

KfW Research expects euro area growth in 2017 to be strongest in ten years

Frankfurt am Main (ots) -

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- Growth forecast raised from 1.8% to 2.2% for 2017 and from 1.7% to 2.0% for 2018
- Sentiment remains outstanding as hard cyclical indicators catch up
- Strong euro could be a headwind

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The upswing in the euro area is consolidating and entering its fifth consecutive year. All countries of the single currency area are now benefiting from dynamic economic development. KfW Research has therefore lifted its economic forecast for this year to 2.2% (previous forecast: 1.8%). That would make 2017 the most successful year of the euro area economies in the last decade. The pace of growth in 2018 is set to slow only slightly to a real rate of 2.0% at the end of the year (previous forecast: 1.7%).

Both domestic demand and external trade are now providing positive impetus. It is true that private consumption has recently ceased to benefit from the growth in real income generated by the oil price decline and low inflation of 2016. But the reduction in unemployment and the growing employment rate in the euro area are bolstering consumption. Although growth in investment exceeds growth in private consumption, some countries still need to catch up, especially Italy. Business confidence remains high, and this optimism was at last reflected in hard economic indicators in the second quarter as well. Industrial output and incoming orders increased significantly, and capacity utilisation is now at a level last seen in 2008.

'The euro area is now in a robust upswing and the economic revival stretches across all countries of the currency area', said Dr Jörg Zeuner, Chief Economist of KfW Group. 'We are slowly returning to normality. The journey there has been unnecessarily long. Such uniform growth, however, will now facilitate the single monetary policy and create favourable conditions for institutional reform in the euro area. After all, the more similar the member states' economic health is, the more their ideas about the future course of

reform converge. The upswing is unlikely to become more symmetrical. The time for reform is now.'

Given the persistently high growth rate, it is highly probable that the current business cycle is near its peak. The output gap, the discrepancy between actual economic output and economic output achieved with normal capacity utilisation, has recently closed at a rapid pace. It might close completely in the current quarter, allowing the euro area economy to enter a boom phase.

'Growth is unlikely to slow in the further course of the year, and the pace should remain nearly unchanged in 2018 as well', said Dr Jörg Zeuner. 'Political uncertainties remain, however, for instance with regard to the imminent election in Italy, US trade policy and Brexit. But the recent past has shown that such uncertainties have a rather limited effect on the business cycle. A further risk factor that may hamper the development of the euro area economies is the significant appreciation of the euro. Since the beginning of the second quarter alone, the currency has appreciated by 6% (12% against the US dollar) on a trade-weighted basis. If the strength of the euro continues and rises even further, it could ultimately have a dampening effect', said Zeuner. 'But there is a chance for even stronger economic revival in the euro area as the strong global business cycle is providing a tailwind. The banking problem in the euro heavyweight Italy has also defused somewhat, and reforms initiated swiftly in France might provide more impetus for new investment there.'

The current KfW Business Cycle Compass Eurozone is available at:
<http://ots.de/J7Mrz>

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