

April, 8<sup>th</sup> 2015

## A CHANGE OF PACE IN SIGHT

In the Eurozone, activity picked up by 0.3% in Q4 2014, after moderately expanding in Q3 (+0.2%). The recovery in production is expected to continue. GDP is to slightly accelerate in Q1 2015 (+0.4%) and then continue to expand at the same rate over the following quarters. The driving forces of the upturn will be a significant pick up in net exports and a robust growth of private consumption over the forecast horizon, driven by weaker energy prices. Labour market conditions will continue improving, boosting marginally real disposable income and private consumption. Easing of credit conditions, improving prospects for internal demand and the need to replace an ageing capital stock will lead to a modest investment speedup in the first three quarters of 2015, from +0.2% in Q1 to +0.5% in Q3. Under the assumption that Brent oil price remains stable at 56 USD per barrel and the Euro/Dollar exchange rate fluctuates around 1.10, inflation is expected to fall to -0.3% in Q1 2015. This drop reflects diminishing pressures from global commodity prices and weaker energy prices, but also still low prospects for core inflation. Inflation is to be broadly stable in Q2 and Q3. This forecast assumes that an agreement between Greece and its creditors will preserve the Eurozone currency bloc stability but the outlook would otherwise be grimmer. On the positive side, the ECB's QE may have larger effect on investment growth than supposed in this forecast.

### Stable expansion in industrial production

Following the slowdown in economic activity in Q2 and Q3 2014, industrial production accelerated in the last quarter of 2014 (+0.4%).

Recent business surveys for the Eurozone depict a continuation of the current path. These surveys report slightly increasing output for all sectors but construction, where activity is to remain unchanged.

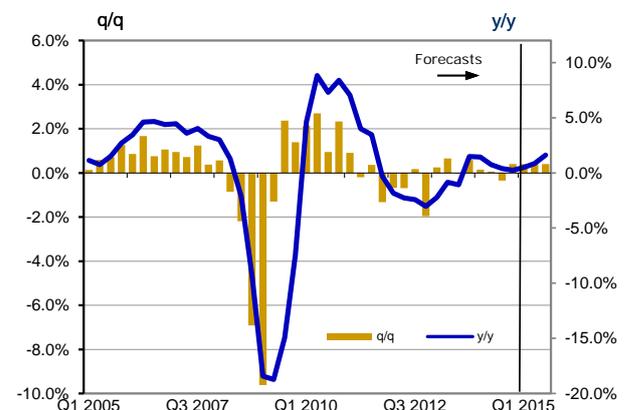
Industrial production is expected to expand at an equal pace in Q1 2015 and the following two quarters (+0.4% per quarter), on the back of brightening prospects for both external and internal demand.

### Moderate upswing in GDP

Euro area GDP marginally picked up in the fourth quarter of 2014 (+0.3% after +0.2% in Q3), driven largely by robust, albeit low pace of, expansion in private consumption and net exports. Improvement in the foreign trade balance and faster growth in investment in several Eurozone economies also contributed to the rise in output. The unexpected strong acceleration in activity in Germany and a still vigorous growth in Spain were the main contributors to the Eurozone growth.

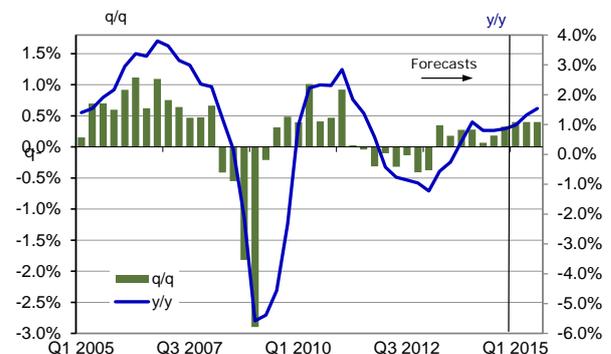
As suggested by the business and consumer surveys, economic activity is likely to slightly accelerate in the first quarter of 2015 (+0.4%), helped by the fall in oil prices and the depreciation of the Euro. The oil price in euros has dropped by over 37% since last June. This decline cheapens Eurozone energy imports and significantly improves the income of firms and households. Also, the decision of the European Central Bank in January 2015 to further ease its monetary stance has led to sizable depreciation of the Euro in real effective terms, which in turn will improve the competitiveness of Eurozone exports.

FIGURE 1 | Eurozone Industrial Production Index sa-wda



Source: Eurostat and Ifo-Insee-Istat forecasts

FIGURE 2 | Eurozone GDP Growth sa-wda



Source: Eurostat and forecasts Ifo-Insee-Istat

GDP is forecasted to continue to grow at a constant pace over the first three quarters this year (+0.4%). With a moderate recovery ahead, labour market conditions are expected to continue healing over the forecast horizon. Employment is expected to grow at a low pace. Given the combination of nominal wage rises, notably in Germany, improving financing conditions in most countries, and the decrease in energy prices, households' real disposable income will rise and boost private consumption. The latter is expected to grow at a robust pace (+0.5%) in the first three quarters of 2015.

The need to renew production capacity after a marked phase of adjustment is expected to stimulate the recovery in equipment investment. In the construction sector, the drop in investment is projected to stop. Total investment is thus expected to moderately gain momentum over the forecast horizon (+0.2% in Q1 2015, +0.4% in Q2 and +0.5% in Q3).

### Inflation inverting its trend

In Q4 2014, headline inflation continued to moderate to +0.2%, down from +0.4% in Q3. This reflects diminishing pressures from global commodity prices and the steep fall in oil prices since June, but also a still low level of core inflation.

Given a moderate improvement in economic activity in the coming months and under the assumptions that oil price stabilizes at 56 USD per barrel for Brent and the Euro/Dollar fluctuates around 1.10, headline inflation is projected to bottom out at -0.3% in Q1 2015; prices are then expected to be broadly stable in Q2 (-0.1%) and Q3 (+0.1%).

### Risks

On the upside lie a further depreciation of the Euro and a greater fall in oil price, which should additionally stimulate internal and external demand, as well as larger than expected real effects of the ECB's extended asset purchase programme. On the downside lie risks stemming from geopolitical uncertainty in the Middle East and Ukraine and the negotiation between Greece and its creditors, with the latter risk jeopardizing the stability of the Eurozone currency bloc.

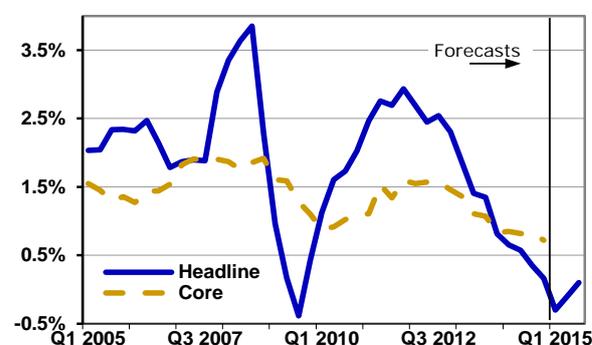
TABLE 1 | Forecasts 2015

#### 2015 Forecasts, % changes, sa - wda

q/q	Q1 - 2015	Q2 - 2015	Q3 - 2015	2015
y/y	forecasts	forecasts	forecasts	overhang
IPI	0.4 0.5	0.4 0.9	0.4 1.6	1.0
GDP	0.4 1.0	0.4 1.3	0.4 1.5	1.3
Consumption	0.5 1.7	0.5 2.0	0.5 2.0	1.8
Investment	0.2 0.6	0.4 1.0	0.5 1.5	0.8
Inflation	-0.3	-0.1	0.1	-0.1

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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Next release: July 7<sup>th</sup>, 2015 | Next forecast horizon: 2015 Q4