

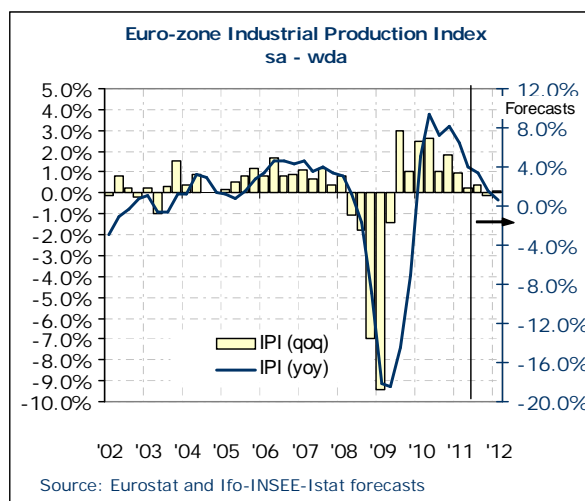
Growth outlook deteriorates in the Euro-zone

After a sharp slowdown in Q2, real GDP growth in the euro area is expected to remain subdued until Q1 2012. The loss in GDP momentum owes to a stronger than expected weakening in global demand and self-reinforcing negative impulses from the following: the deepening of the sovereign debt crisis, financial markets turbulence and a worsening of business and consumer confidence. This deterioration of the economic climate is weighing on domestic and external demand. Investment is projected to grow slowly in the next quarters as a result of weak economic fundamentals and financial market tensions. Private consumption growth will also remain fragile over the forecast horizon, in a context of precautionary savings and lacklustre real disposable income. Under the assumption that oil price stabilizes at USD 110 per barrel (in Q4 and Q1 2012) and that the euro/dollar exchange rate fluctuates around 1.37, inflation is expected to decelerate sharply over the forecast horizon.

Slowdown in industrial production

During the Summer 2011, business and consumer confidence deteriorated sharply in the Euro area owing to mounting tensions on financial markets and fiscal consolidation in most Member States. The positive impulse from external demand is also expected to be limited over the forecast horizon due to tight fiscal and monetary policies in most emerging markets and the stalling recovery of the US economy .

Yet, industrial production rebounded in July, but partly because of the exceptionally late start of the Summer holidays in Germany. All in all, industrial production is seen to expand by 0.4 % in Q3 2011. Looking ahead, given the deterioration in business confidence and new orders outlook, the output is expected to stagnate in Q4 2011 and Q1 2012.

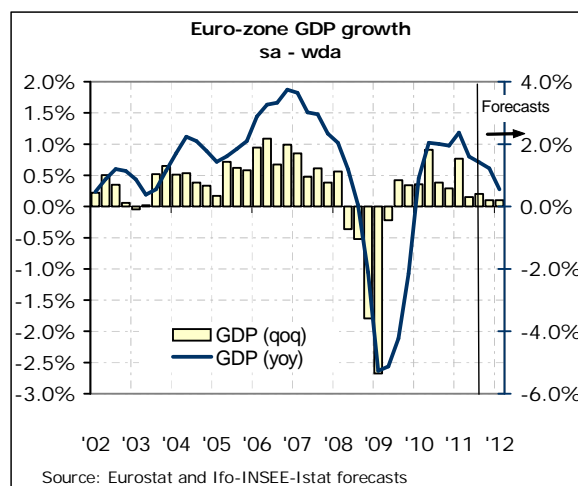


GDP losing momentum

In line with the projected slowdown in industrial production, we forecast GDP growth to stabilize in Q3 and to remain flat in Q4 and in the first quarter of 2012. This result reflects both subdued world trade growth and weak domestic demand as expected from the worsening business and consumer confidence.

Labour market conditions continue to be unfavourable and the rate of growth of nominal wages is expected to remain limited. Besides, fiscal consolidation in some Member States is expected to weigh on household's income.

Consequently, despite the deceleration in headline inflation projected over the next quarters, real disposable income would grow only modestly. Therefore, as indicated by the worsening of consumer expectations, private consumption growth is expected to be subdued over the forecast horizon.



After a decline in Q2, private consumption would slightly rebound in Q3 and almost stagnate in Q4 and Q1 2012.

Both equipment and construction investment are expected to suffer from increased uncertainty about the economic outlook. Accordingly, investors are likely to postpone previously planned investment projects. The recent turmoil in the European sovereign bond market should entail a tightening in credit standards, although there are no such clear indications yet. A more restrictive credit supply would further weigh on private investment.

Overall, after a strong rebound in the first quarter of 2011 and a correction in Q2 in the housing sector, total investment would expand modestly over the forecast horizon.

Inflation declining in the next quarters

In September, consumer prices rose by 3% year on year, up from 2.5% in August. However, this increase mainly reflects the impact of seasonal factors on non-energy industrial goods inflation. Over the next quarters, inflation gyration will continue to stem mainly from the energy component.

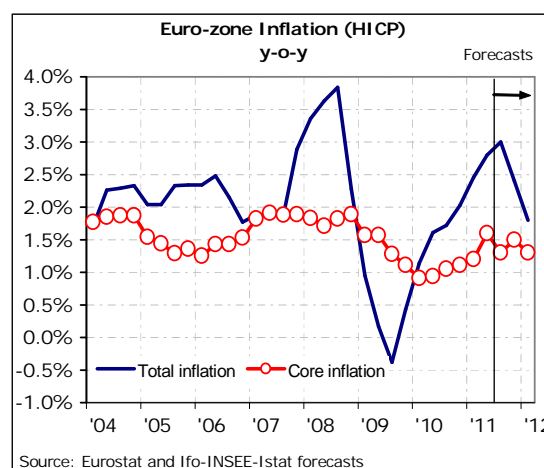
Looking ahead, inflation is expected to slow down moderately at the end of the year with a faster deceleration in the first quarter of 2012. This reflects the assumption that the Brent oil price hovers around US\$ 110 per barrel over the forecast horizon and the US\$/euro exchange rate stabilizes at 1.37.

Annual HICP inflation is seen to decrease to 2.4% in December and hit 1.8% in March 2012, reflecting, among other factors, the baseline effect of last year's oil price increases. In the absence of second round effects, non-energy price pressures are expected to remain subdued. Consequently, core inflation is forecasted to remain quite stable, fluctuating between 1.3% and 1.5% in the next two quarters.

2011/12 Forecasts, % changes, sa - wda

q-o-q y-o-y	Q3 - 2011 forecasts	Q4 - 2011 forecasts	Q1 - 2012 forecasts	2011 average
IPI	0.4 3.4	-0.1 1.5	0.1 0.7	3.9
GDP	0.2 1.4	0.1 1.2	0.1 0.6	1.6
Consumption	0.2 0.5	0.1 0.2	0.1 0.2	0.5
Investment	0.3 2.1	0.2 2.5	0.2 0.9	2.5
Inflation*	3.0	2.4	1.8	2.6

Source: Eurostat and Ifo-INSEE-Istat forecasts, *end of period



The pass-through of higher commodity prices will continue to be dampened by a negative growth outlook and persistent labour market weakness.

Methodological note

This quarterly publication is prepared jointly by the German IFO institute, the French INSEE institute, and the Italian ISTAT institute. The forecast methods are shared by the three institutes. They are based on time-series models using business surveys by national institutes, Eurostat, and the European Commission. The joint two-quarter-ahead forecast covers euro-zone industrial production, GDP, consumption, investment, and inflation. Publication is timed to coincide with Eurostat's third release of quarterly national accounts.

Further economic analysis for each country (Germany, France, Italy) is available by:

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Next release: January 7, 2012 (date of Eurostat's third release of quarterly national accounts)

Next forecast horizon: 2012 Q2