

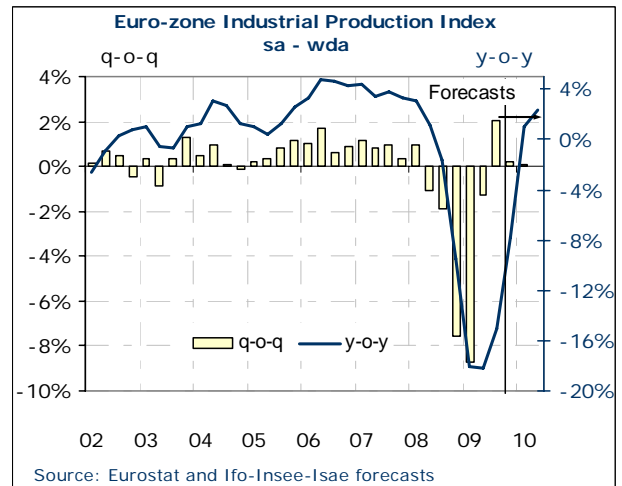
Lacklustre recovery

The recession in the euro-zone appears to be over. Real GDP increased in Q3 2009 by 0.4% after a fall of 0.1% in Q2. However, economic prospects remain subdued. Real GDP is forecasted to rise by 0.3% in Q4 2009, and by 0.2% in both Q1 2010 and Q2. In particular, the fading fiscal stimulus in the coming quarters, the restrictive credit conditions and the slack on the labour market will dampen growth. Industrial production is likely to expand only modestly. Although recent business surveys have further improved, the current business climate is still below its historical average. Private consumption is expected to rise by 0.1% in Q4 2009, 0.2% in Q1 2010 and 0.1% in Q2. While purchasing power could be stimulated by tax cuts, especially in Germany at the turn of the year, the unemployment risk should foster an increase in precautionary savings. Investment is expected to diminish further by 0.4% in Q4 2009 and by 0.1% in Q1 2010, followed by a rise of 0.2% in Q2. Investment activities should still suffer from the low degree of capital utilization. On the assumption that the oil price stabilizes at USD 75 per barrel of Brent and that the dollar/euro exchange rate fluctuates around 1.47 over the forecast horizon, inflation should move to 1.1% in both March and June 2010.

Industrial production should expand only modestly

Industrial production in the euro-zone increased strongly in Q3 2009 (2.0%) after its continuous drop observed in the previous quarters. The rebound of production was announced by an improvement of business surveys, which was likely associated with the massive stimulus stemming from fiscal policy and a more promising outlook regarding the recovery of world economic activity.

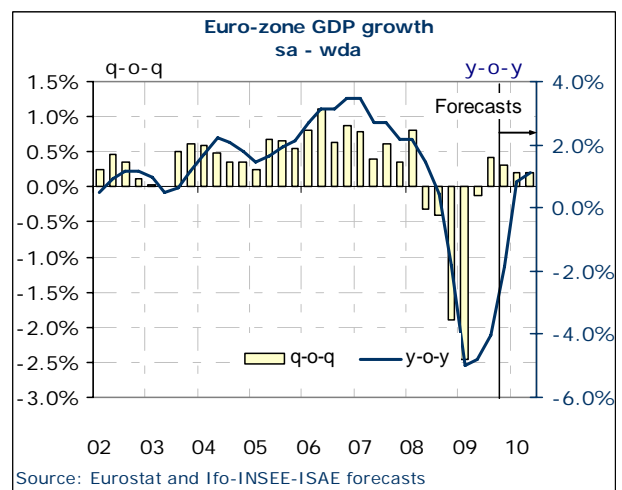
Industrial production is expected to continue to rise in the coming quarters, but at more moderate rates. The economic environment is still mixed and the expiration of the car scrappage bonus as well as of some other fiscal measures are likely to exert a dampening effect. Industrial production is forecasted to increase by 0.2% in Q4 2009 and by 0.1% in Q1 2010, and to stagnate in Q2.



A weak GDP recovery

Real GDP in the euro-zone increased in Q3 2009 by 0.4% after a fall of 0.1% in Q2. Private consumption declined again, while investment diminished further, but at a less pronounced rate. In contrast, the growth contribution of net exports was positive. Despite this economic rebound, growth prospects remain mixed.

Private consumption is expected to expand only modestly in the coming quarters. The situation on the labour market is likely to deteriorate further, which will weigh on nominal wages. While purchasing power could be stimulated by tax cuts particularly in Germany at the turn of the year, the fear of becoming unemployed still prevails, which favours the building of precautionary savings.



Private consumption is expected to rise at rates of 0.1% in Q4 2009, 0.2% in Q1 2010 and 0.1% in Q2.

In the coming quarters, investment is likely to decrease further, however at a lower pace. Earning prospects of firms have recently improved, but production capacity is still vastly under-utilized and credit conditions should remain restrictive due to write-offs caused by the recession. Investment is expected to decline by 0.4% in Q4 2009 and by 0.1% in Q1 2010, and to increase by 0.2% in Q2.

All in all, real GDP in the euro-zone is forecasted to expand at rates of 0.3% in Q4 2009, and 0.2%, in both Q1 2010 and Q2. Growth will be mainly hampered by the fading of fiscal support, the restrictive credit conditions and the tense situation on the labour market. Real GDP should have decreased by 3.9%, on average, in 2009.

Inflation should increase further

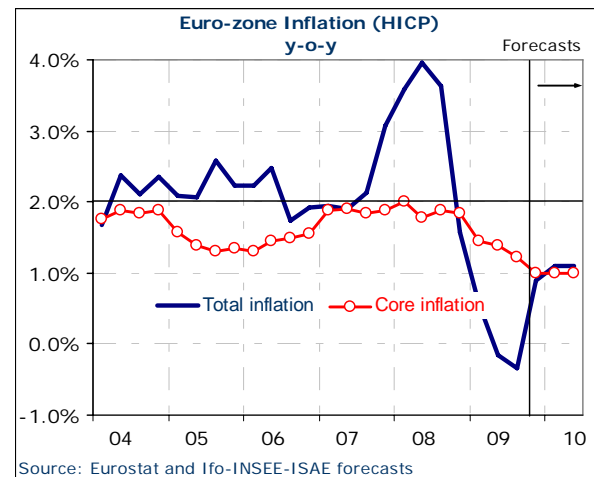
Euro-zone headline inflation was 0.9% in December, up from 0.5% in November and -0.1% in October. The increase in inflation was driven by the base effect of lower energy and food prices. On the assumption that the Brent oil price will stabilize at 75 USD and that the dollar/euro exchange rate will fluctuate around 1.47, headline inflation is forecasted to increase to 1.1% in March as well as June 2010. Core inflation is expected to decrease to 1.0% in June 2010. The high level of unemployment should continue to weigh on wages and moderate the inflation of labour intensive

services, while excess capacities should weigh on manufactured goods' prices.

2009/2010 Forecasts, % changes, sa - wda

q-o-q y-o-y	Q3-2009	Q4 - 2009 forecasts	Q1 - 2010 forecasts	Q2- 2010 forecasts	2009 forecasts				
IPI	2.0	-15.0	0.2	-7.9	0.1	1.0	0.0	1.3	-15.0
GDP	0.4	-4.0	0.3	-1.9	0.2	0.8	0.2	1.1	-3.9
Consumption	-0.1	-1.0	0.1	-0.4	0.2	0.2	0.1	0.2	-0.9
Investment	-0.8	-11.4	-0.4	-8.1	-0.1	-2.9	0.2	-1.1	-10.7
Inflation*	-0.3	0.9	1.1	1.1	1.1	0.3			

Source: Eurostat and Ifo-INSEE-ISAE forecasts; * end-of-quarter



Source: Eurostat and Ifo-INSEE-ISAE forecasts

Methodological note

This quarterly publication is prepared jointly by the German Ifo institute, the French INSEE institute, and the Italian ISAE institute. The forecasts are produced with the help of tools shared by the three institutes, using time-series models based on business surveys by national institutes, Eurostat, and the European Commission.

Our joint two-quarter-ahead forecast covers euro-zone industrial production, GDP, consumption, investment, and inflation. Publication is timed to coincide with Eurostat's second release of quarterly national accounts.

Fuller economic analysis for each country (Germany, France, Italy) is available in:

- [Ifo Konjunkturprognose](#), Ifo
- [Conjoncture in France](#), INSEE
- [Abridged Quarterly Report](#), ISAE

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Next release: April 7, 2010 (date of Eurostat's second release of quarterly national accounts)

Next forecast horizon: 2010 Q3