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Growth Statistics for Europe Revised Downwards on Low Confidence

The European Forecasting Network has released its quarterly report on Euro area economy, with the latest projected GDP growth rate for 2012 now standing at 0.3%. In the scenarios explored by the research, major insolvencies of banks and countries are avoided through political will to defend the common currency.

Exports and industrial production will not grow as much as previously thought and world trade is only expected to grow by 4% – as opposed to the expected 6%.

Italy and Spain will continue to struggle under high rates on sovereign bonds. The cost of business and consumer borrowing will rise as the European Central Bank makes more stringent demands for banks to hold capital.

Unemployment is currently at 10.3% in Europe and consumption is expected to remain modest throughout the European Winter. However, exports are expanding at a “healthy” pace.

The EFN expects inflation to hold at 1.8% in 2012 and at 1.3% in 2013. Worldwide inflation is also expected to calm down. The liberation of Libya has been a positive factor for Europe, ensuring that oil prices remain steady and do not spark inflation. Interest rates are expected to remain close to 0 for most of 2012.

The report points to two main risks for the world economy – a slowdown in the Chinese economy caused by a busting property bubble, and the confidence crisis in Europe. The bleak outlook in the report makes no room for large shocks to the European economy on the scale of that experienced by Japan after the catastrophic earthquake of 2011.