

Europe Growth To Remain Sluggish; Unemployment Seen Above 10% In 2012 – EFN

While there are signs the worldwide economy is growing, a key European research group warns any such recovery could be disrupted by commodity price volatility coupled with a waning confidence in financial markets. Additionally, the group says that European growth could lag with unemployment remaining above 10% through 2012.

The European Forecasting Network (EFN) said Tuesday that its baseline scenario for the world economy in 2011 and 2012 is a continuation of the upswing, because growth dynamics continue to be high in emerging economies, monetary policy will in general continue to be expansive, and the factors that dampen the recovery in many advanced economies are slowly declining.

Nevertheless, the EFN said that “There are two main downward risks for this prospect: first, low interest rates and high growth might drive commodity prices to disruptive levels. Second, waning confidence in financial markets might enhance volatility and enforce further extensive measures of consolidation in advanced economies.”

Additionally, according to the EFN, for the euro area the growth perspectives are less bright. “We expect GDP to grow by around 1.9% in 2011 and 1.7% in 2012, not enough to bring the unemployment rate back below 10%,” the EFN said. “This forecast assumes that the crisis of confidence in public finance in the euro area can be contained. In this case, the modest recovery will continue, this year mainly driven by strong external demand.”

The EFN sees fixed capital formation, driven by low real interest rates, will become the main engine of growth in the second half of 2011 and in 2012.

Due to the higher external demand, industrial production remained quite strong during 2010 and forecasts have been revised upwards. We expect industrial production to grow at 5.5% during 2011 and at 3.5% in 2012, nearly recovering pre-crisis levels.

While core inflation remains at historically low values, energy and food prices will probably keep inflation in the euro area above the ECB target throughout this year, the EFN said that it forecasts a 2.4% average inflation rate in 2011.

“Given this scenario, increases in the ECB policy rate in 2011 are quite probable, starting in April, but overall the reduction in the expansive stance of monetary policy will be slow,” the EFN said, adding “We expect inflation to drop to 1.4% in 2012, due to the ECB policy and easing of pressures in commodity markets.”

The EFN is a research group of European institutions, founded in 2001 under the auspices of the European Commission, and currently partly financially supported by the Schuman Centre at the European University Institute. The objective of the EFN is to provide a critical analysis of the current economic situation in the euro area, short-term forecasts of the main macroeconomic and financial variables, policy advice, and in-depth study of topics of particular relevance for the working of the European Economic and Monetary Union. The EFN publishes four quarterly reports.