

Brussels, 14 September 2009

EU interim forecast: coming out of recession but uncertainty remains high

The economic situation has improved markedly since the second quarter, pointing to a better growth outlook for the second half of the year. But as economic activity at the end of 2008 and beginning of 2009 was worse than initially estimated, GDP is still expected to fall by 4% overall this year in both the EU and the euro area, as forecast in the spring. However, uncertainty remains rife, and while the recovery may surprise on the upside in the very short term, how sustainable it will be remains to be seen. The Commission's forecasts for inflation in 2009 also remain unchanged at 0.9% in the EU and 0.4% in the euro area, with the base effects of past hikes in energy and food prices, which were pushing prices down, fading away and no other significant inflationary pressures in view.

"The situation has improved – mainly due to the unprecedented amounts of money pumped into the economy by central banks and public authorities – but the weak economy will continue to take its toll on jobs and public finances. We need to continue implementing the recovery measures announced for this year and 2010 and accelerate the repair of the financial sector to make sure banks are ready to lend at reasonable terms when companies and households resume their investment plans. And we need to define a clear, credible and coordinated 'exit' strategy to put public finances progressively back on a sustainable path and to find the necessary resources to increase Europe's growth and jobs potential," said Joaquín Almunia, Economic and Monetary Affairs Commissioner.

Tailwinds have gained strength during the summer, as the global economy has started to stabilise, partly as a result of strong policy interventions. Helped by improved financial conditions, the fall in EU GDP slowed significantly in the second quarter (to -0.2% quarter-on-quarter (q-o-q) from -2.4% in the first quarter of 2009). With the inventory cycle at a turning point and confidence improving in almost all sectors and countries, the near-term outlook is favourable.

Based on these trends, growth projections for the second half of this year have been revised slightly upward in the Commission's forecast. But because of downward revisions to the previous estimates for 2008 and the first quarter of 2009, the rate of the projected fall in GDP in 2009 as a whole remains unchanged at 4% in both the EU and the euro area. This is calculated on the basis of updated projections for France, Germany, Italy, the Netherlands, Poland, Spain and the United Kingdom, which together account for about 80% of the EU's GDP.

External conditions increasingly favourable

The global economy is no longer in freefall. Recent data for trade and industrial production, as well as business and consumer confidence, are encouraging. Emerging Asia appears to be leading the recovery, with growth in China remaining robust, while the contraction in the US has also levelled out. The stimulus package and net exports are expected to allow the US to return to positive growth from the third quarter onwards. Overall, the projected drop in world GDP in 2009 is halved in this update (from -1.4% in the spring forecast to -0.7%). But how sustainable the global recovery will be and what shape it will take are still highly uncertain.

Turning to Europe, there are reasons to be moderately optimistic about the short-term outlook. Beyond the improved external outlook and more favourable financing conditions, both private and public consumption have held up well, while the inventory correction is advancing and high-frequency indicators point to a certain recovery in the coming quarters. This is partly due to sizeable stimulus measures, some of which have yet to be implemented later this year, in several Member States. However, the full impact of the crisis on labour markets and public finances is still to come, and the correction in housing markets continues to hold back construction investment in several countries. The recovery may therefore prove volatile and sub-par further down the line.

Inflation now at a low

The rate of consumer-price inflation declined in the first half of 2009, reaching a trough of 0.2% in July in the EU (and as low as -0.7% in the euro area), pushed down mostly by the reversal of past hikes in energy and food prices. But with this effect coming to an end and commodity prices moving higher, the inflation rate is set to increase towards the end of the year. However, there are no domestic inflationary pressures as there is still substantial slack in the economy and wage growth is expected to decelerate. Taken together, the forecast for inflation remains unchanged from the spring forecast at 0.9% in the EU in 2009 (and 0.4% in the euro area).

Risk assessment

The risks to the growth outlook for 2009 appear broadly balanced. On the downside, further adverse feedback loops between a slowly recovering real sector and a still fragile financial sector cannot be ruled out. On the upside, policy interventions may be more effective than expected in sustaining demand, improving sentiment and restoring the soundness of the financial sector.

The risks to the inflation outlook also appear largely balanced. Higher commodity prices and improving economic conditions suggest some upside risks, balanced by considerable slack in the economy which may hold down inflation more than expected.

More detailed report available on:

http://ec.europa.eu/economy_finance/thematic_articles/article15857_en.htm

Table 1: Real GDP growth

	Quarterly GDP forecast (%, quarter-on-quarter) 2009				Annual GDP forecast (%, year-on-year) 2009	
	2009/1	2009/2	2009/3	2009/4	<i>Spring forecast May 2009</i>	<i>Interim forecast Sep. 2009</i>
Germany	-3.5	0.3	0.7	0.1	-5.4	-5.1
Spain	-1.6	-1.1	-0.4	-0.2	-3.2	-3.7
France	-1.3	0.3	0.4	0.3	-3.0	-2.1
Italy	-2.7	-0.5	0.2	0.1	-4.4	-5.0
Netherlands	-2.7	-0.9	-0.4	0.0	-3.5	-4.5
Euro area	-2.5	-0.1	0.2	0.1	-4.0	-4.0
Poland	0.3	0.5	0.1	0.0	-1.4	1.0
United Kingdom	-2.4	-0.7	0.2	0.5	-3.8	-4.3
EU27	-2.4	-0.2	0.2	0.1	-4.0	-4.0

Note: the quarterly figures are working-day and seasonally adjusted, while the annual figures are unadjusted.

Table 2: Consumer price inflation

	Quarterly HICP forecast (%, year-on-year) 2009				Annual HICP forecast (%, year-on-year) 2009	
	2009/1	2009/2	2009/3	2009/4	<i>Spring forecast May 2009</i>	<i>Interim forecast Sept. 2009</i>
Germany	0.8	0.2	-0.2	0.6	0.3	0.3
Spain	0.5	-0.7	-0.8	0.9	-0.1	0.0
France	0.7	-0.2	-0.6	0.2	0.2	0.0
Italy	1.4	0.9	0.1	1.1	0.8	0.9
Netherlands	1.8	1.6	-0.1	1.2	1.4	1.1
Euro area	1.0	0.2	-0.3	0.7	0.4	0.4
Poland	3.6	4.3	4.2	3.3	2.6	3.8
United Kingdom	3.0	2.1	1.3	1.1	1.0	1.9
EU27	1.6	0.9	0.3	0.9	0.9	0.9