

## The recovery continues amid risks

The recovery in the Eurozone is expected to continue at a moderate pace. Real gross domestic product is estimated to increase by 1.5% in 2015, and by 0.4% in comparison to the previous quarters in both Q1 and Q2 2016. Private consumption is set to continue to be the main driver behind the upturn, stimulated by a renewed drop in oil prices and higher earnings on labour. In addition, expansive stimuli from fiscal policy, mainly in Germany, are expected to raise public consumption. Favourable financing conditions and rising capacity utilization are expected to give a lift to total investment in the first two quarters in 2016. Assuming a fixed oil price at 35\$ per barrel and a stabilization of the €/€ exchange rate at 1.08 in the coming quarters, inflation is expected to increase moderately and reach +0.4% in Q2 2016.

### Modest increase of industrial production

Industrial production in the Eurozone lost momentum in the spring 2015 – it expanded by 0.1% in Q3 after contracting by 0.1% in Q2. The previous two quarters have been much more buoyant. This deceleration mainly reflects a slowdown of activity in emerging countries in the first half of 2015, followed by an increase in uncertainty and a downward revision of growth prospects in these economies.

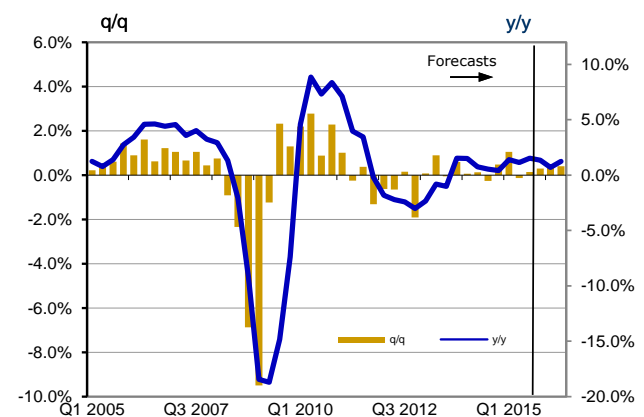
Industrial production is foreseen to moderately accelerate in Q1 and Q2 2016 according to the improvements in business surveys. External demand is likely to slightly improve as well, as a sudden stop in China is becoming less probable and the expansion of the US economy is expected to regain momentum. All in all, industrial production is forecasted to accelerate by 0.3% in Q4 2015 and by 0.4% in both Q1 and Q2 2016.

### Real GDP expands at moderate rates

The pace of real GDP growth slightly decreased in Q3 2015 to 0.4% after an increase of 0.5% in Q2 2015. Even the robust expansion in private (+0.4%) and public (+0.6%) consumption did not offset the slowdown in economic activity. The main factor driving the latter was the drop in the pace of expansion in gross capital investment (0.0%) and exports (+0.2%).

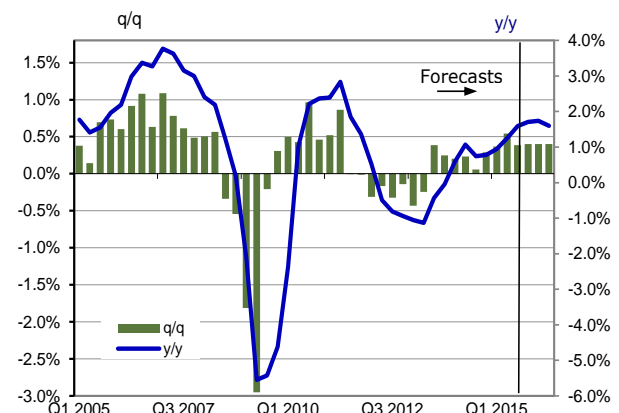
Over the forecasting horizon, domestic demand is set to boost economic activity mainly driven by solid private and public consumption. Due to the latest fall in oil prices, as well as rising employment and wages, real income is expected to stimulate household consumption. In Q4 2015 however, the latter should be slightly weakened by the fears the deadly terror attacks on 13 November in Paris have caused. Conversely, fiscal and social policy is providing positive impulses, mainly due to the expansion in German government spending on consumption and transfers in response to the migration of refugees.

**FIGURE 1 | Eurozone Industrial Production Index**  
sa-wda



Source: Eurostat and Ifo-Insee-Istat forecasts

**FIGURE 2 | Eurozone GDP Growth**  
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Source: Eurostat and forecasts Ifo-Insee-Istat

In presence of low level of inflation, the European central bank continues to follow non-standard and expansive monetary policy. In this environment both capital market and borrowing rates are expected to remain low over the forecasting period. Favourable financing conditions and rising capacity utilisation rates will make increasing levels of investment in equipment and in construction all the more likely in the coming quarters. Net exports are not expected to provide any sizeable stimuli to production: with a slight acceleration in global trade in the coming quarters, external demand for European products is set to improve, but the effect should be outweighed by the faster expansion in imports due to the strong domestic demand.

Overall, real gross domestic product is set to expand in Q4 2015 and in the first two quarters of 2016 at a similar rate (+0.4%).

### Inflation slowly increases

Consumer prices are set to stay unchanged in 2015, curbed mainly by the fall in energy prices. Provided that the exchange rate and oil price stay constant at 1.08 dollar per euro and 35\$ per barrel respectively, the oil price is expected to have less of a constraining impact on consumer prices in 2016. The latter should gradually be driven up by domestic forces and prices are expected to increase by 0.5% and 0.4% in Q1 and Q2 2016, respectively.

### Risks

On the downside, an escalation in the conflicts in the Middle East could unsettle consumers, producers and investors across the world. In such a scenario oil prices could easily surge, since many Middle Eastern countries are among the world's largest oil producers. There are also risks related to the ongoing structural transformation of the Chinese economy, from an export- and investment-driven economy to a consumption-driven one. A spluttering of the transformation process, or even a not-so-smooth running of it, may once again lead to capital outflows from the emerging countries. This, in turn, may cause strong financial market turbulence; or even exchange rate crises. On the upside, imports of emerging economies could accelerate more sharply than currently projected in a reaction to their steep fall in early 2015.

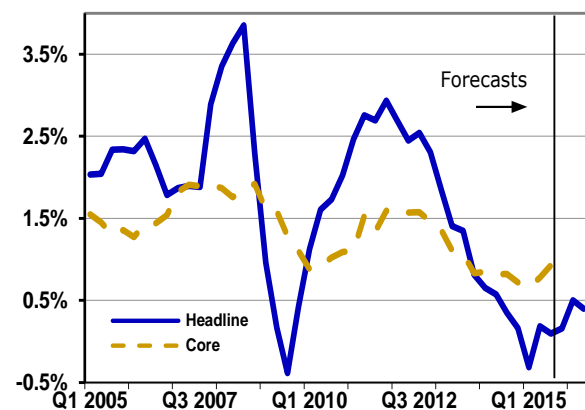
TABLE 1 | Forecasts 2015/2016

% changes, seasonal and working day adjusted

	Q4/2015		Q1/2016		Q2/2016		2015 average
	q/q	y/y	q/q	y/y	q/q	y/y	
IPI	0.3	1.3	0.4	0.7	0.4	1.2	1.3
GDP	0.4	1.7	0.4	1.7	0.4	1.6	1.5
Consumption	0.4	1.6	0.5	1.7	0.5	1.8	1.7
Investment	0.3	1.9	0.4	0.8	0.5	1.2	2.2
Inflation		0.2		0.5		0.4	0.0

Source: Eurostat and Ifo-Insee-Istat forecasts

FIGURE 3 | Eurozone Inflation (HICP) (y-o-y)



Source: Eurostat and Ifo-Insee-Istat forecasts

### Methodological note

This quarterly publication is prepared jointly by the German IFO institute, the French Insee institute, and the Italian Istat institute. The forecast results are based on consensus estimates building on common macroeconomic forecast methods by the three institutes. They are based on time-series models using auxiliary indicators from business surveys by national institutes, Eurostat, and the European Commission. The joint three-quarter forecast covers Eurozone industrial production, GDP, consumption, investment, and inflation. Further economic analysis for each country (Germany, France and Italy) is available by:

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