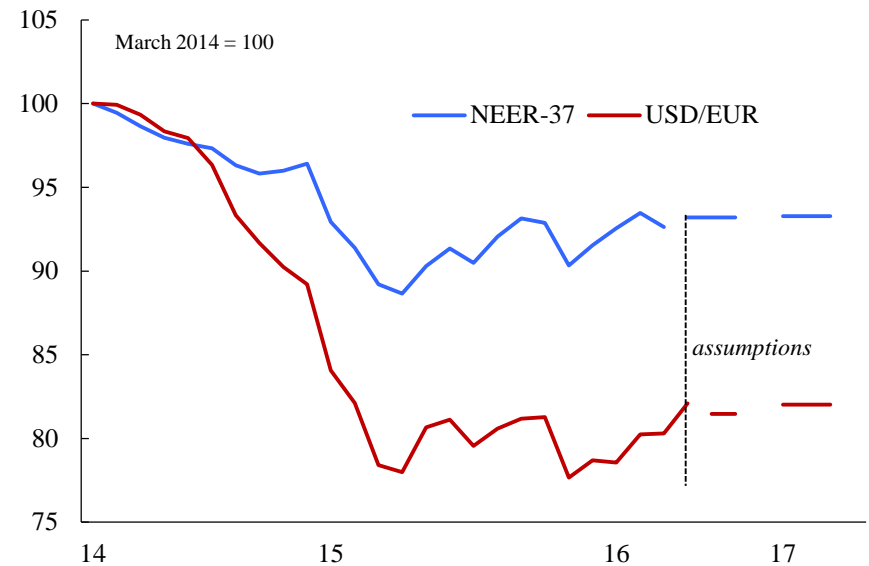
Björn Döhring
DG ECFIN

"Tailwinds" starting to fade

Rebounding oil prices

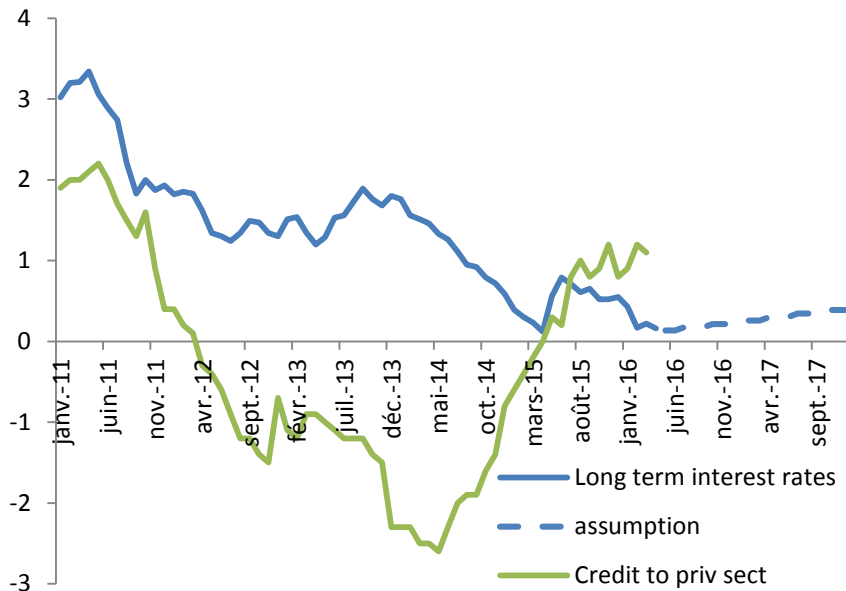


Appreciating euro

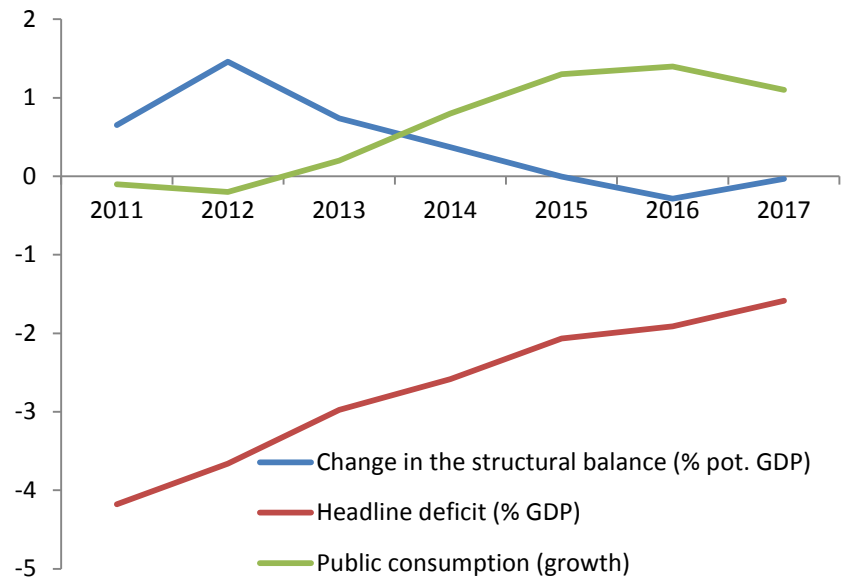


Supportive policies in place

Reduced financing costs & improved access to credit

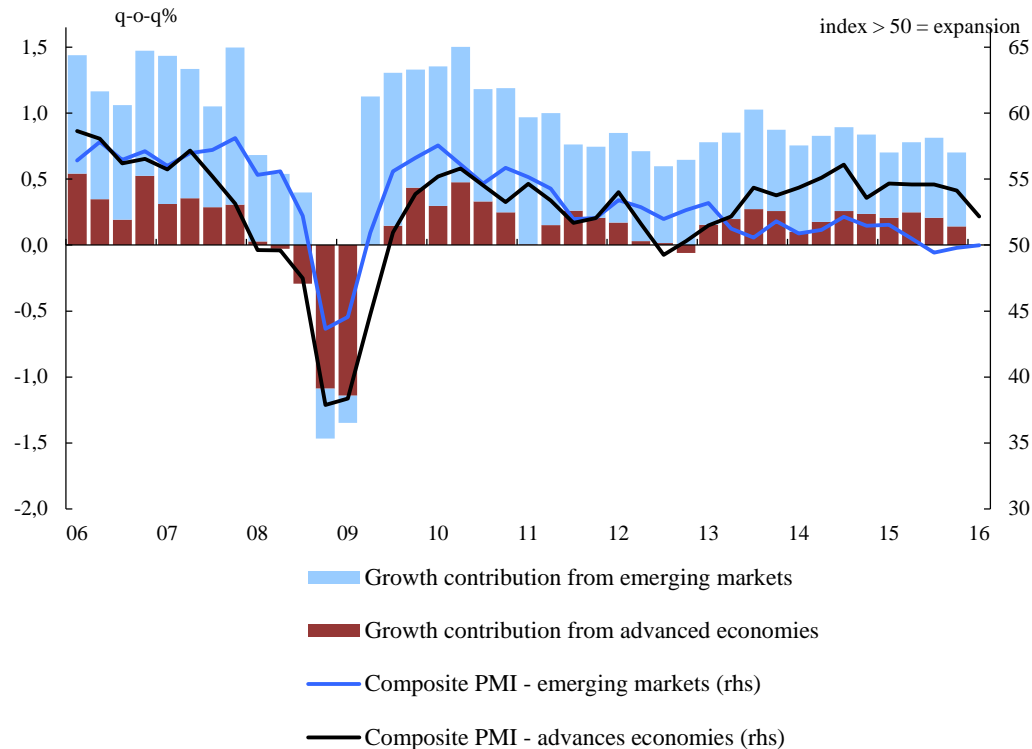


Slightly expansionary fiscal policy



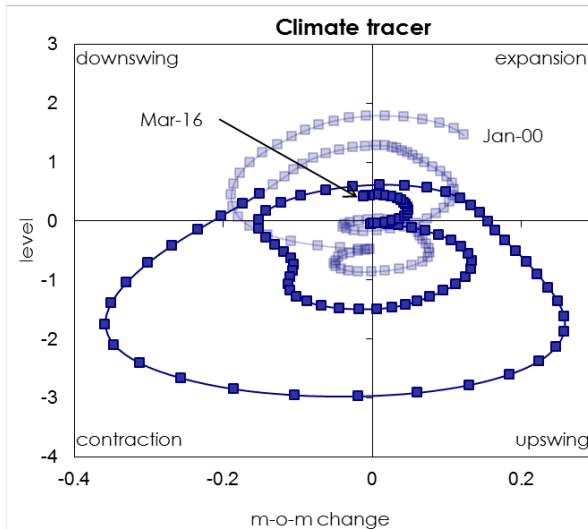
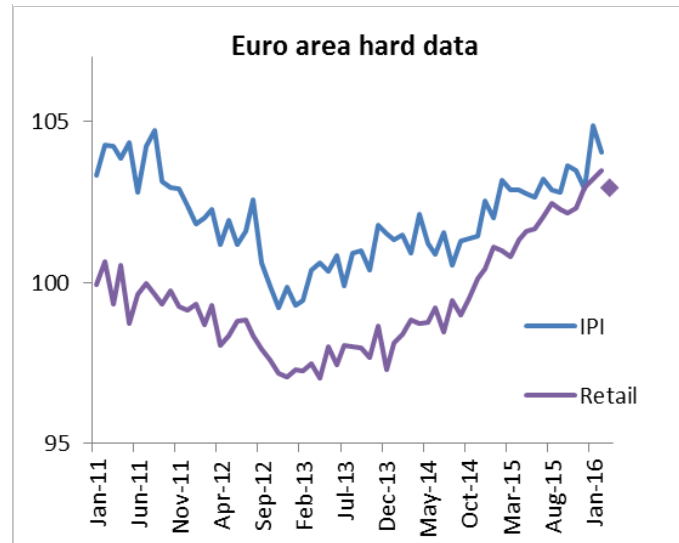
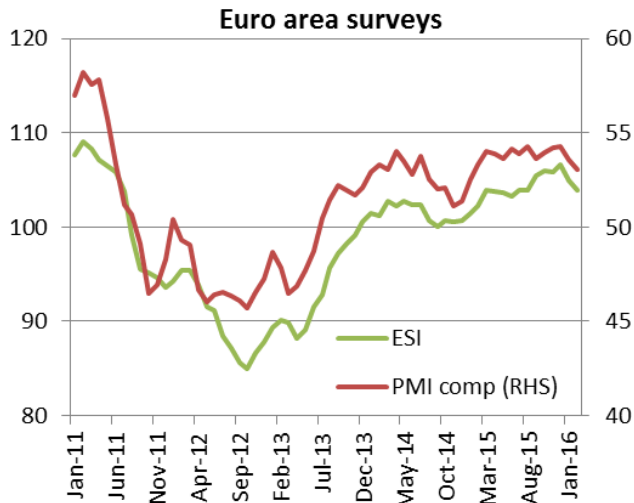
Increasingly challenging external environment

Global GDP and composite PMI



Source: OECD, IMF, EUROSTAT, and national statistical institutes for GDP, JPMorgan/Markit for PMI.

The first-quarter: a headache



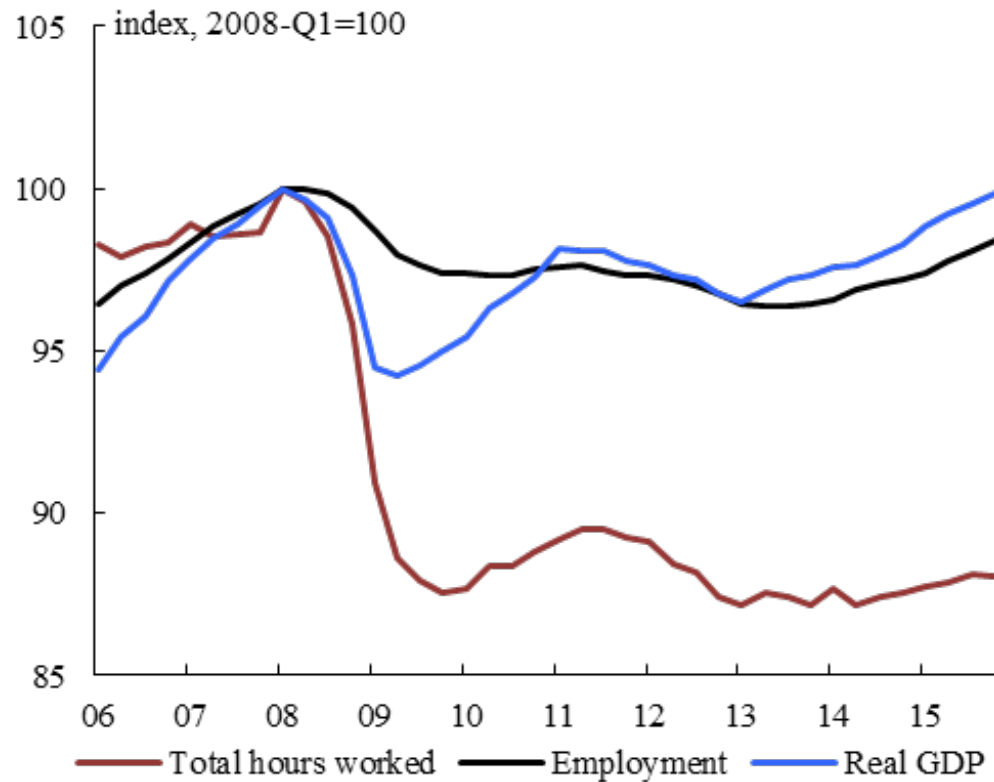
Factor model: 0.34%

Spring forecast: 0.5%

Prelim. flash est : 0.6%

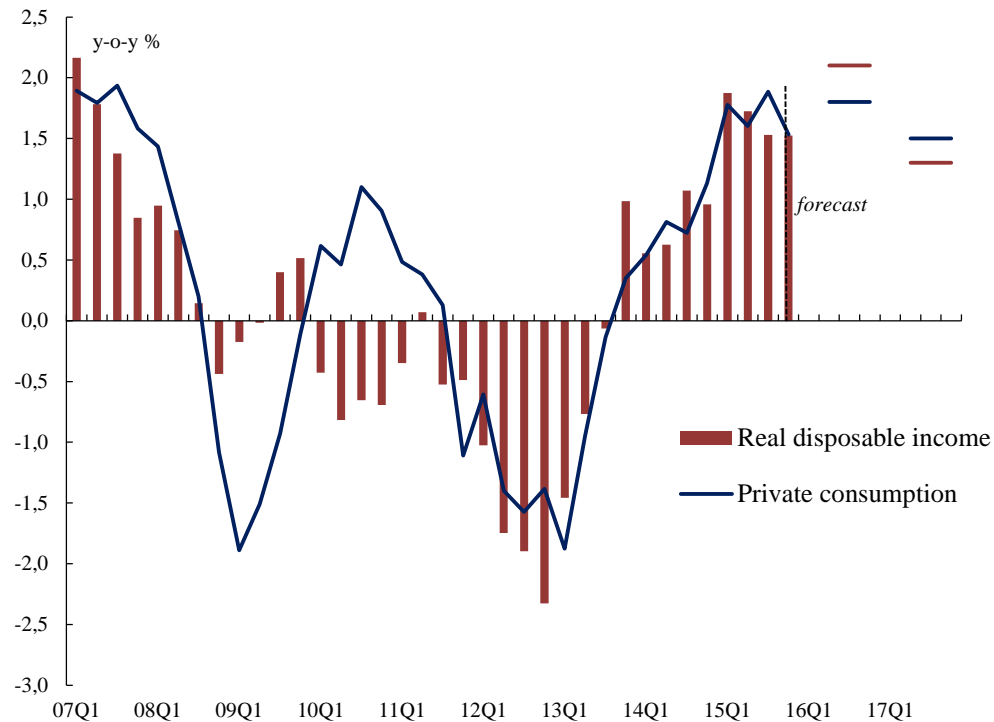
(slowly) improving labour market

Employment, GDP growth, hours worked
euro area



Private consumption to lose momentum

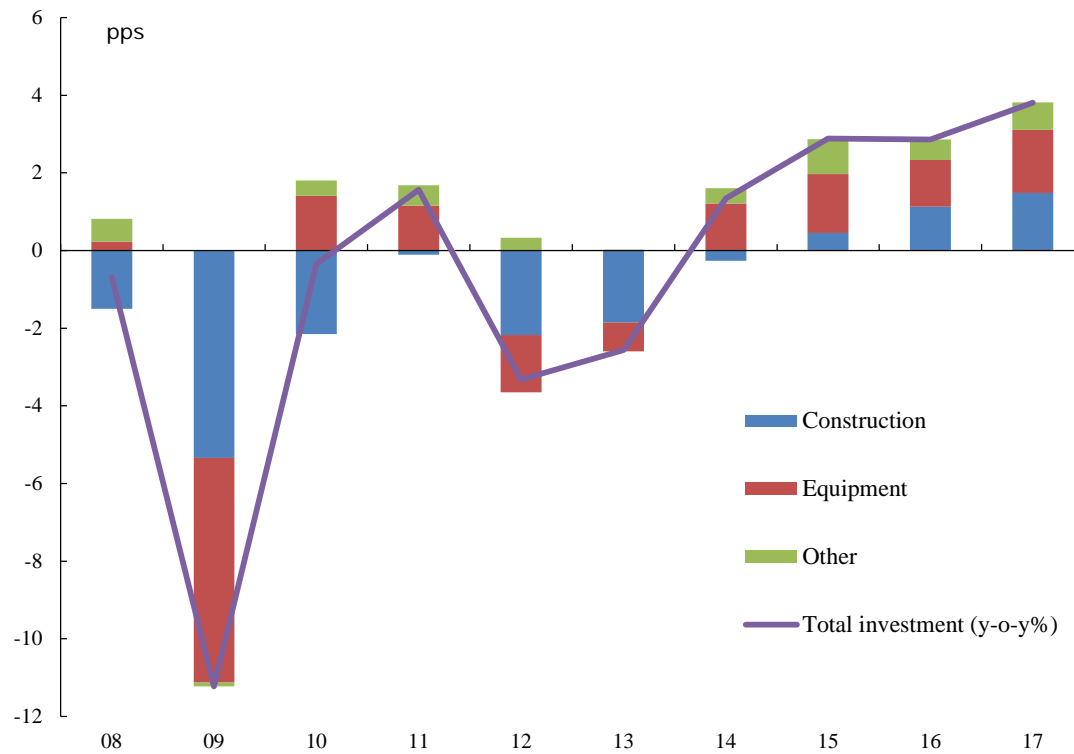
Private consumption and real disposable income
euro area, qoq annualised



2016 and 2017 figures are annual y-o-y %

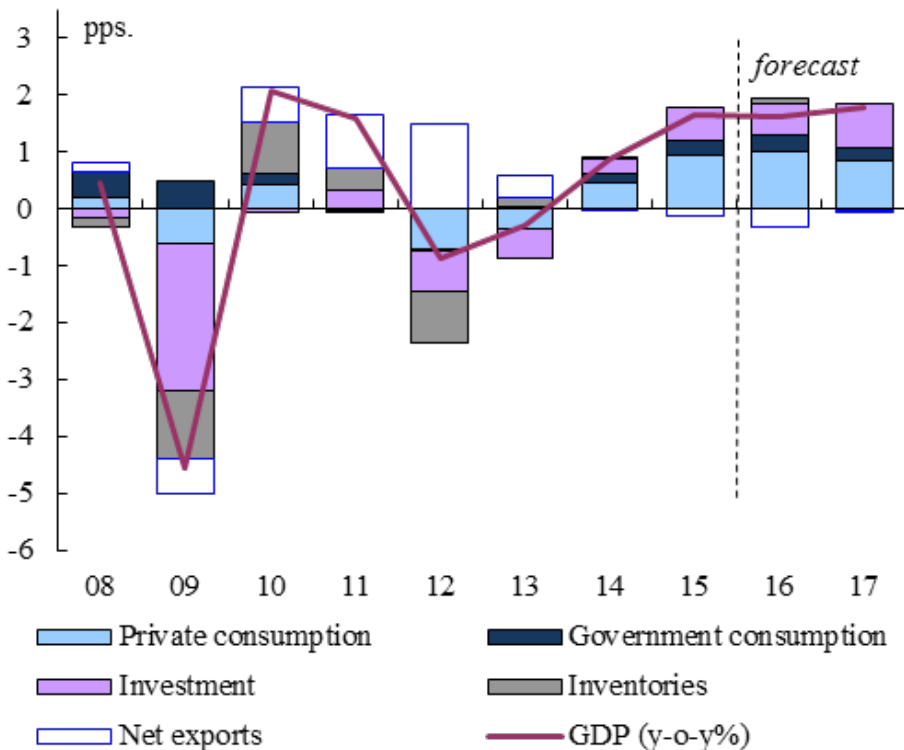
Conditions in place for investment rebound

Total investment and components
euro area



Staying the course (but not accelerating)

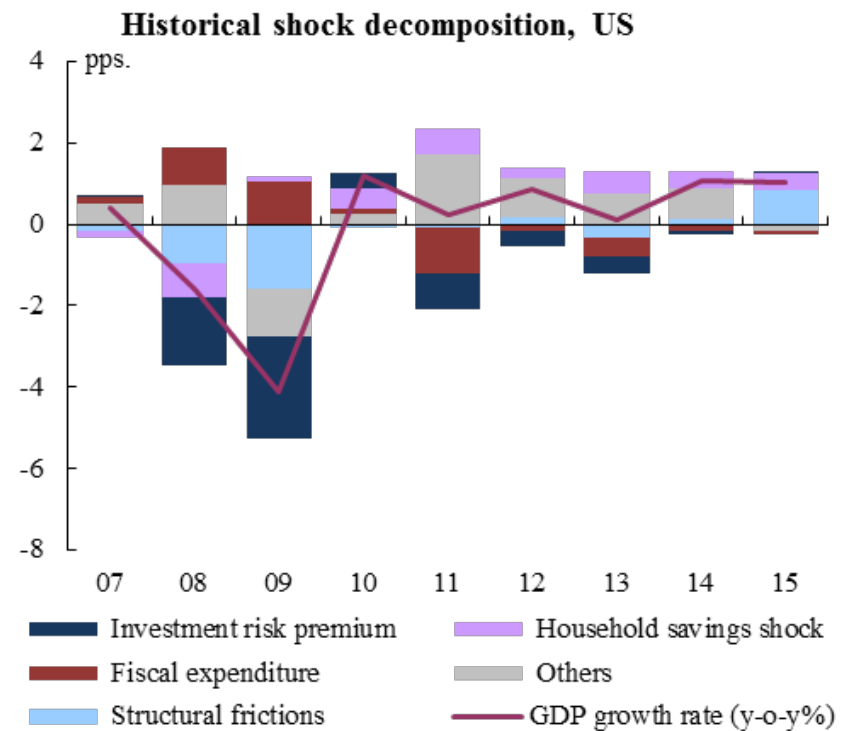
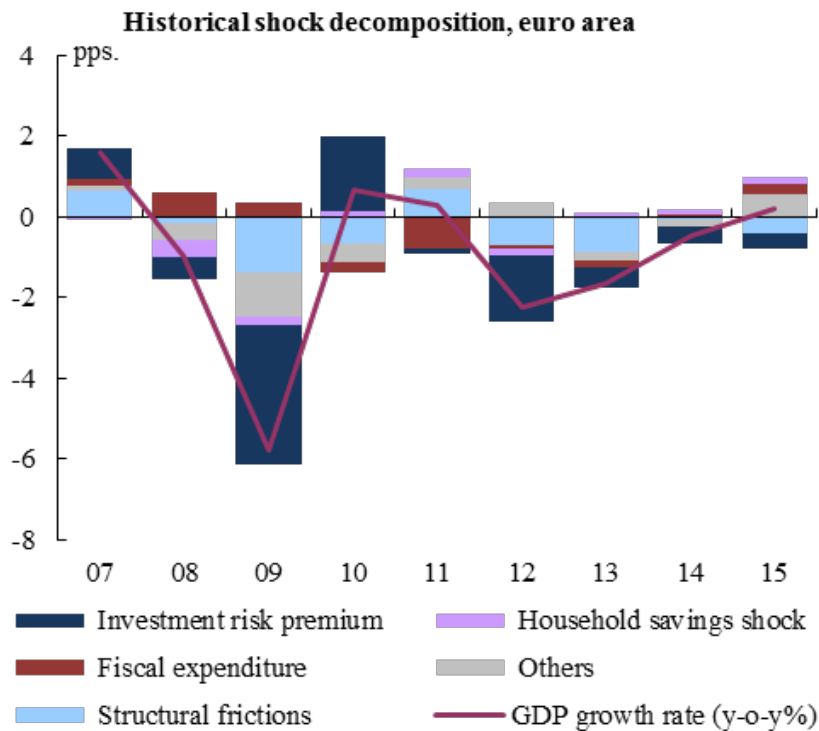
GDP growth and demand components
euro area



Shock decomposition from an estimated model

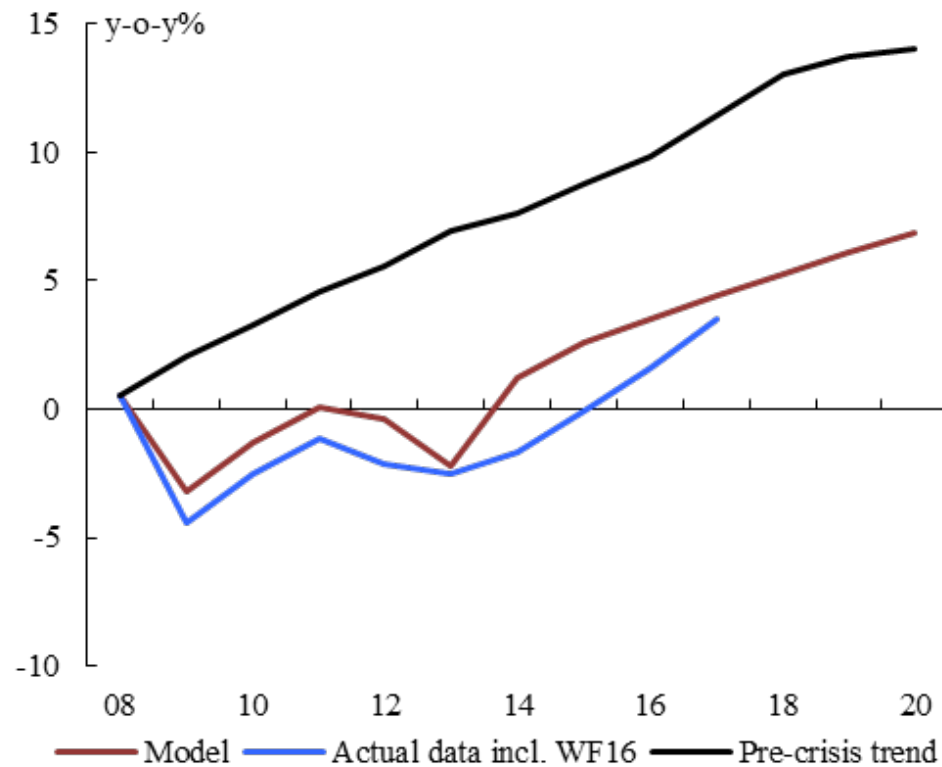
	2016
Long-run trend	1.4
Supply:	
TFP	▼ -0.2
Labour & goods market adjustment	▼ 0.1
Oil	▼ 0.3
Demand:	
Domestic:	
Consumption	▼ 0.2
Investment	▼ -0.1
Fiscal spending	▼ 0.0
Foreign:	
World demand and int. trade	▼ -0.2
Exchange rate	▼ 0.2
Others	▼ -0.3
Real GDP growth (from forecast)	▼ 1.6

Box: US and euro area recovery compared



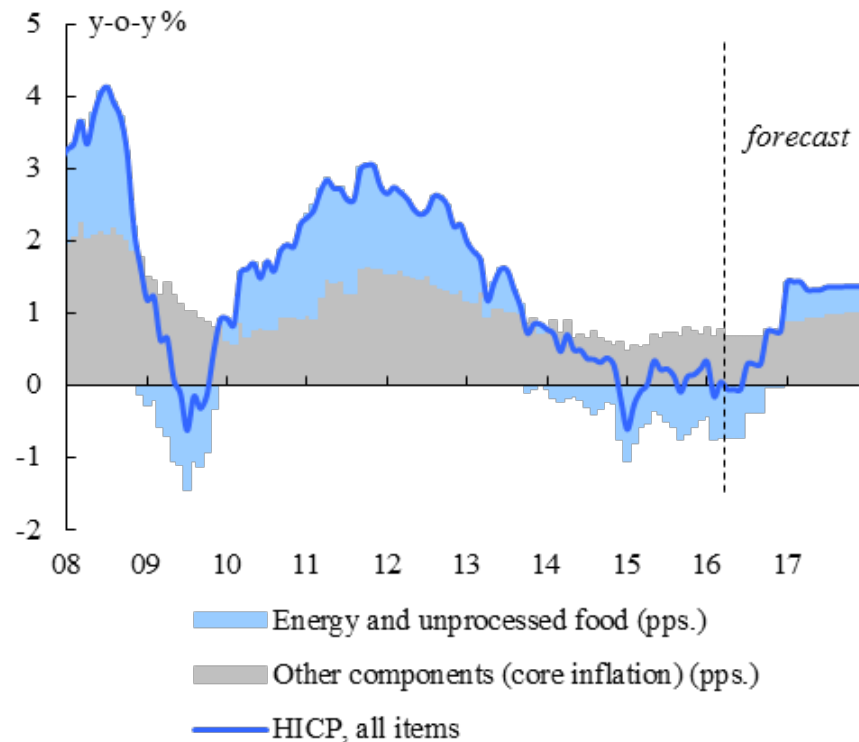
Box: Secular Stagnation

Euro-area GDP: pre-crisis trend and post-crisis outcome
(as deviation from trend)



Inflation still driven by oil prices

Core and headline inflation
euro area



Box: a scenario of generalised border controls

Direct costs

(waiting at the border)

- Goods transport
 - Passenger mobility
 - Administrative costs
- Total: EUR 5bn – 18bn p.a.

Indirect costs

(change of behaviour)

- cross-border travel
 - production chains
 - volume of trade
- Total: EUR 20bn – 55 bn over 10 years

Risks to the growth outlook

- (-) Deeper slowdown in EMEs**
- (-) Uncertainty, Financial stability**
- (-) Geopolitical tensions**
- (-) Multiple Policy challenges within Europe**

- (+) Larger impact of monetary policy**
- (+) Stronger rebound in global growth**
- (+) Impact of structural reforms**