

July, 7<sup>th</sup> 2015

## Recovery spreading

In Q1 2015, economic activity in the Eurozone sustained its growth momentum (+0.4%). Real domestic product is set to grow at a similar pace in Q2 (+0.4%) and accelerate slightly through the end of 2015 (+0.5% in Q3 and Q4), mainly driven by domestic demand. Growth is expected to average +1.4% in 2015, after +0.9% in 2014. Production should be driven primarily by a robust household consumption, as well as by an acceleration in productive investment. The labour market situation is expected to gradually improve and the unemployment rate is set to slowly reduce. This should encourage an upturn in real wages over the year and, along with a rise in employment, incur purchasing power gains substantial enough to maintain the momentum in household consumption. Under the assumption that Brent oil price remains stable at 65 USD per barrel and the dollar/euro exchange rate fluctuates around 1.12, inflation is projected to accelerate slightly to 0.2% in Q2 2015, and to reach +0.9% by the end of the year. This forecast is based on the assumption that, despite the “no” victory in the Greek referendum, the stability of the eurozone will be preserved.

### Slowdown in industrial production

Industrial production accelerated in the first quarter of 2015 (+0.9%), but its performance fell short of this recent dynamic development in April (+0.1%).

Latest business surveys for the Eurozone point towards a deceleration, underlining less optimistic expectation assessments of order-book levels.

Industrial production is expected to decelerate in Q2 2015 (+0.3%), before accelerating again in the following two quarters (+0.5% per quarter), on the wake of brightening prospects for external and internal demand.

### Upswing in GDP

In the Eurozone, the business climate has kept to a higher level than its long-term average, suggesting a positive short term outlook and a steady expansion pace in Q2 as in Q1 (+0.4%). Household consumption is expected to remain dynamic (+0.4% in Q2 after +0.5% in Q1), sustained by the upturn in household purchasing power. Foreign trade should also sustain growth: imports, which were increased substantially in Q1, particularly in France and Germany, are set to slow in a backlash effect. Moreover, exports are expected to accelerate over the forecast horizon. Conversely, investment in construction should drop again - becoming the only major brake to growth – particularly in France and Italy (where the crisis in construction is not over), but also in Germany (where the drop would be a correction of two consecutive strong quarters).

FIGURE 1 | Eurozone Industrial Production Index sa-wda

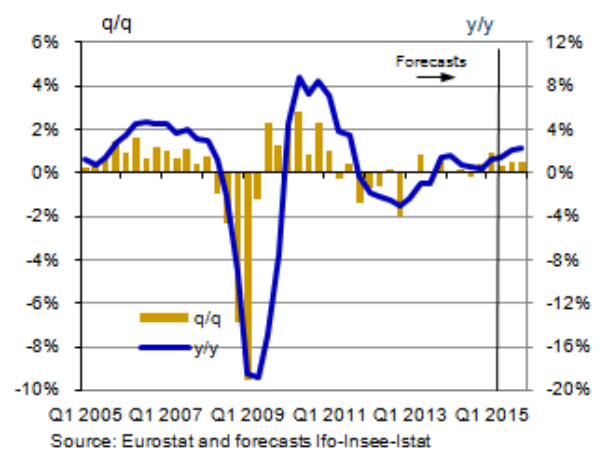
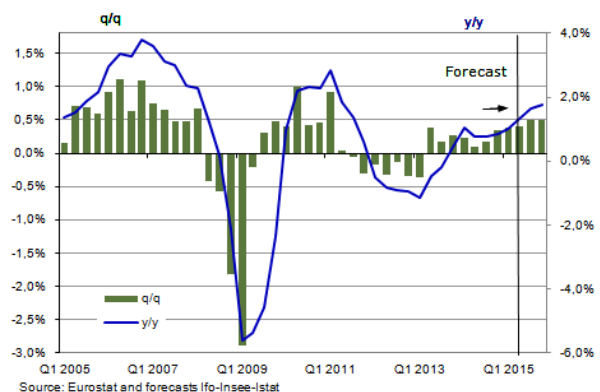


FIGURE 2 | Eurozone GDP Growth sa-wda



In H2, growth is forecast to slightly increase (+0.5% per quarter), driven by domestic demand. Firstly, productive investment is likely to be buoyed up by the recent upturn in activity and brightening prospects and should gradually accelerate. Secondly, the labour market situation is set to improve in the Eurozone and the unemployment rate is expected to reduce. This should boost real wages over the year and, along with a rise in employment, incur purchasing power gains substantial enough to maintain the momentum in household consumption.

By country, the situation remains heterogeneous: household consumption is expected to continue to rapidly increase in Spain and to remain sustained in Germany, whereas consumption in France and in Italy are expected to expand moderately.

### Inflation on the rise

The past fall in oil prices led to a one-off decline in prices in Q1 2015 (-0.3%). Since this effect will gradually fade over the year ahead, particularly with a slight pick up in the price of oil expected in Q2, headline inflation is set to recover over the course of the year also thanks to the acceleration in economic activity, reaching +0.9% by the end of 2015.

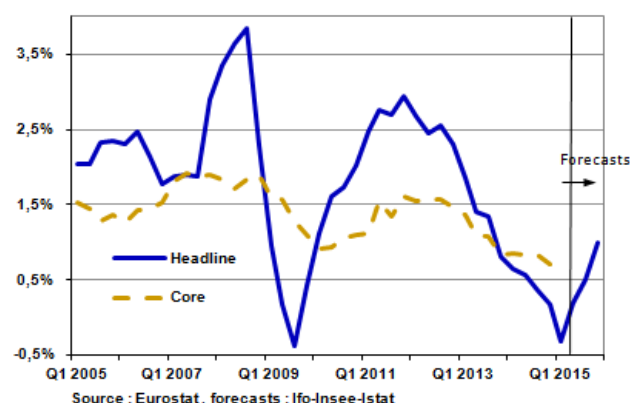
### Risks

On the upside, the risk of a new fall in oil price would further stimulate internal demand; the same effect may be induced by a larger than expected ECB's extended asset purchase programme. On the downside lie the risks stemming from the negotiation between Greece and its creditors: a failure of the negotiation could jeopardize the stability of the Eurozone currency bloc.

TABLE 1 | Forecasts 2015

2015 Forecasts, % changes, sa - wda					
q/q	y/y	Q2 - 2015 forecasts	Q3 - 2015 forecasts	Q4 - 2015 forecasts	2015 Year average
IPI	0.3	1.4	2.1	2.2	1.8
GDP	0.4	1.3	1.6	1.8	1.4
Consumption	0.4	1.8	1.8	1.9	1.8
Investment	0.3	1.6	2	2.3	1.7
Inflation	0.2	0.5	0.5	0.9	0.3

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



### 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:

- Ifo Konjunkturprognose, Ifo Atanas Hristov +49 (0) 89 92 24 1228
- Conjoncture in France, Insee Aurélien Fortin +33 (0) 1 41 17 59 63
- Istat Marco Fioramanti +39 06 46 73 63 03

**Next release: October 6<sup>th</sup>, 2015 | Next forecast horizon: 2016 Q1**