European Commission

EUROPEAN ECONOMIC FORECAST

Winter 2018 (Interim)

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Key messages from the Winter 2018 (Interim) Forecast

1. Growth is back! The cyclical upturn is stronger than most forecasters had expected.

2. Growth is set to last! The expansion is set to continue with GDP growth of 2.3% in 2018 and 2.0% in 2019 in the euro area.

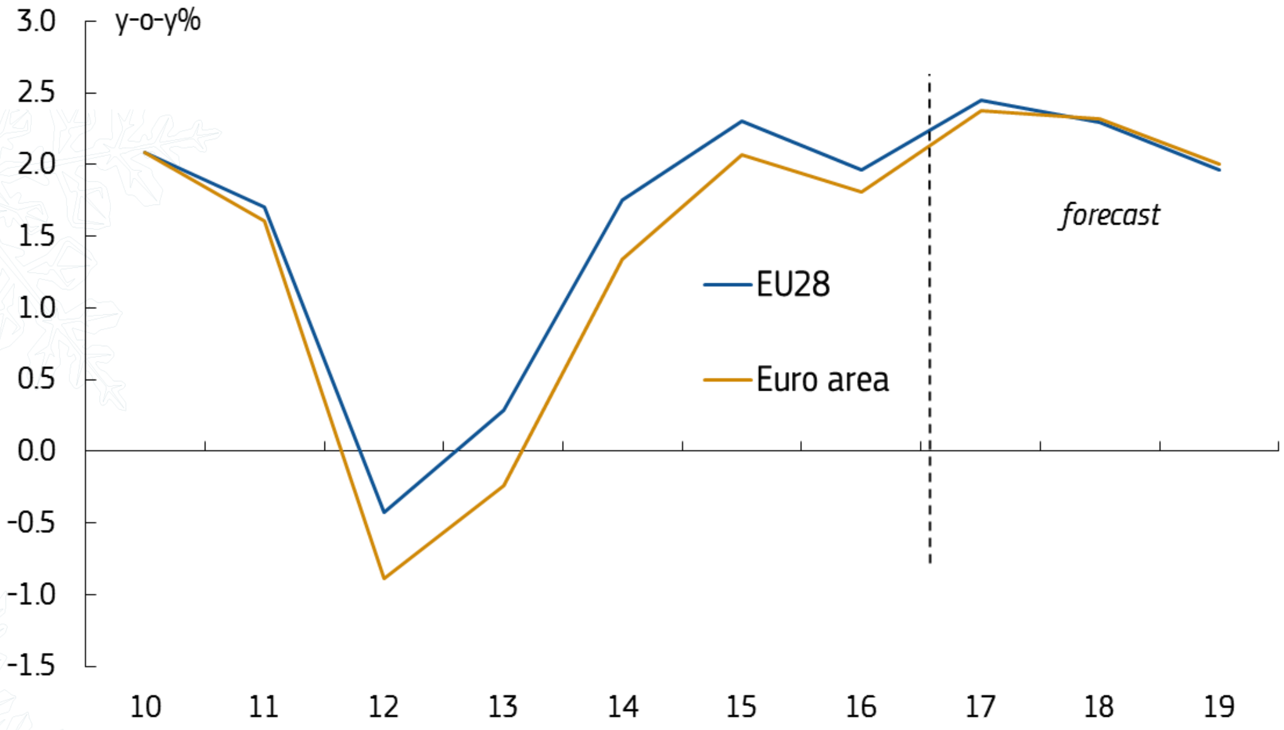
3. The labour market situation is improving, but there is room for the expansion to continue.

4. Inflation is set to move up only very moderately by the end of 2019.

5. In the near term, upside risks to growth dominate; overall risks are balanced.

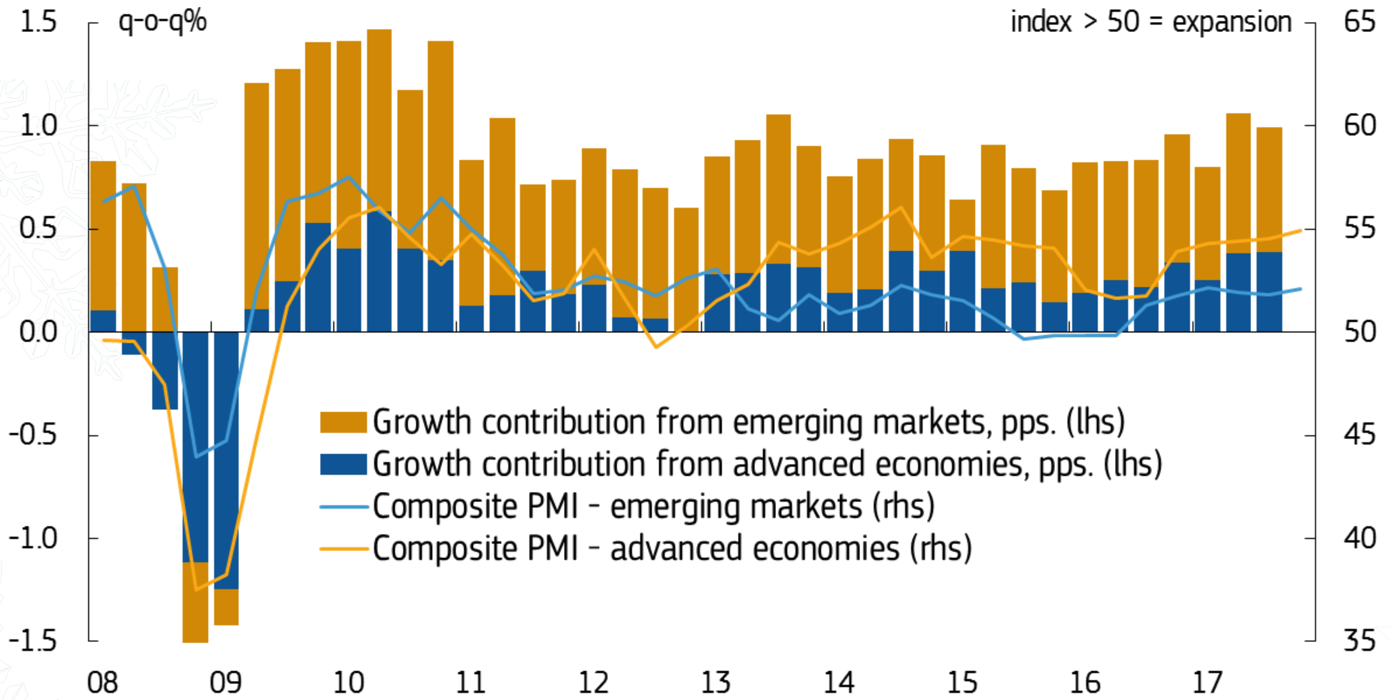
A solid and lasting expansion

Real GDP, euro area and EU28



The global economy is enjoying a synchronised upturn

Growth in global GDP and JP Morgan Global Composite PMI



Sources: Data Insight, IMF and national statistical institutes for GDP, JPMorgan/Markit for PMI.

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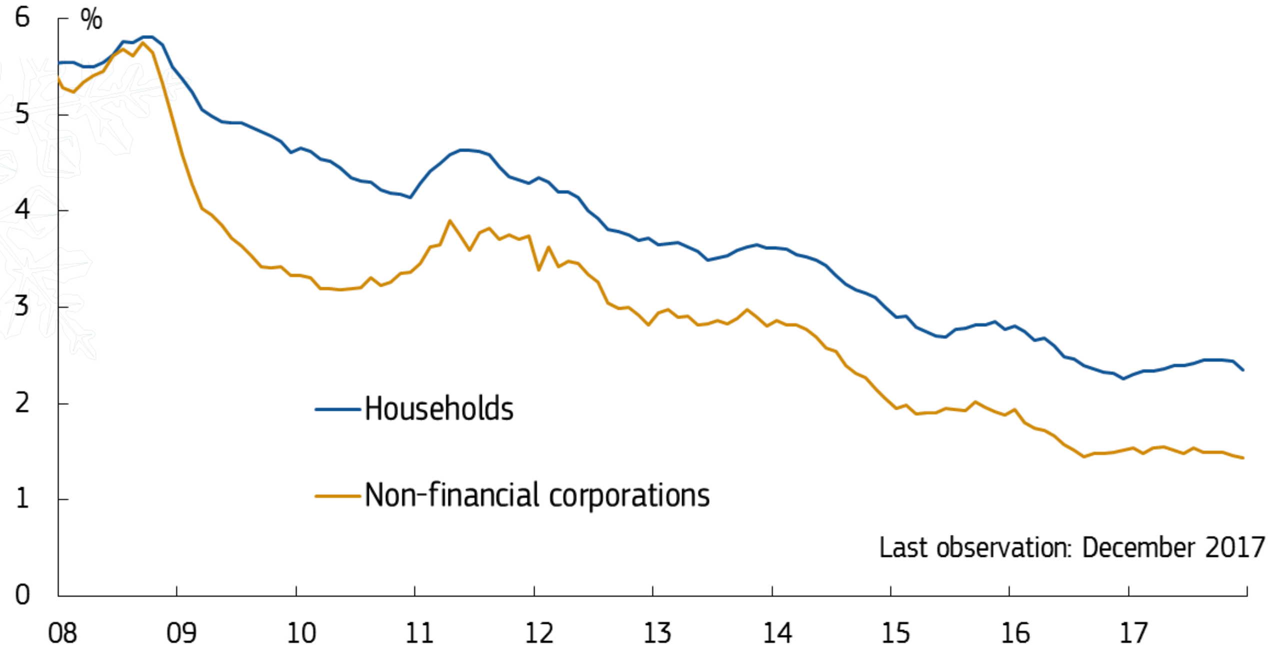
Monetary policy is keeping financing costs low

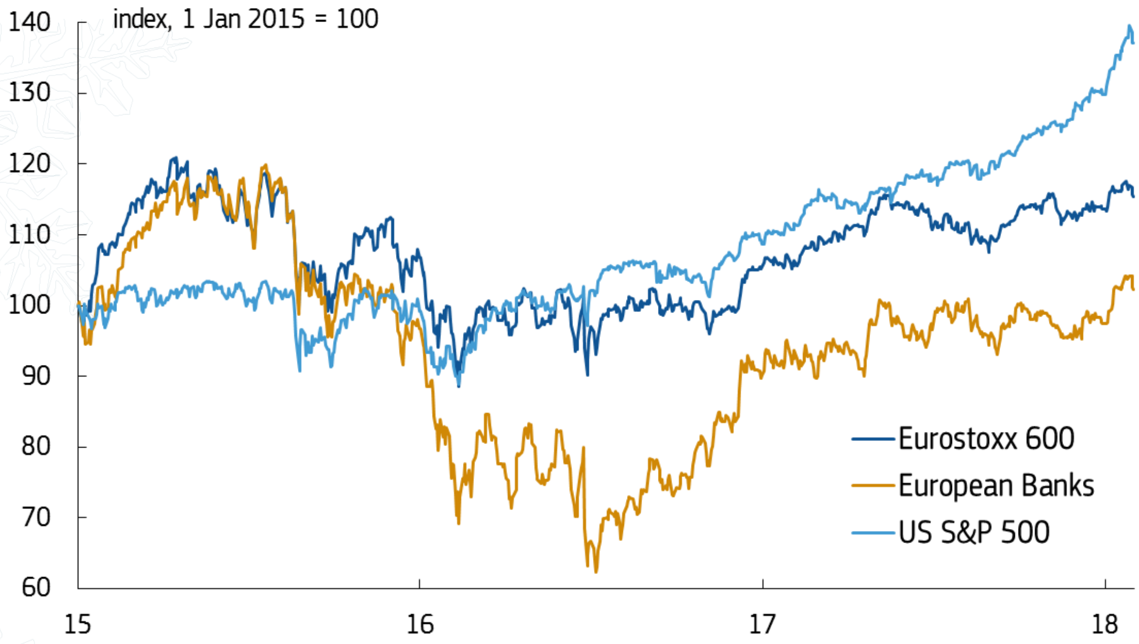
Composite credit cost indicators, euro area



Sources: ECB, Bloomberg, own calculations

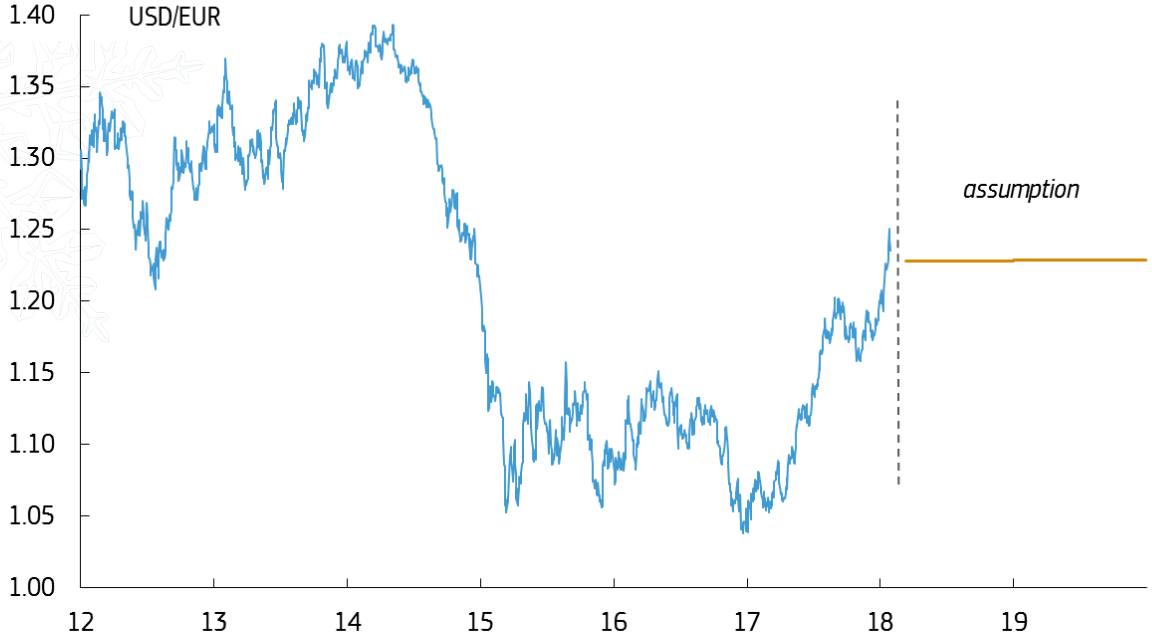
Optimism drove financial markets in the past months

European financial stocks by sector



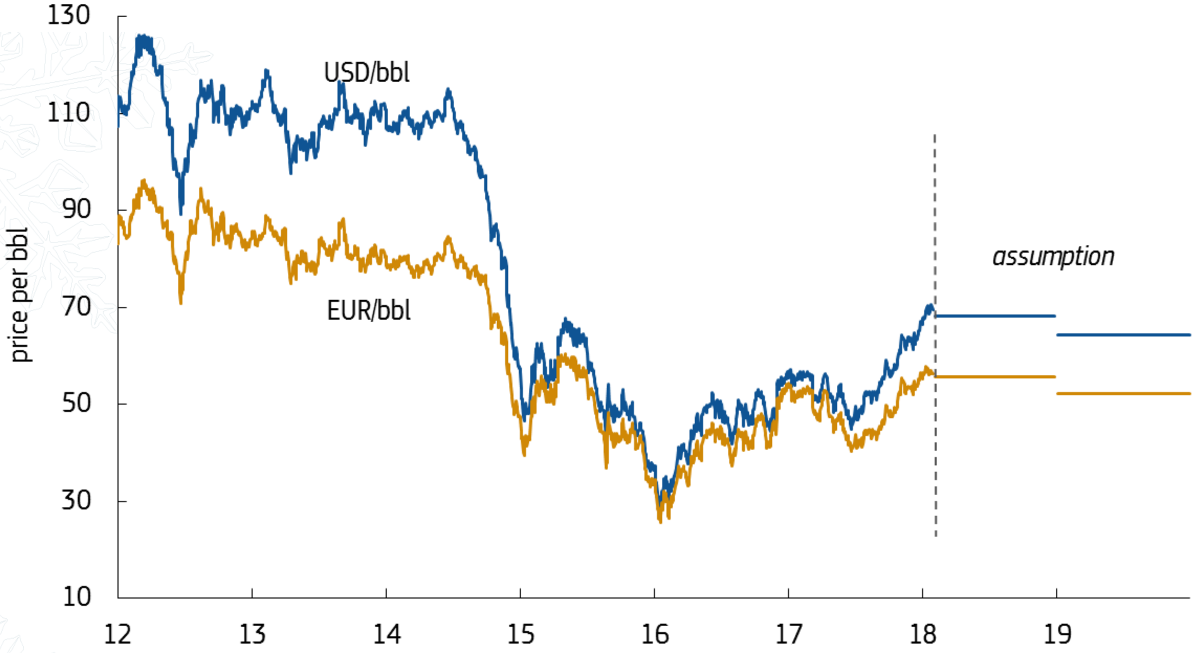
A stronger euro...

Exchange rates, developments and assumptions



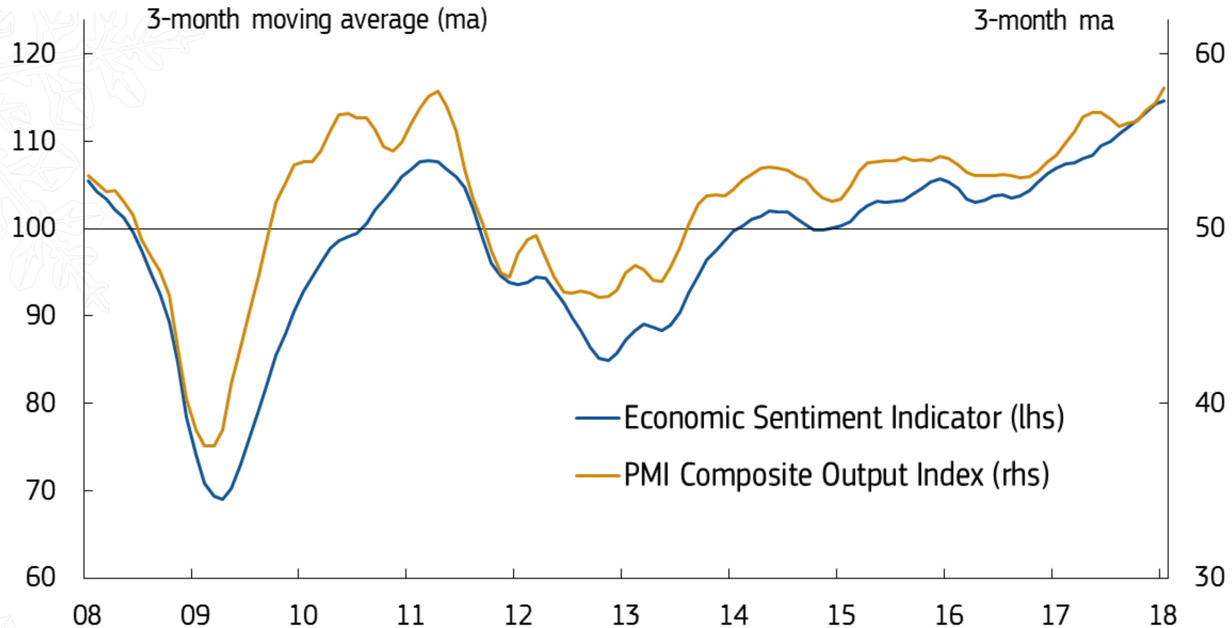
… and a higher oil price

Oil price, developments and assumptions



Economic sentiment is close to all-time highs

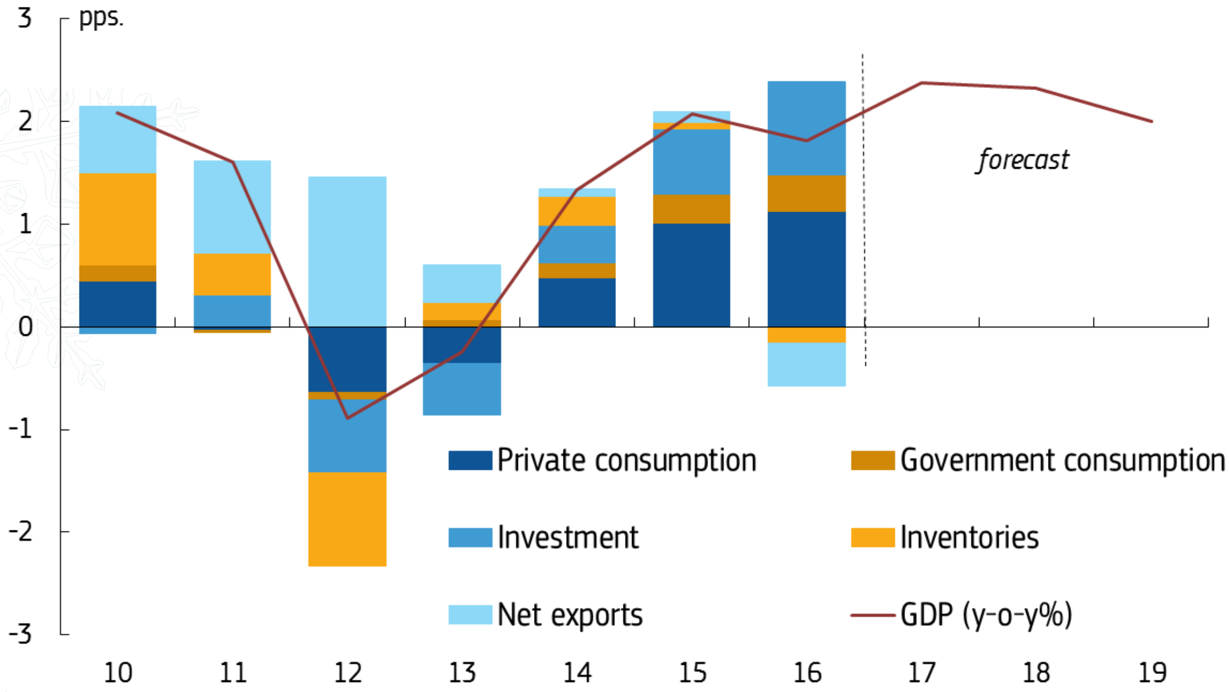
Economic Sentiment Indicator and PMI Composite Output Index, EU



Source: EC, Markit Group Limited

The growth outlook has improved

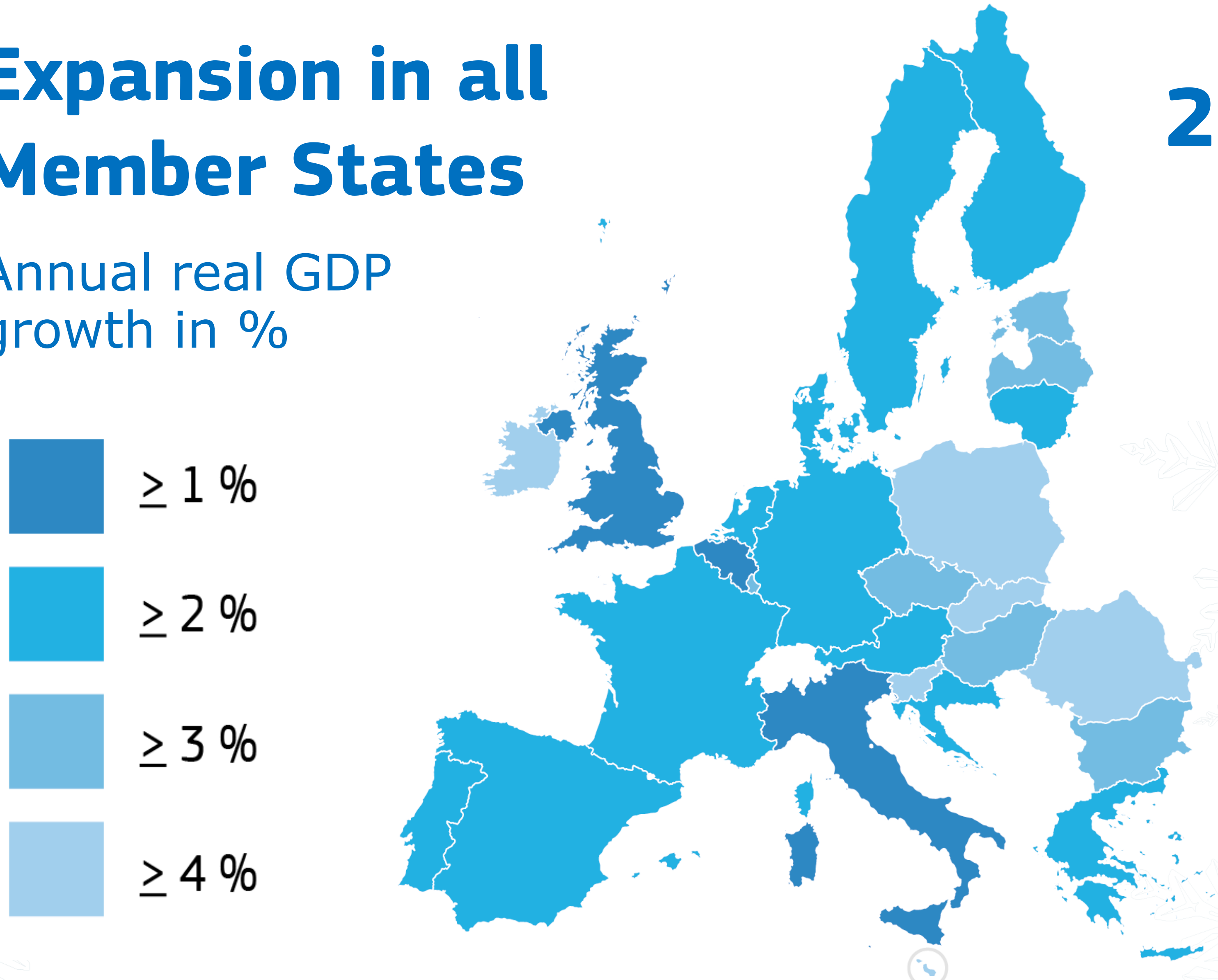
Real GDP and its components, euro area



Expansion in all Member States

2018

Annual real GDP growth in %



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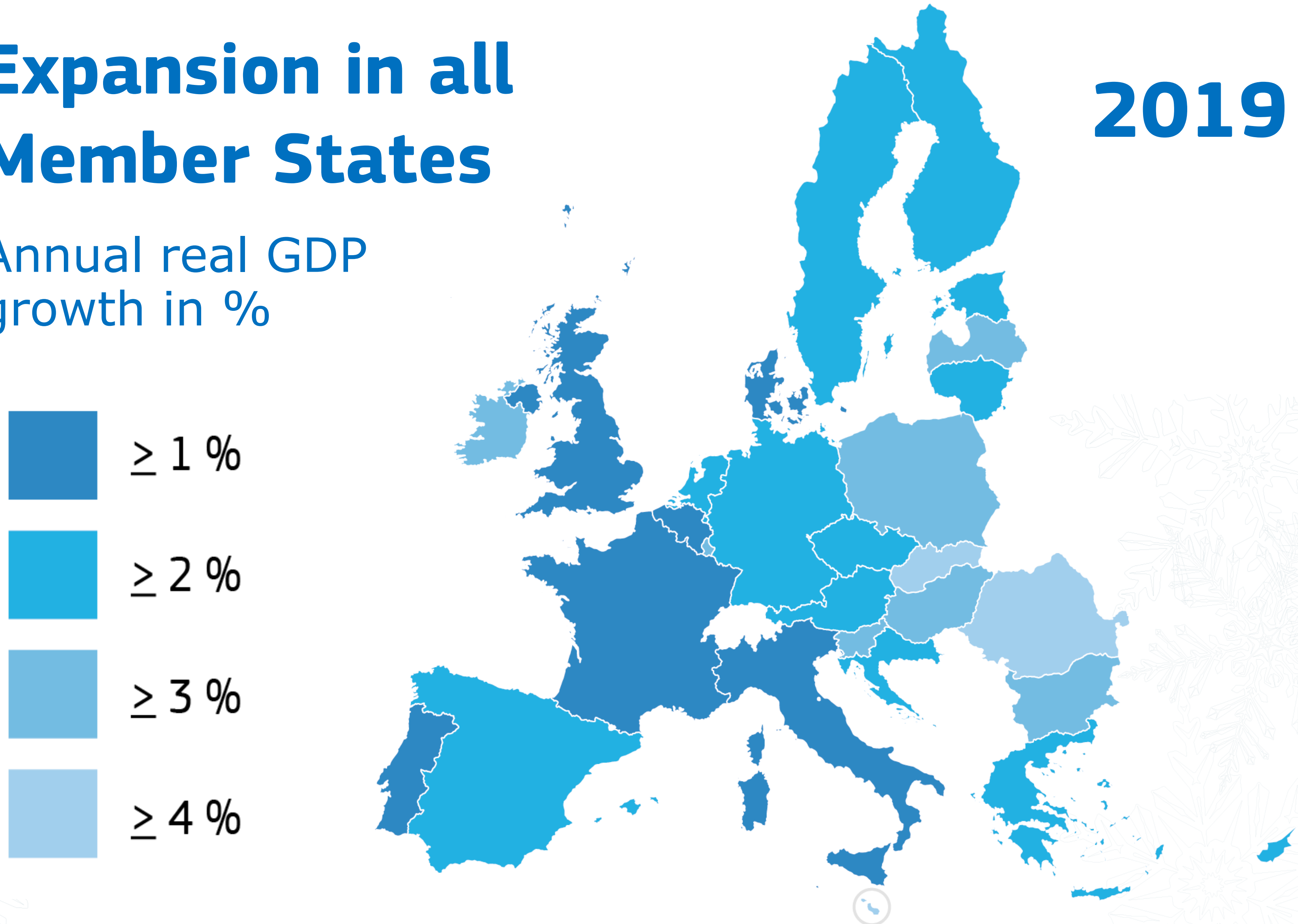
Expansion in all Member States

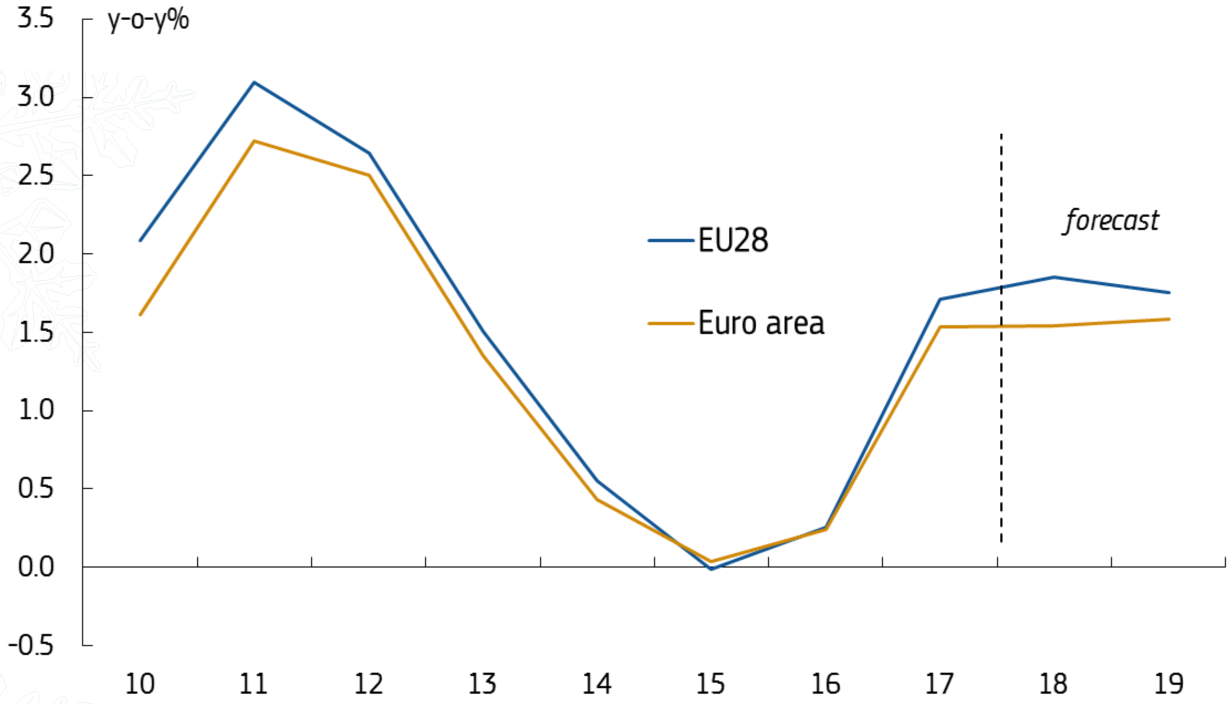
2019

Annual real GDP growth in %



Inflation is expected to remain subdued

HICP, euro area and EU28



Upside risks dominate in the near term

- In the near term, the strong sentiment could suggest that the strength of the **expansion is still underestimated**.
- **Positive feedback loops** of sentiment, demand and employment could push economic activity up.
- **Downside risks** are mainly on the external side (US policies, global risk assessment, Brexit impact, political uncertainty, geopolitical tensions).
- Abrupt **financial market corrections** could constitute downside risks where asset prices are increasing out of sync from the real economy.