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Economics: Outlook for the Euro Area in 2011 and 2012

A new report published by the European Forecasting Network at the European University Institute predicts an upswing in the global economy following the expansion of trade and production over the winter.

The research group, which brings together economists from several European universities and institutions, identifies commodity prices and low confidence as the primary risk factors affecting the chances of a modest recovery in advanced economies.

The possible effects of a major recession in Japan, as the world's third largest economy, following the tsunami and nuclear incidents are cited as concerns, though "at the moment this is not so probable".

EFN expects that growth in Euro countries will reach just 1.9% in 2011 and only 1.7% in 2012, assuming that the crisis in confidence in public finances can be contained. Such a growth rate will not be enough to bring the unemployment rate back below 10%.

It is not all bad news though. The report adds: "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." Furthermore, high demand for industrial production is expected to stimulate growth of around 5.5% in 2011 and 3.5% in 2012.

The EFN expected inflation to remain above the European Central Bank targets at a rate of 2.4% average inflation rate in 2011. As for 2012, "We expect inflation to drop to 1.4% in 2012, due to the ECB policy and easing of pressures in commodity markets."

The report breaks down the Euro countries into three groups:

"...where governments struggle against a crisis of confidence, economies are in recession (Greece, Ireland and, more recently, Portugal) or stagnation (Spain); a strong upswing has developed in Germany and in some smaller countries such as Finland or Austria; and economies such as France and Italy recover slowly from the crisis. In Germany, the share of highly cyclical capital goods in total exports is large. Hence, production suffered a great deal when world trade collapsed two years ago, but now it benefits more from the worldwide upswing."

The report shows the interlinked effects of high commodity prices which led to unrest in the Middle East and North Africa, which was then followed by a rise in the price of oil.

Comparison of Economic Forecasts

	EFN		EU		IMF		ECB		OECD		Consensus	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
GDP	1.9	1.7	1.5	1.8	1.5	na	1.7	1.8	1.7	2	1.6	1.7
Priv. Consumption	1.2	1.5	0.9	1.4	0.9	na	1	1.3	1	1.7	1	1.3
Gov. Consumption	0.1	0.5	-0.1	0.2	-0.2	na	0.1	0.2	0	-0.1	0.3	0.3
Fixed Capital Form.	1.7	5.2	2.2	3.6	1.6	na	1.9	3.1	1.6	2.8	2.8	3.2
Unemployment rate	10	10	10	9.6	10	na	na	na	9.6	9.2	9.9	9.6
HICP	2.4	1.4	1.8	1.7	1.5	na	2.3	1.7	1.3	1.2	2	1.8
IP	5.5	3.6	na	na	na	na	na	na	na	na	4.1	3