The European Economic Outlook in the Global Context

EURASIAN ECONOMIC COMMISSION

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Key points

- As in the rest of the world, Europe’s manufacturing and trade have weakened considerably.

- Europe’s slowdown is mostly externally driven. But signs of softness in investment have started to appear.

- Consumption has been resilient so far, reflecting still very strong labor markets.

- Growth has been weaker in advanced Europe, while it has been robust in emerging Europe excluding Russia and Turkey.

- A modest recovery is expected for 2020. Risks are on the downside.
As in the rest of the world, manufacturing and export sectors in the EU have weakened driven by vehicles and machinery.

Export Volumes
(Month-over-month percent change, 3-month moving average)

Industrial Production
(Month-over-month percent change, 3-month moving average)

EU Industrial Production Contribution to Growth: Manufacturing
(Percentage points, year average)

Sources: Eurostat; IMF, GDS; and IMF staff calculations.
Note: EU exports are based on seasonally and working data adjusted data.
Europe’s slowdown is mainly due to industry, but services have started to soften

Europe: Real Gross Value Added by Sector
(Percentage points; growth in year-over-year percent change)

European Union: Purchasing Managers; Index (PMI)
(Index, seasonally adjusted, 50 += expansion)

Sources: Eurostat; Haver Analytics; IHS Markit Purchasing Managers Survey; IMF, World Economic Outlook; and IMF staff calculations.
Net exports are driving the slowdown, but investment has also started to weaken

Europe ex. Russia & Turkey: Contributions to Real GDP Growth
(Percentage points; growth in percent change)

Sources: Eurostat; Haver Analytics; IMF, World Economic Outlook; World Uncertainty Index (WUI); and IMF staff calculations.

Note: Europe Trade Uncertainty Index: higher values indicate higher uncertainty.
Resilience of consumption depends on labor markets

European Union: Unemployment Rate
(Percent, seasonally adjusted)

Sources: Eurostat; and IMF staff calculations.

European Union: Job Vacancies
(Quarter-over-quarter percent change)

Manufacturing
Total economy
Emerging EU
Advanced EU

0 2 4 6 8 10 12
-2 0 2 4 6 8 10 12
2017:Q1 17:Q4 18:Q3 19:Q2

Real GDP Growth
(Quarter-over-quarter percent change, annualized)

Sources: Haver Analytics; and IMF staff calculations.
A modest recovery is projected based on improving external demand. But risks are on the downside

<table>
<thead>
<tr>
<th>Region</th>
<th>Outturn 2018</th>
<th>IMF Forecast 2019</th>
<th>IMF Forecast 2020</th>
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<tbody>
<tr>
<td>World</td>
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<td>3.4</td>
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<tr>
<td>Europe</td>
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<td>1.4</td>
<td>1.8</td>
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<tr>
<td>Advanced Europe</td>
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<td>1.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Euro area</td>
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<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Emerging Europe ex. Russia &amp; Turkey</td>
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<td>3.7</td>
<td>3.1</td>
</tr>
<tr>
<td>Russia</td>
<td>2.3</td>
<td>1.1</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Memo: world trade volume (goods and services)
Sources: IMF, World Economic Outlook, and IMF staff calculations.