



## Summer 2019 Economic Forecast: Growth clouded by external factors

Brussels, 10 July 2019

The European economy is set for its seventh consecutive year of growth in 2019, with all Member States' economies due to expand. Growth in the euro area was stronger than expected in the first quarter of the year due to a number of temporary factors such as mild winter conditions and a rebound in car sales. It also benefited from fiscal policy measures, which boosted household disposable income in several Member States. The near-term outlook for the European economy, however, is clouded by external factors including global trade tensions and significant policy uncertainty. These have continued to weigh on confidence in the manufacturing sector, which is the most exposed to international trade, and are projected to weaken the growth outlook for the remainder of the year.

As a result, the forecast for euro area GDP growth in 2019 remains unchanged at 1.2%, while the forecast for 2020 has been lowered slightly to 1.4% following the more moderate pace expected in the rest of this year (spring forecast: 1.5%). The GDP forecast for the EU remains unchanged at 1.4% in 2019 and 1.6% in 2020.

Valdis **Dombrovskis**, Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union, said: *"All EU economies are still set to grow this year and next, even if the robust growth in Central and Eastern Europe contrasts with the slowdown in Germany and Italy. The resilience of our economies is being tested by persisting manufacturing weakness stemming from trade tensions and policy uncertainty. On the domestic side, a "no deal" Brexit remains a major source of risk."*

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"The European economy continues to expand against a difficult global backdrop. All EU countries are set to grow again in both 2019 and 2020, with the strong labour market supporting demand. Given the numerous risks to the outlook, we must intensify efforts to further strengthen the resilience of our economies and of the euro area as a whole."*

### Domestic demand driving growth in the EU

While growth earlier this year benefited from a number of temporary factors, the outlook for the rest of the year looks weaker as prospects for a quick rebound in global manufacturing and trade have dimmed. GDP growth in 2020 is forecast to be higher, partly due to a higher number of working days. Domestic demand, particularly household consumption, continues to drive economic growth in Europe helped by the continued strength in the labour market. GDP is forecast to grow in all EU Member States this year and next but growth will be significantly stronger in some areas (e.g. Central and Eastern Europe, Malta, and Ireland) than in others (e.g. Italy, Germany).

### Lower inflation expected as oil prices fall

The forecasts for headline inflation in the euro area and the EU have been lowered by 0.1 percentage points this year and next, mainly due to lower oil prices and the slightly weaker economic outlook. Inflation (Harmonised Index of Consumer Prices) in the euro area is now forecast to average 1.3% in both 2019 and 2020 (spring forecast: 1.4% in 2019 and 2020), while in the EU it is forecast to average 1.5% in 2019 and 1.6% in 2020 (spring forecast: 1.6% in 2019 and 1.7% in 2020).

### Downside risks have increased

Risks to the global economic outlook remain highly interconnected and are mainly negative. An extended economic confrontation between the US and China, together with the elevated uncertainty around US trade policy could prolong the current downturn in global trade and manufacturing and affect other regions and sectors. This could have negative repercussions for the global economy including through financial market disruptions. Tensions in the Middle East also raise the potential for significant oil price increases. Domestically, Brexit remains a major source of uncertainty. Finally, there are also significant risks surrounding near-term growth drivers and economic momentum in the euro area. Weakness in the manufacturing sector, if it were to endure, and depressed business confidence, could spill over to other sectors and harm labour market conditions, private consumption and ultimately growth.

### For the UK, a purely technical assumption

In light of the process of the withdrawal of the UK from the EU, projections for 2019 and 2020 are again based on a purely technical assumption of status quo in terms of trading patterns between the EU27 and the UK. This is for forecasting purposes only and has no bearing on future negotiations between the EU and the UK.

## **Background**

This forecast is based on a set of technical assumptions concerning exchange rates, interest rates and commodity prices with a cut-off date of 28 June. For all other incoming data, this forecast takes into consideration information up until 2 July.

The Commission publishes four economic forecasts each year. The forecasts published each winter and summer only cover annual and quarterly GDP and inflation for the current and following year for all Member States and the euro area, as well as EU aggregates.

The European Commission's next economic forecast will be the autumn economic forecast in November 2019.

## **For More Information**

Full document: [Summer2019 Economic Forecast](#)

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