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Last Updated: Oct 7, 2010 - 12:49:45 PM

European economics institutes expect Eurozone to grow at lower pace

By Finfacts Team
Oct 7, 2010 4:45:42 AM

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Two groups of European economics institutes on Wednesday published quarterly reports on the Eurozone and they both forecast a lower pace of economic activity than was evident in the second quarter.

The Association of Three Leading European Economic Institutes says [in its report](#) (pdf) that Eurozone quarterly GDP picked-up in Q2 (+1.0%), owing to world trade expansion and to a rise in domestic demand. Investment rebounded at a rate of 1.5% in Q2 due to the improved business outlook as well as to a weather-related postponement of construction investment in Q1 2010. GDP growth in the Eurozone is expected to go back to lower pace over the forecast horizon (+0.4% in Q3, +0.3% in Q4 and +0.2% in Q1 2011).

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Private consumption will be flatter (+0.1% per quarter), as the labour market is likely to remain fragile. Furthermore, the boost to income provided by the fiscal stimulus will wane by Q4 in Germany, and is already counter-acted by fiscal consolidation in other Eurozone countries.

Investment should increase further but at a slowing pace: foreign demand is losing momentum and financial market uncertainty increased as a result of the recent sovereign-debt crisis while production capacities remain under-utilized and credit conditions are still restrictive. Moreover, construction investment in Q3 should be dragged down by the counter-effect of the sharp rise in Q2. Under the assumption that the oil price stabilizes at \$77 (currently \$85) per barrel of Brent and that the dollar/euro exchange rate fluctuates around \$1.30 (currently at 1.39) over the forecast horizon, inflation should edge down slightly by December 2010 to 1.7%.

Overall, the pace of the Eurozone recovery is projected to lose momentum over the forecast horizon, due to the deceleration of external demand in a context of fiscal consolidation efforts by national governments. GDP would grow by 0.4% in Q3, 0.3% in Q4 and 0.2% in Q1 2011. **The annual GDP growth in 2010 would amount to 1.7%. This is in line with the IMF forecast issued in their World Economic Outlook report on Wednesday.**

The Association of Three Leading European Economic Institutes comprises the German Ifo institute, the French INSEE institute, and the Italian ISAE institute

SEE: [World economy remains fragile despite forecast growth in 2010 of 4.8% says IMF: Irish GDP growth of -0.3% in 2010 and 2.3% in 2011](#)

The European Forecasting Network (EFN), a research group of European institutions, founded in 2001 on Wednesday published its quarterly report.

The Highlights of the [Autumn 2010 Report](#) (pdf) are:

- The Eurozone economy benefits from dynamic growth of exports to the emerging markets. Exports to Asia in particular have exceeded their peak level of spring 2008 as early as at the beginning of this year. Firms reacted by restocking and investing in equipment.
- The growth hike of the second quarter, however, will not be repeated, as it was favoured by special factors. The group expects Eurozone GDP to grow by around 1.6% in 2010 and 2011. The upswing of world trade calms down in the second half of this year and the effects of fiscal consolidation in Europe become increasingly felt.
- For these reasons, the boom of industrial production is coming to an end. Annual growth rates have been declining since May and are expected to continue to do so in the next months. The Industrial Production Index will grow more than 6% in 2010 but by only 1.3% in 2011.
- The production of intermediate goods is expected to slow down faster than other sectors while the production of capital goods will remain strong throughout 2010.
- The possibility of an intensifying crisis of confidence in the Eurozone is a significant downward risk for this forecast. That said, EFN noted that it is reassuring that financing costs recently receded for Spain, by far the largest among the peripheral states.
- Inflation expectations are well anchored and consumer prices are evolving according to our projections without major shocks in the non-energy components. Annual inflation rates are expected to reach 2.0% at the end of the current year and to stabilize soon after at around 1.8%.

The EFN comprises:

- RSCAS, European University Institute (EUI), Italy
- Centre d'Etudes Prospectives et d'Informations Internationales (CEPII), France
- University of Birmingham, Department of Economics
- The Halle Institute for Economic Research (IWH), Germany
- The Department of Economics, European University Institute (EUI), Italy
- Anàlisi Quantitativa Regional (AQR), Universitat de Barcelona
- Instituto Flores de Lemus (IFL), Universitat Carlos III, Madrid, Spain
- Department of Applied Economics (DAE), University of Cambridge, UK

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