

# The Euro Area After Brexit

David Powell

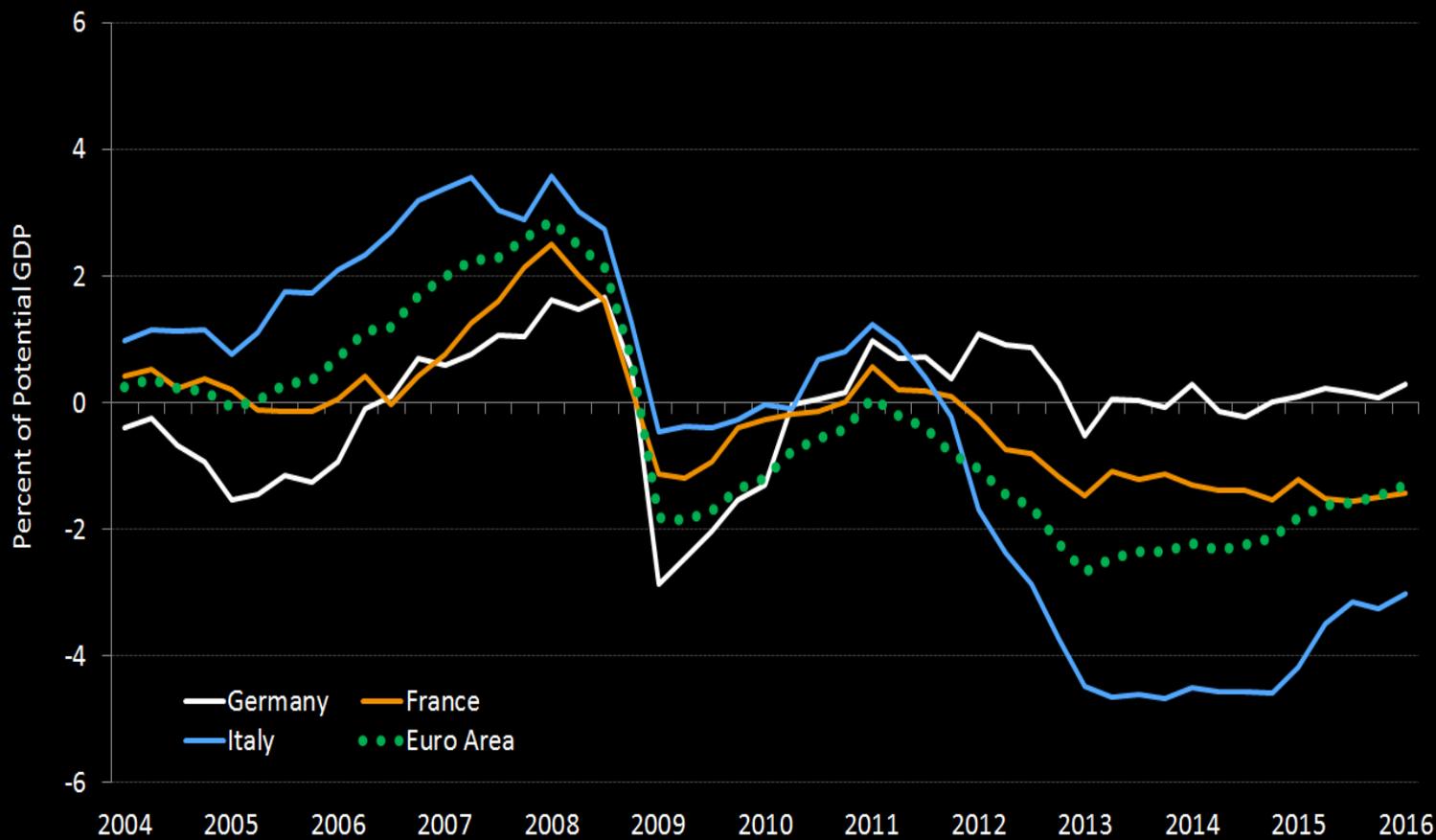
Chief Euro-Area Economist

October 12, 2016

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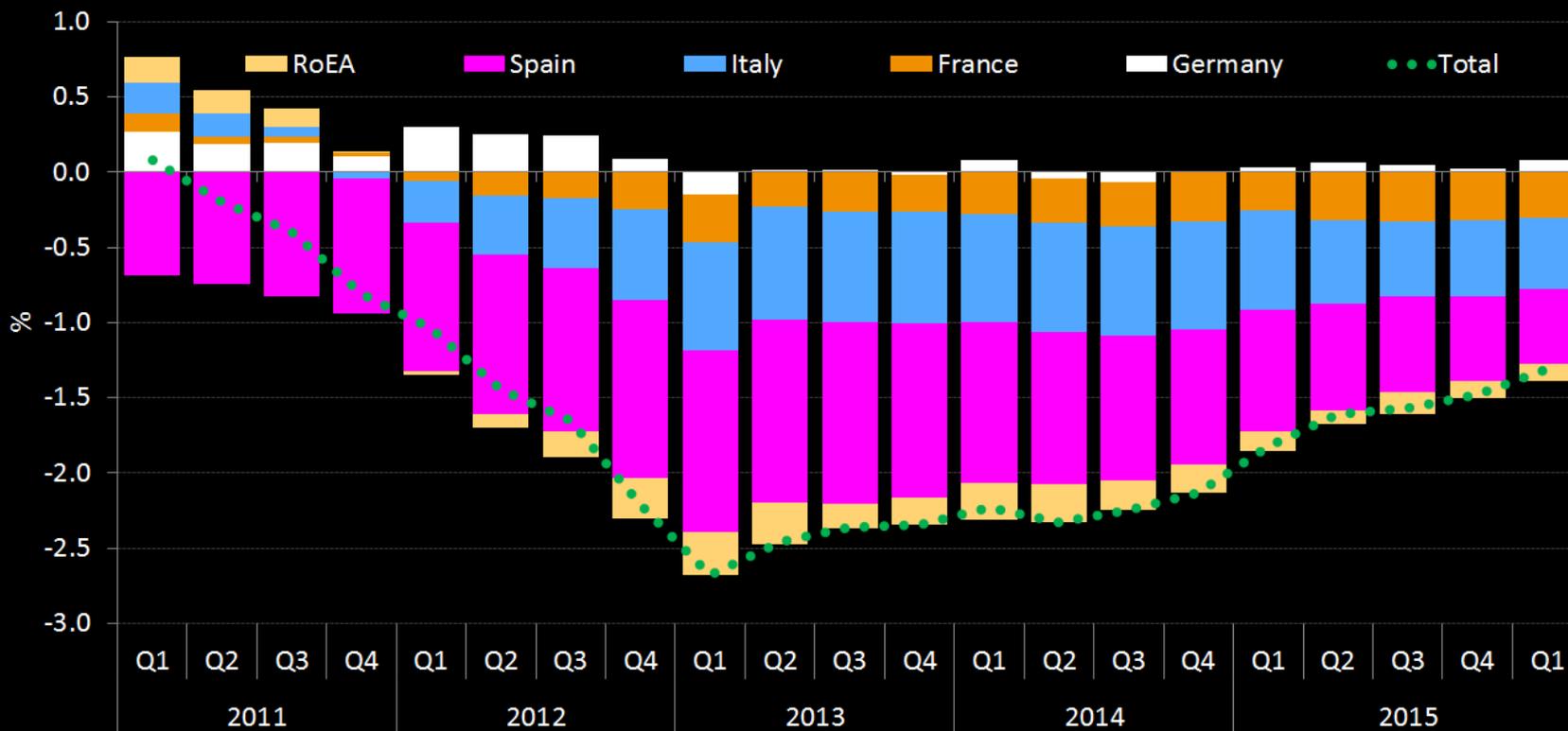
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# Euro-Area Output Gap Stood at 1.3% of Potential GDP



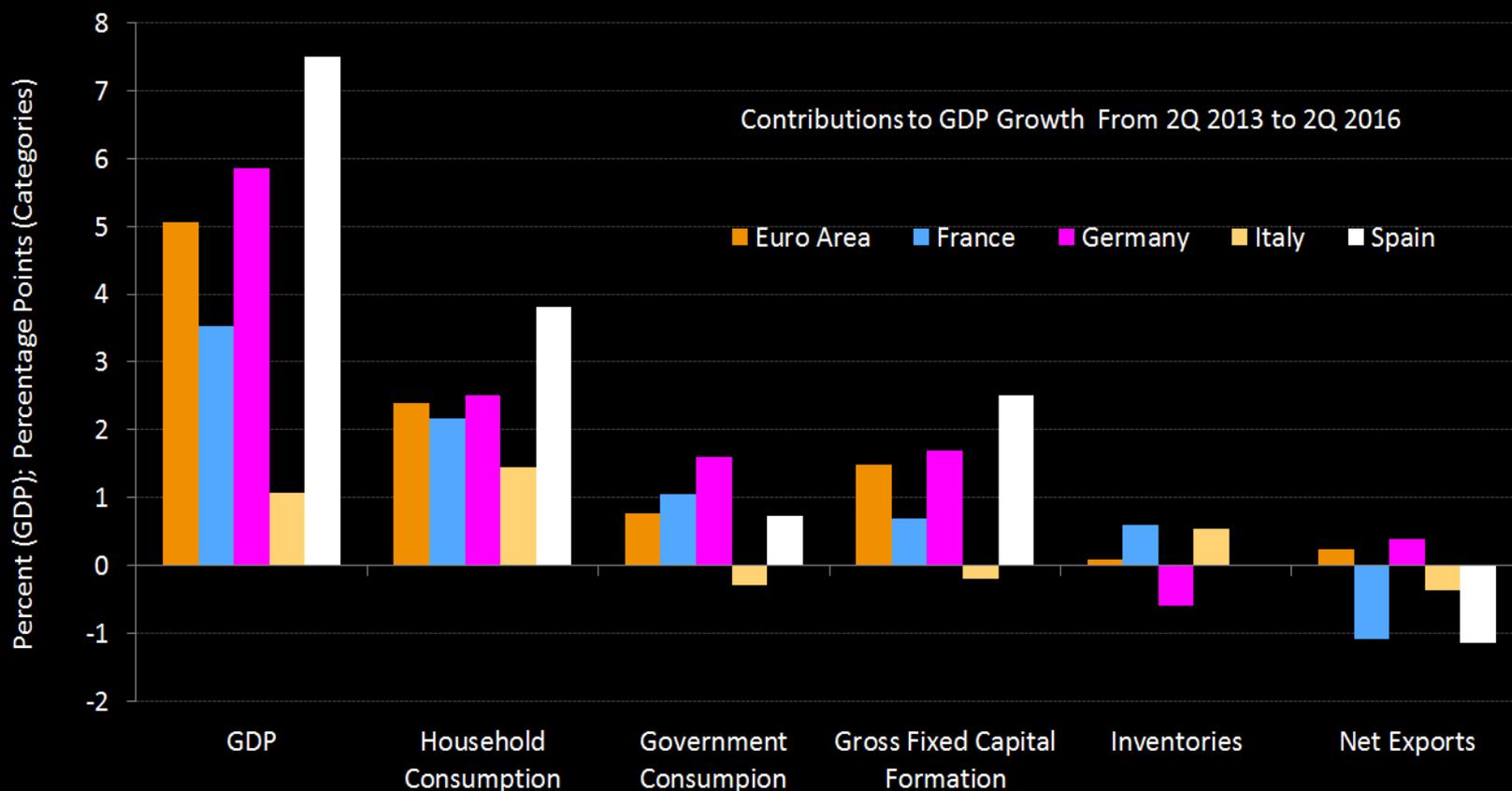
Source: Bloomberg Intelligence

# France, Italy & Spain Still Recovering



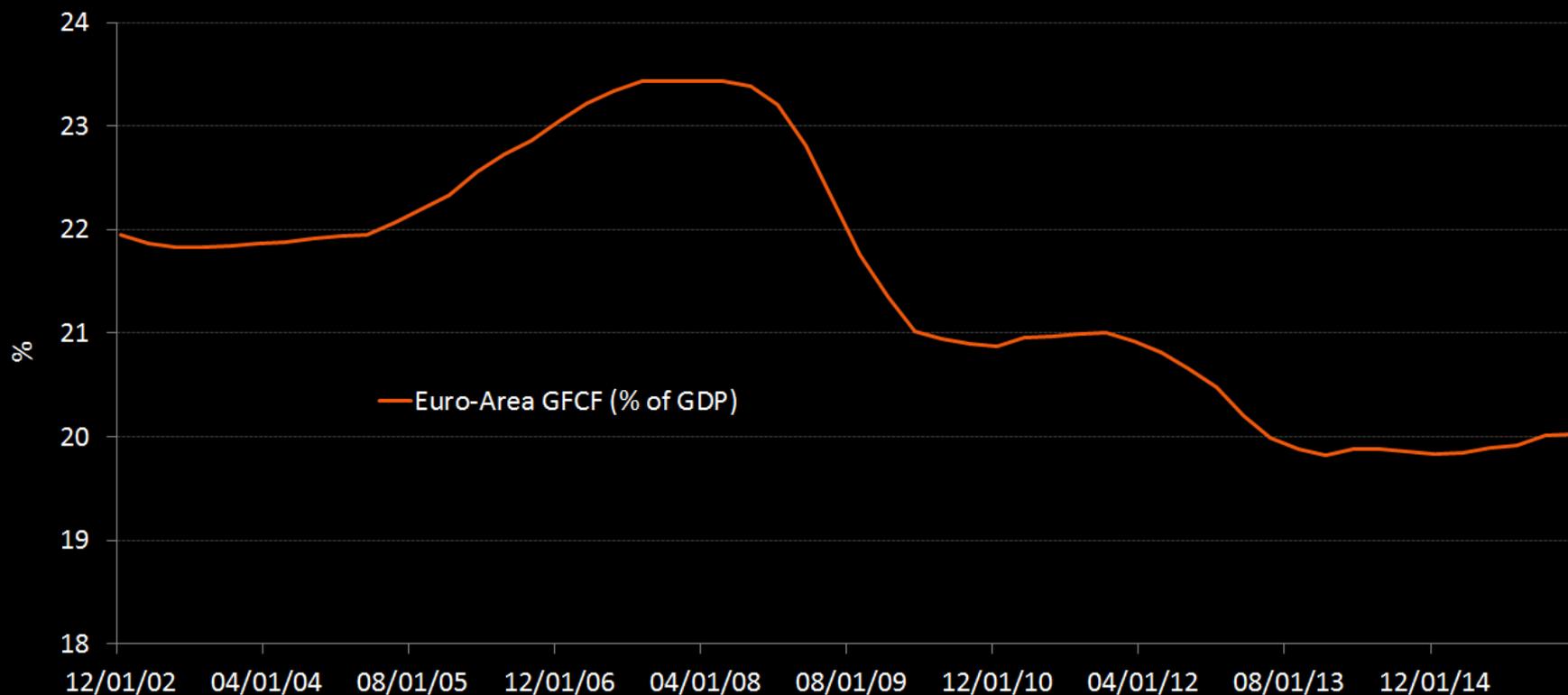
Source: Bloomberg Intelligence

# Investment Spending Remains Source of Weakness



Source: Bloomberg Intelligence

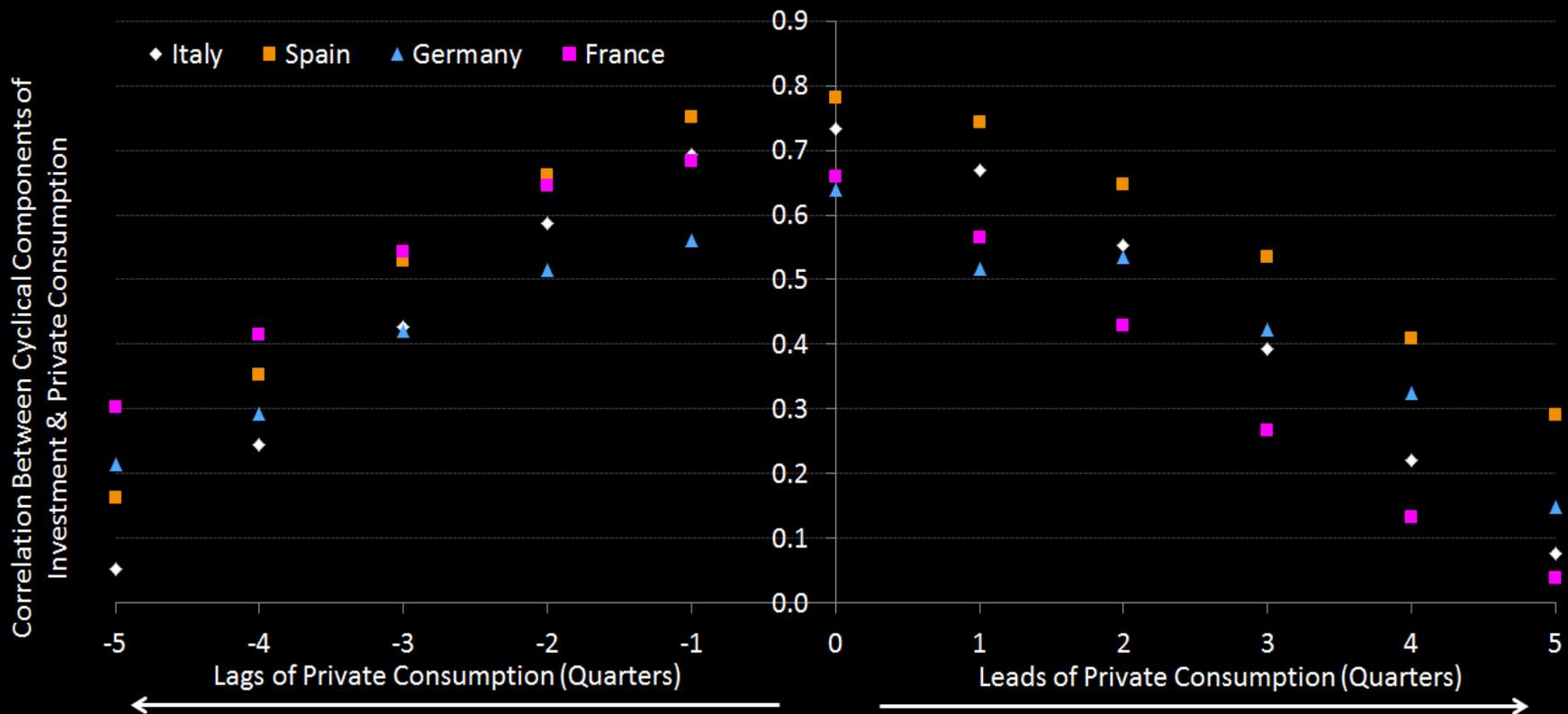
## Investment Spending Fails to Recover



Source: Bloomberg Intelligence

N.B.: Expressed in Four-Quarter Averages

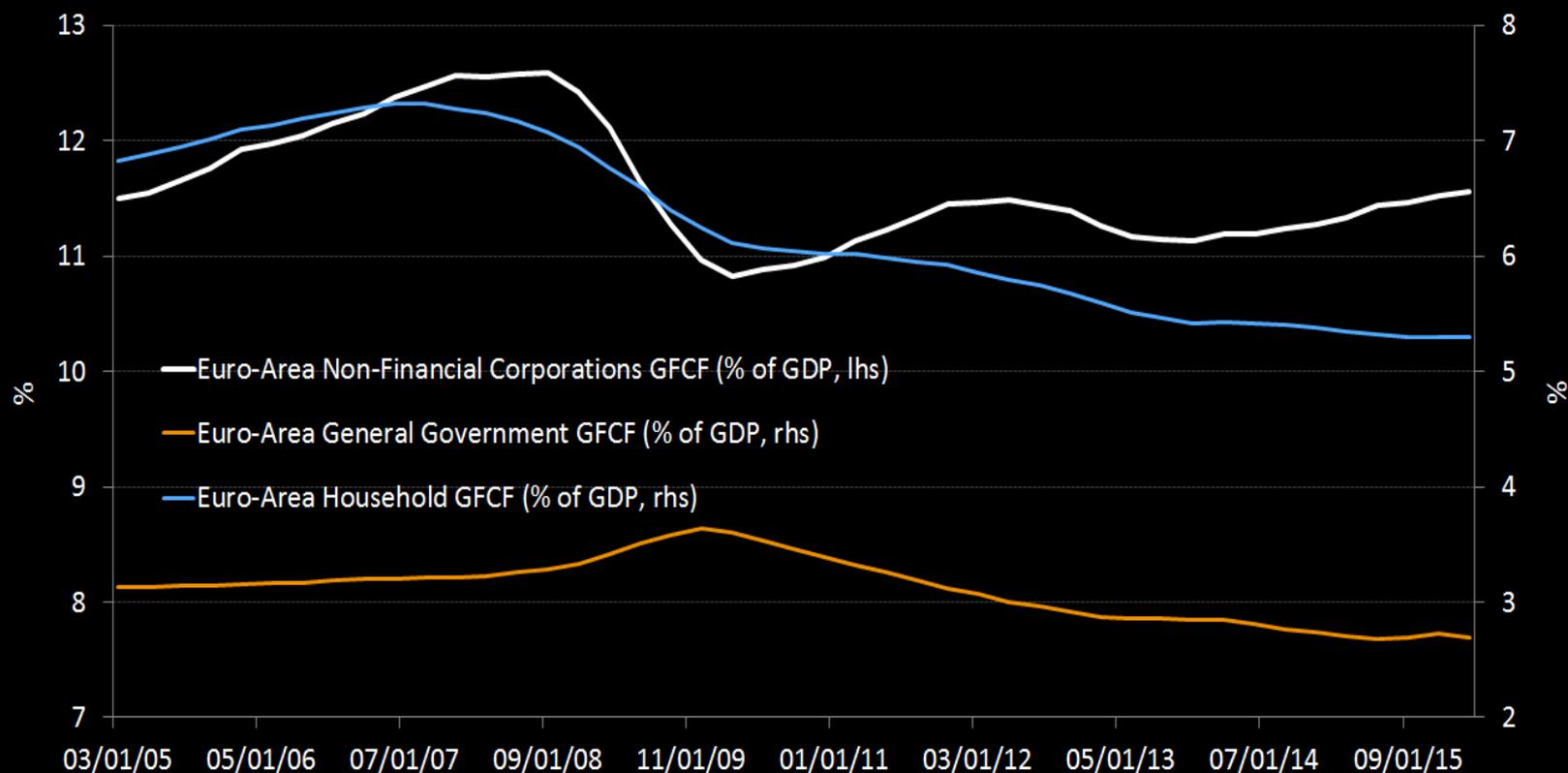
# GFCF Weakness Represents Departure From Past



Source: Bloomberg Intelligence

Cyclical components are obtained by applying a Hodrick-Prescott filter to gross fixed capital formation and household consumption from Q1 1970 to Q3 2015 (smoothing parameter 1600).

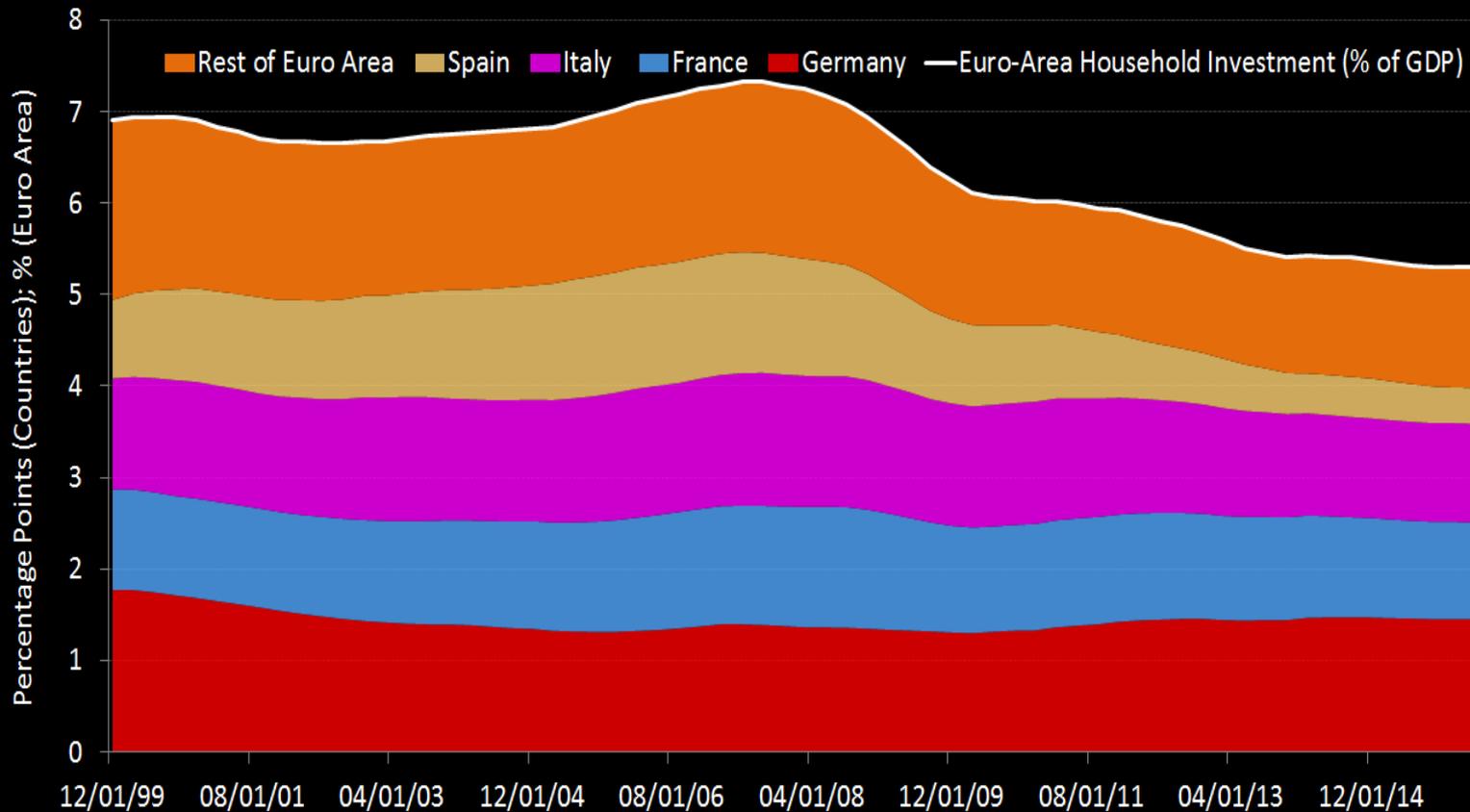
# Aggregate Figure Hides Recovery For Businesses



Source: Bloomberg Intelligence

N.B.: Expressed in Four-Quarter Averages

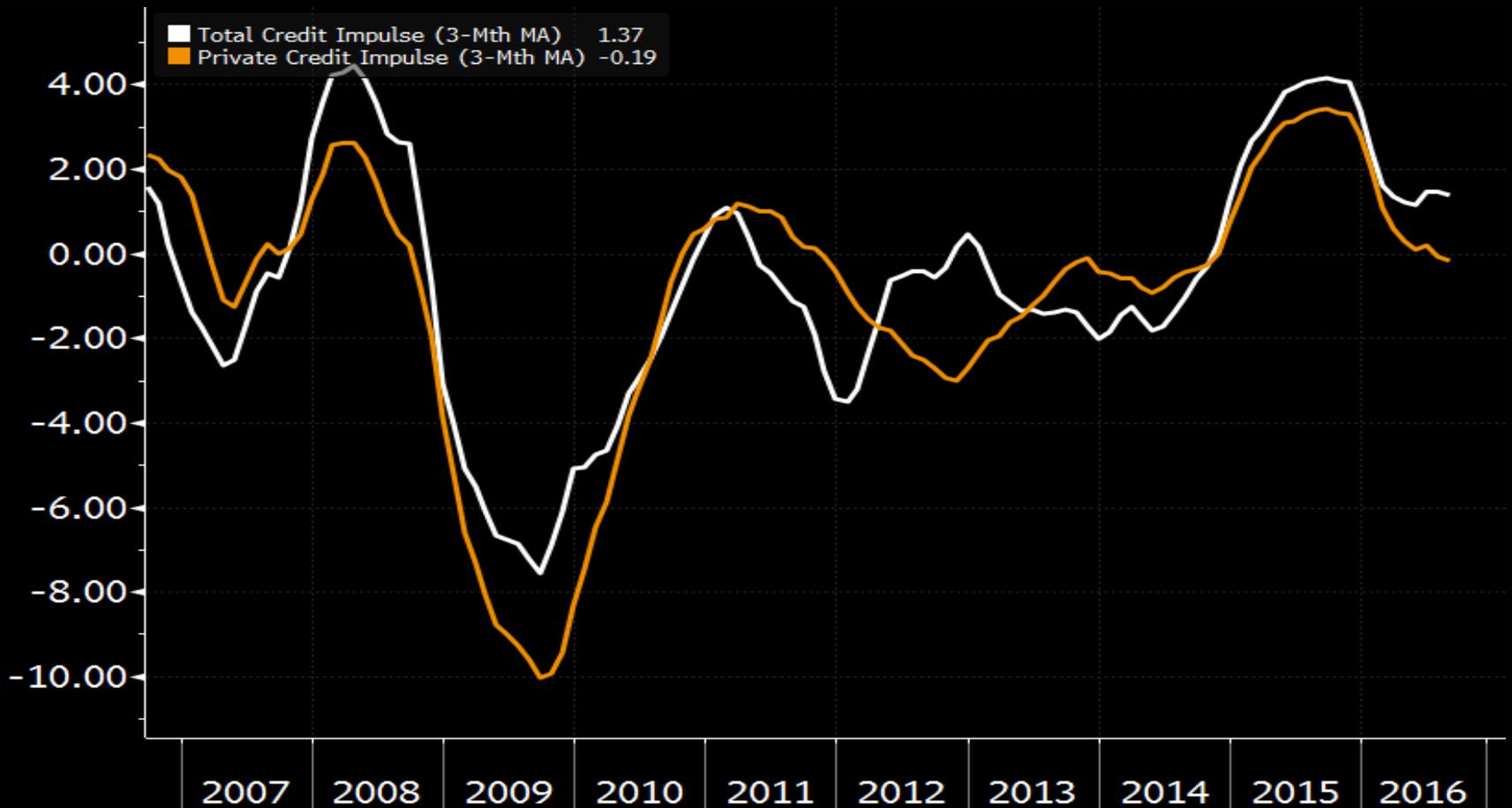
# Spain's Contribution to Household Investment Slides



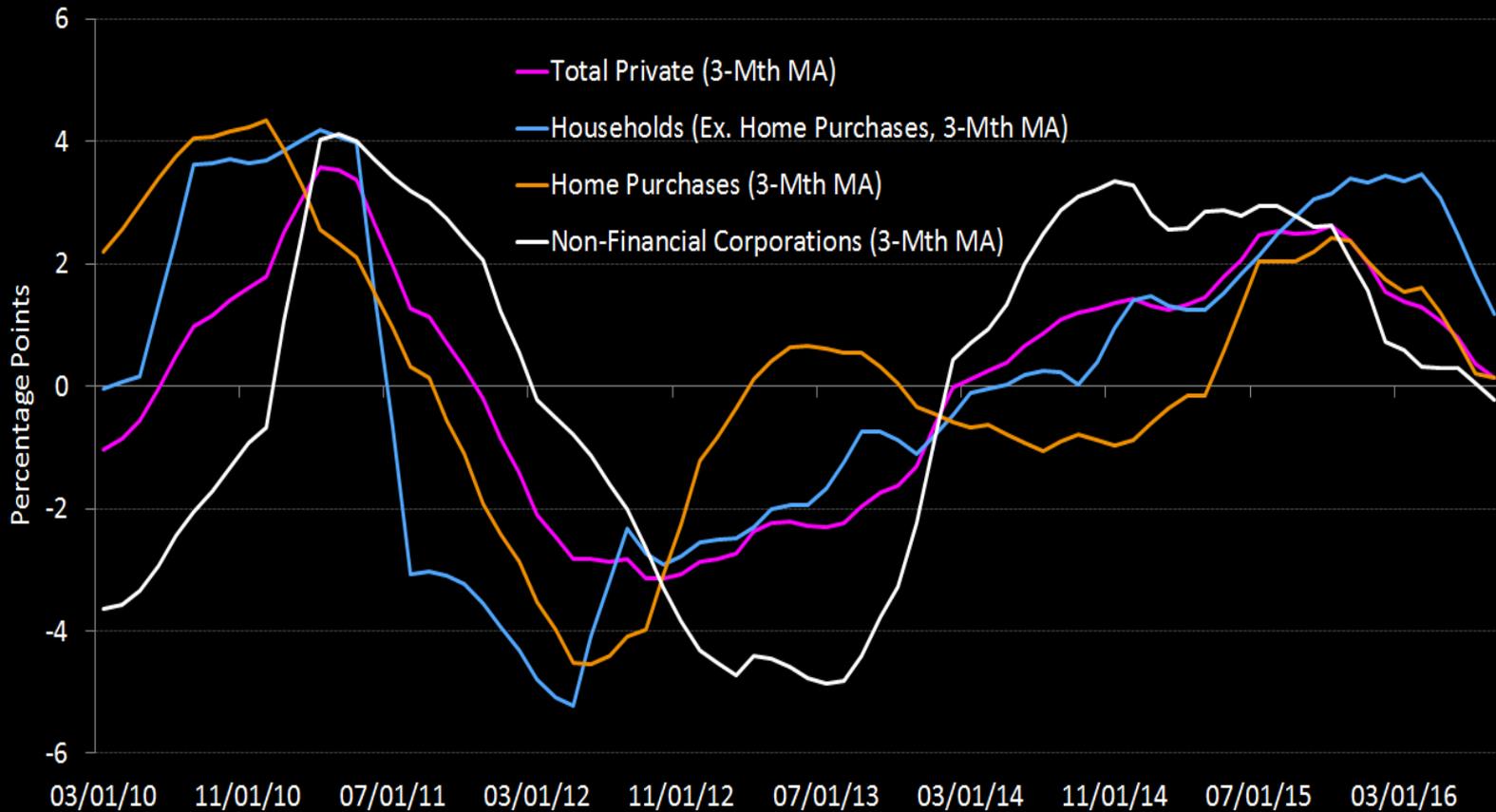
Source: Bloomberg Intelligence

N.B.: Expressed in Four-Quarter Averages

## Euro-Area Credit Impulses Weaken

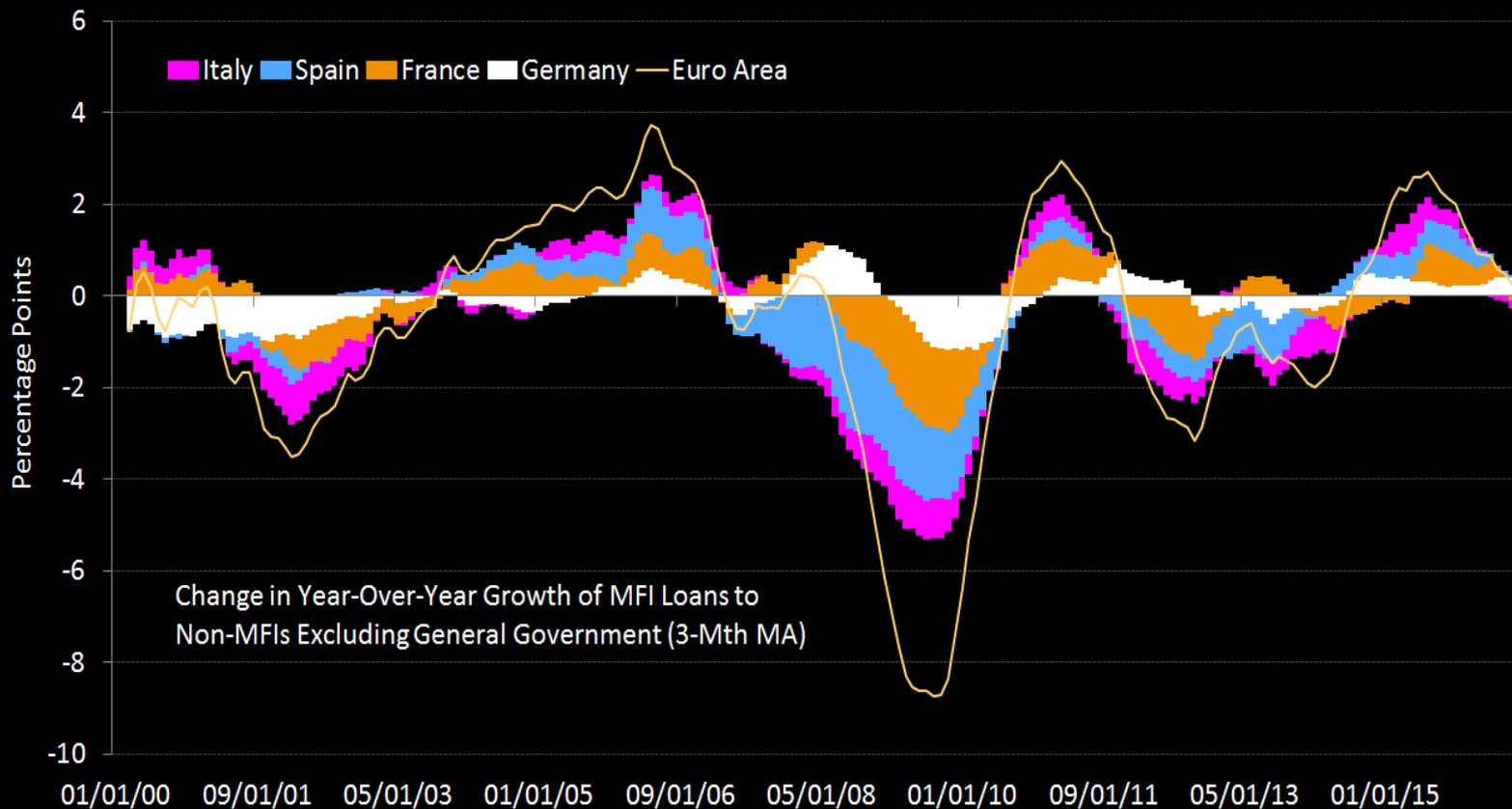


# Waning Credit Stimulus for Businesses



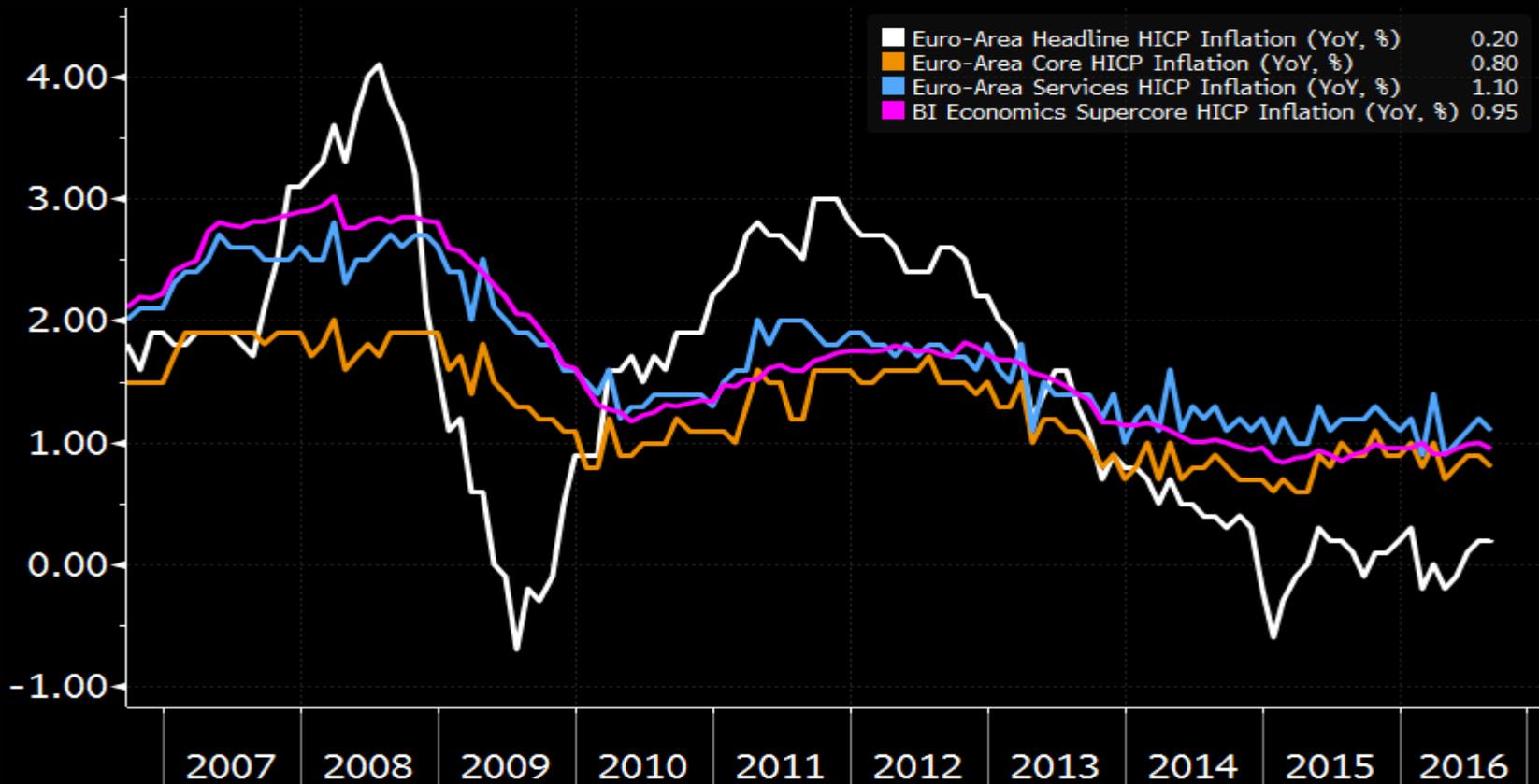
Source: Bloomberg Intelligence

# Credit Stimulus Felt Most in Germany



Source: Bloomberg Intelligence

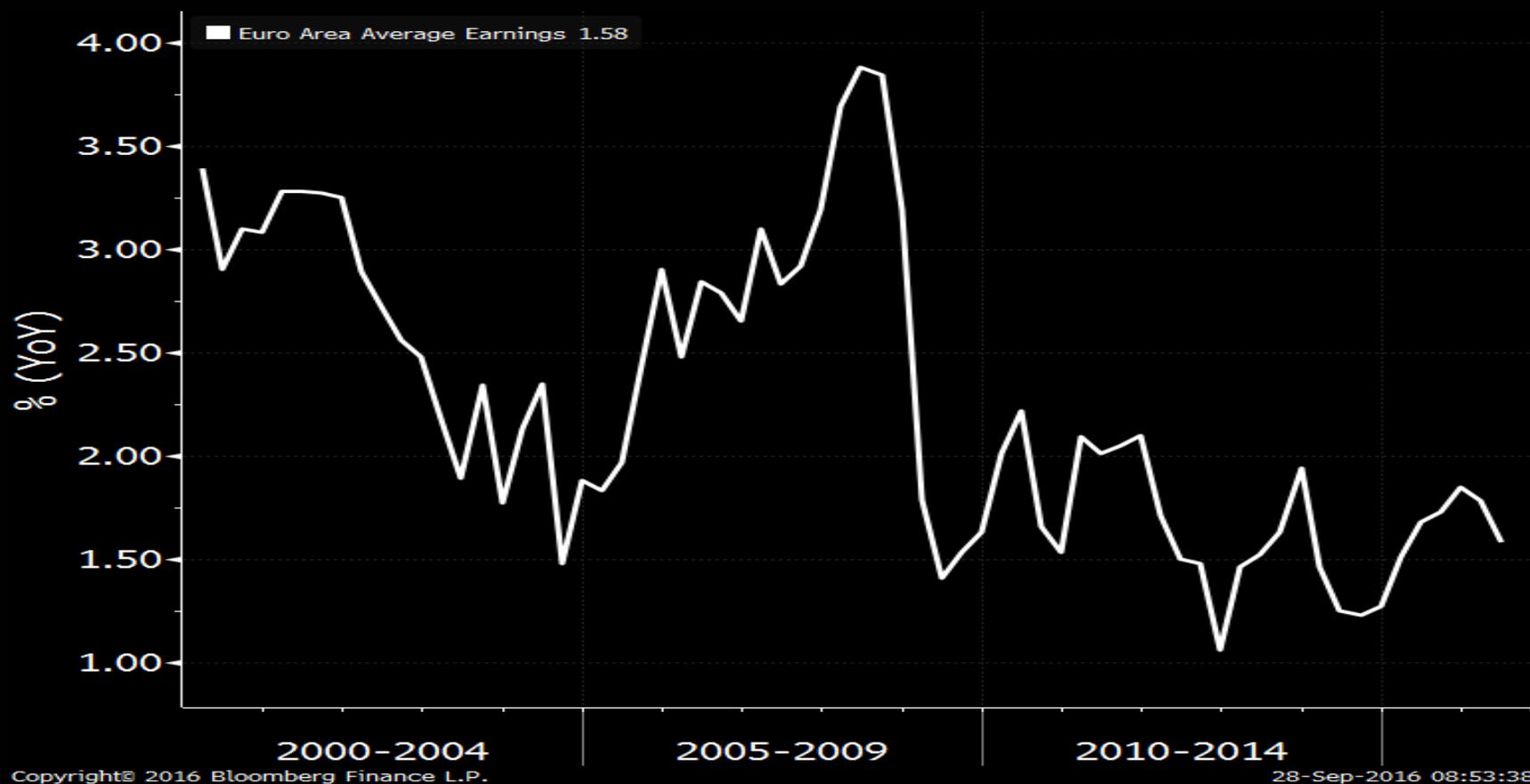
# Underlying Inflation Remains Muted



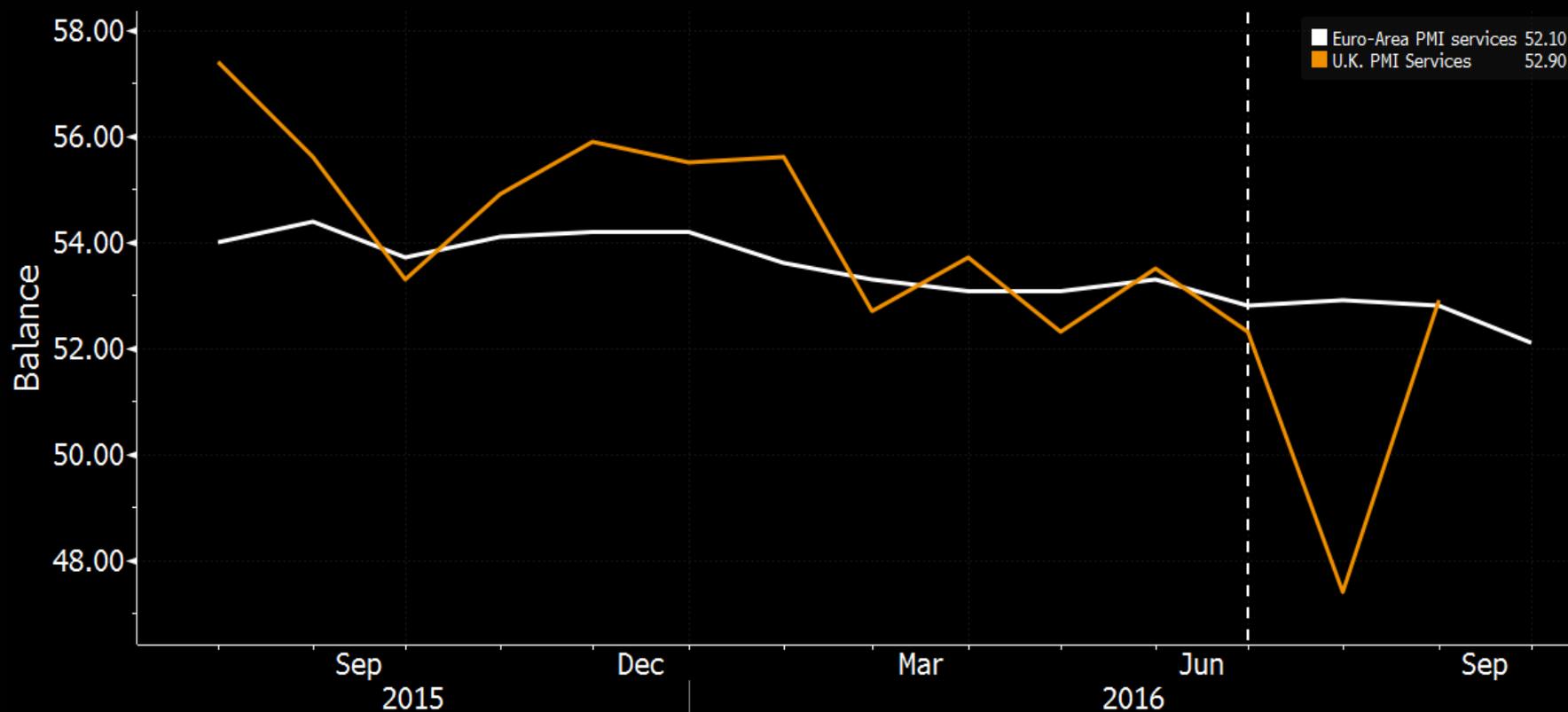
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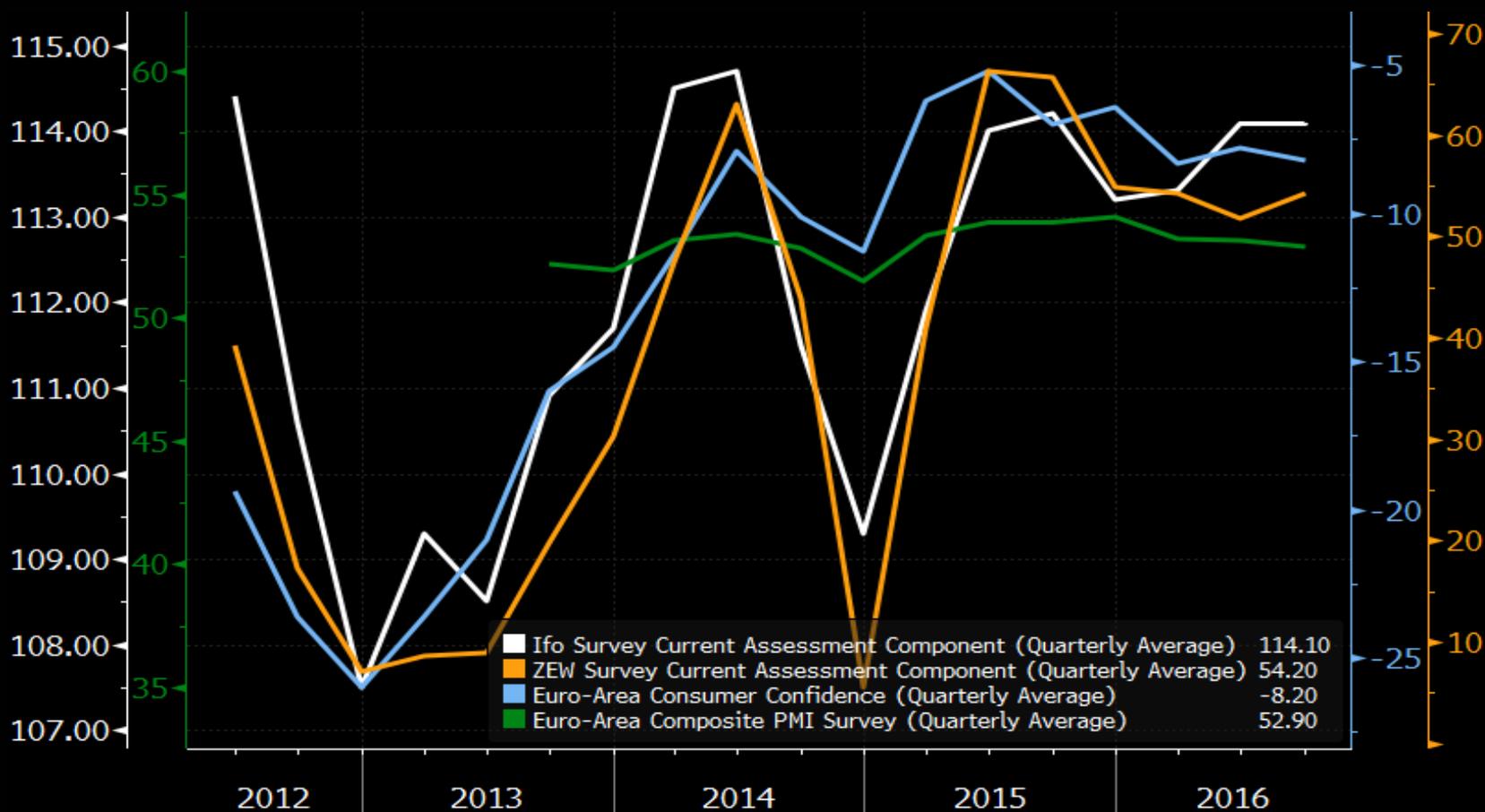
## Wage Growth Fails to Stoke Price Pressures



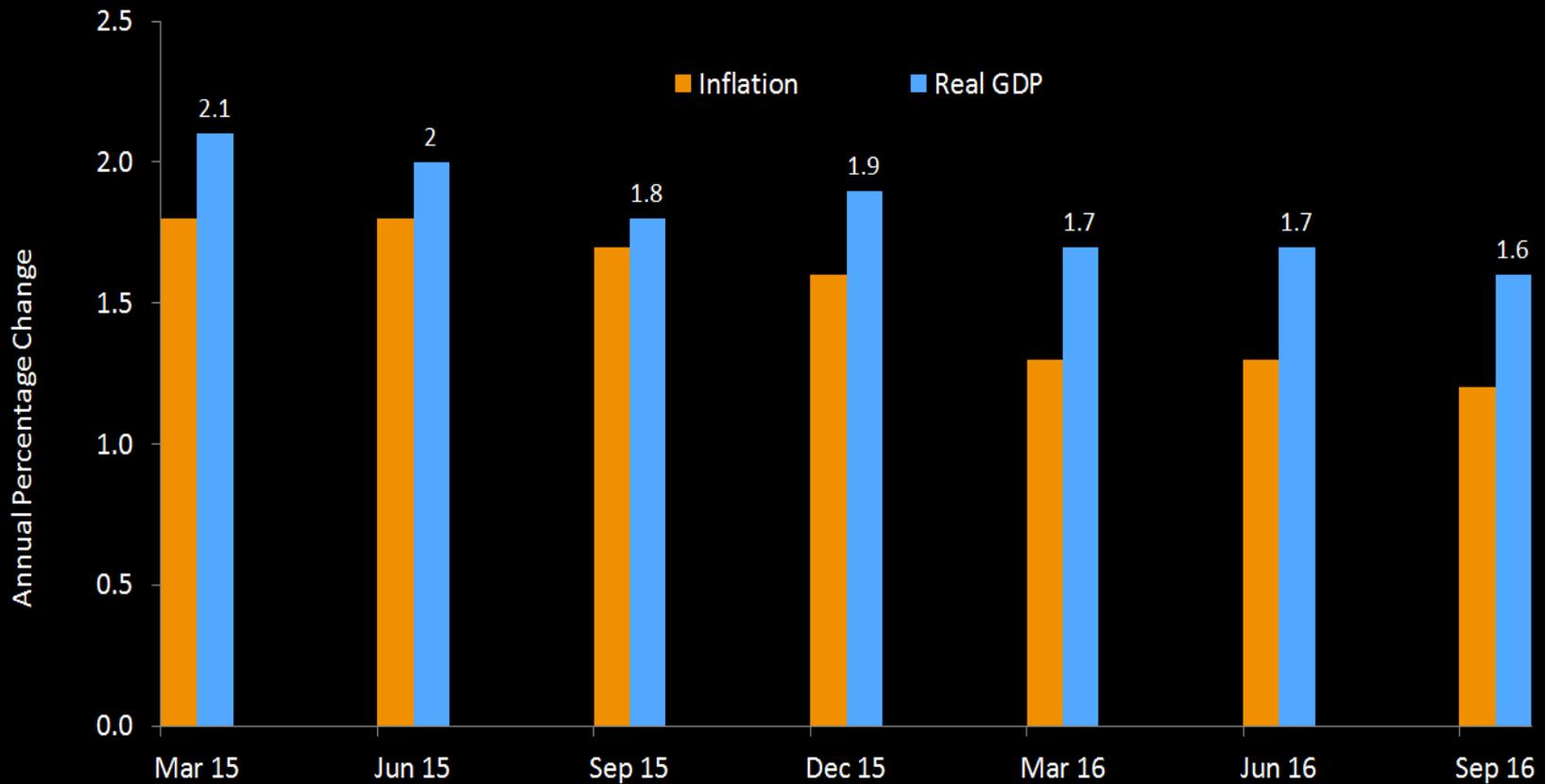
# PMI Survey Points to Muted Reaction in Euro Area



## Other Surveys Point to Steady Growth



## ECB Staff Forecasts for 2017 Hardly Changed



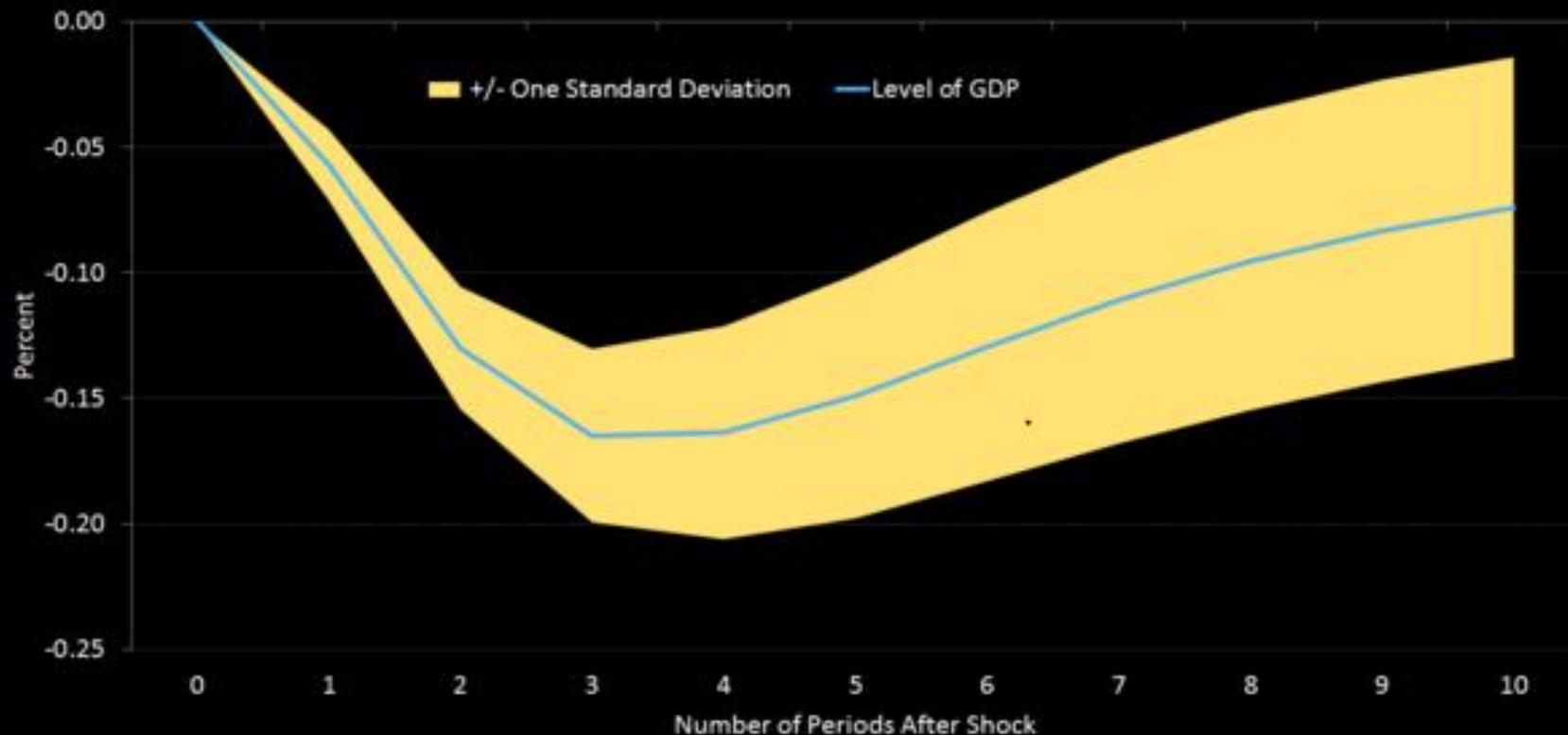
Source: Bloomberg Intelligence

## Uncertainty in the Euro Area Likely to Rise



Source: Bloomberg Intelligence

## VAR Suggests Euro-Area GDP May Be About 0.2 Percentage Point Lower



Source: Bloomberg Intelligence

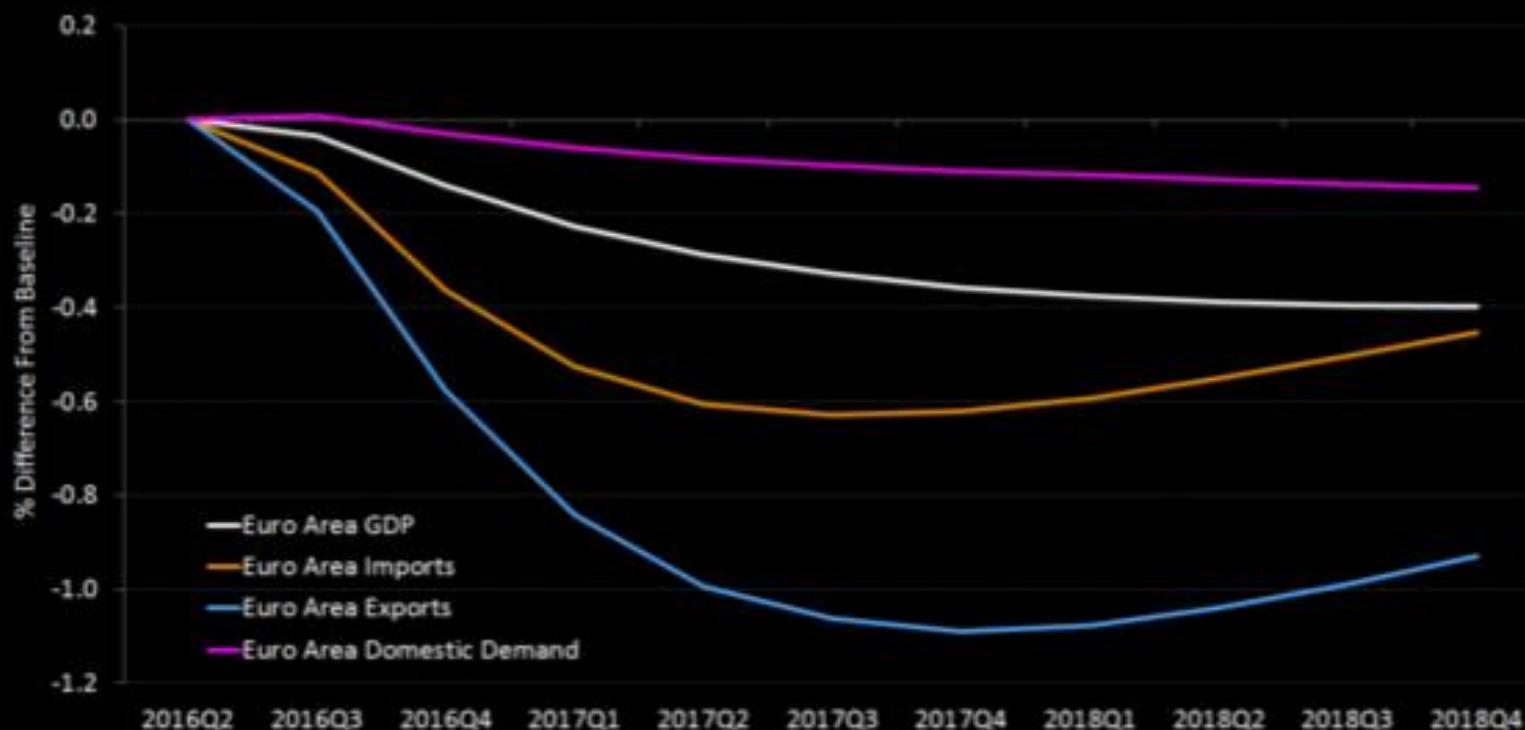


## Trade Impact

- We use NiGem a global macro model
- Can trace shock of Brexit across the globe

# Trade Impact on Euro Area

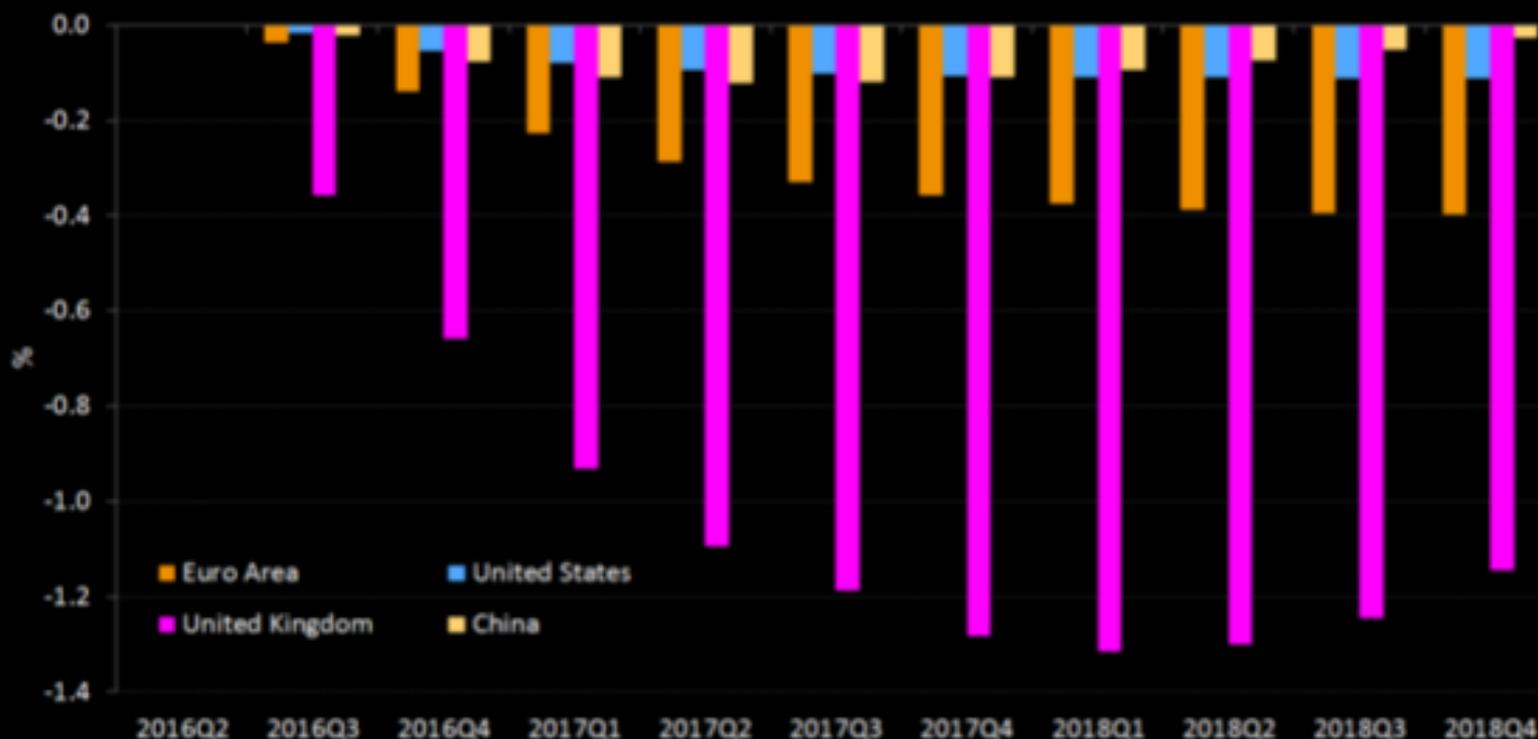
## Scenario: Imports, Exports and Domestic Demand



Source: Bloomberg Intelligence, NiGEM

# Trade Impact on Euro Area

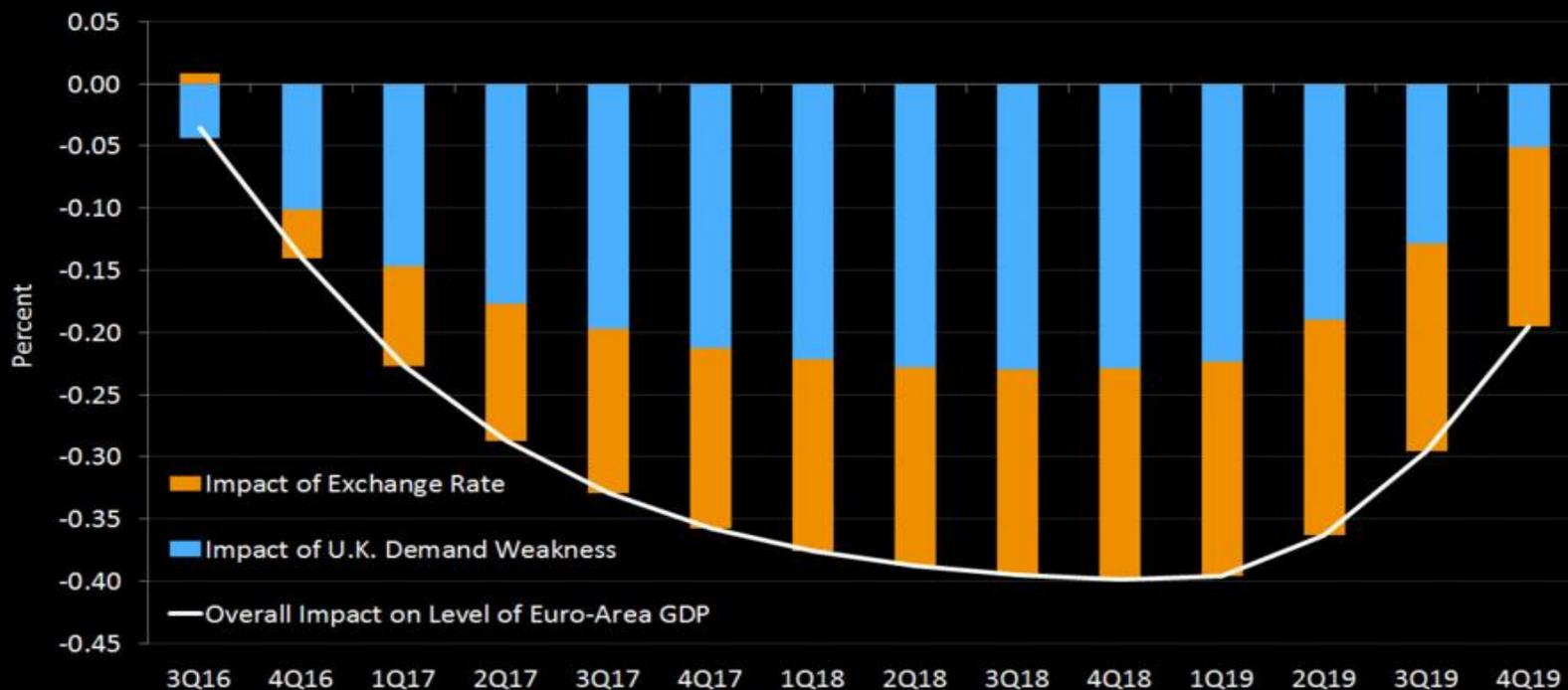
## Tracing Impact of U.K. Slowdown on Other Big Economies



Source: Bloomberg Intelligence, NiGEM

# Trade Impact on Euro Area

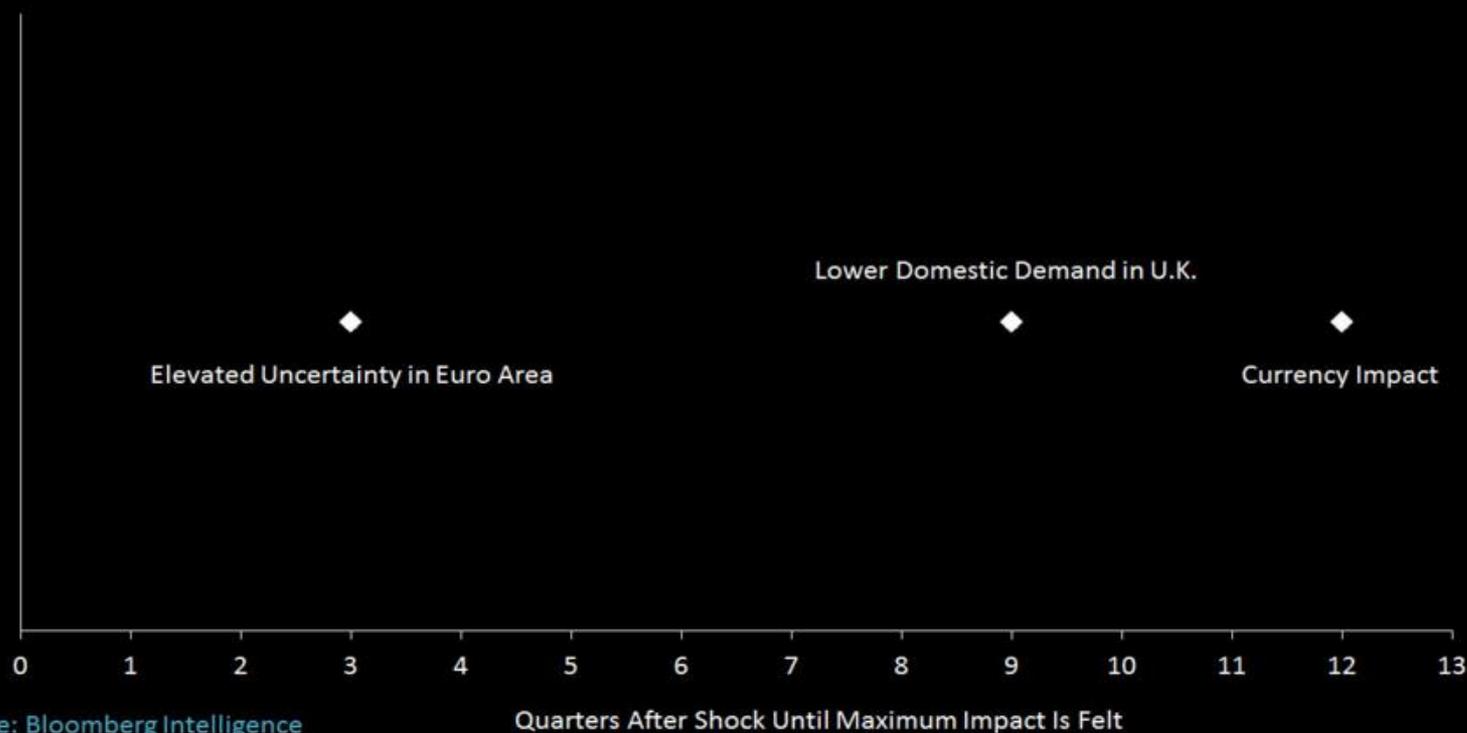
## Weaker Domestic Demand to Cause Half of Trade Effect



Source: Bloomberg Intelligence

# Trade Impact on Euro Area

## Uncertainty Shock in Euro Area to Be Felt Soonest



Source: Bloomberg Intelligence

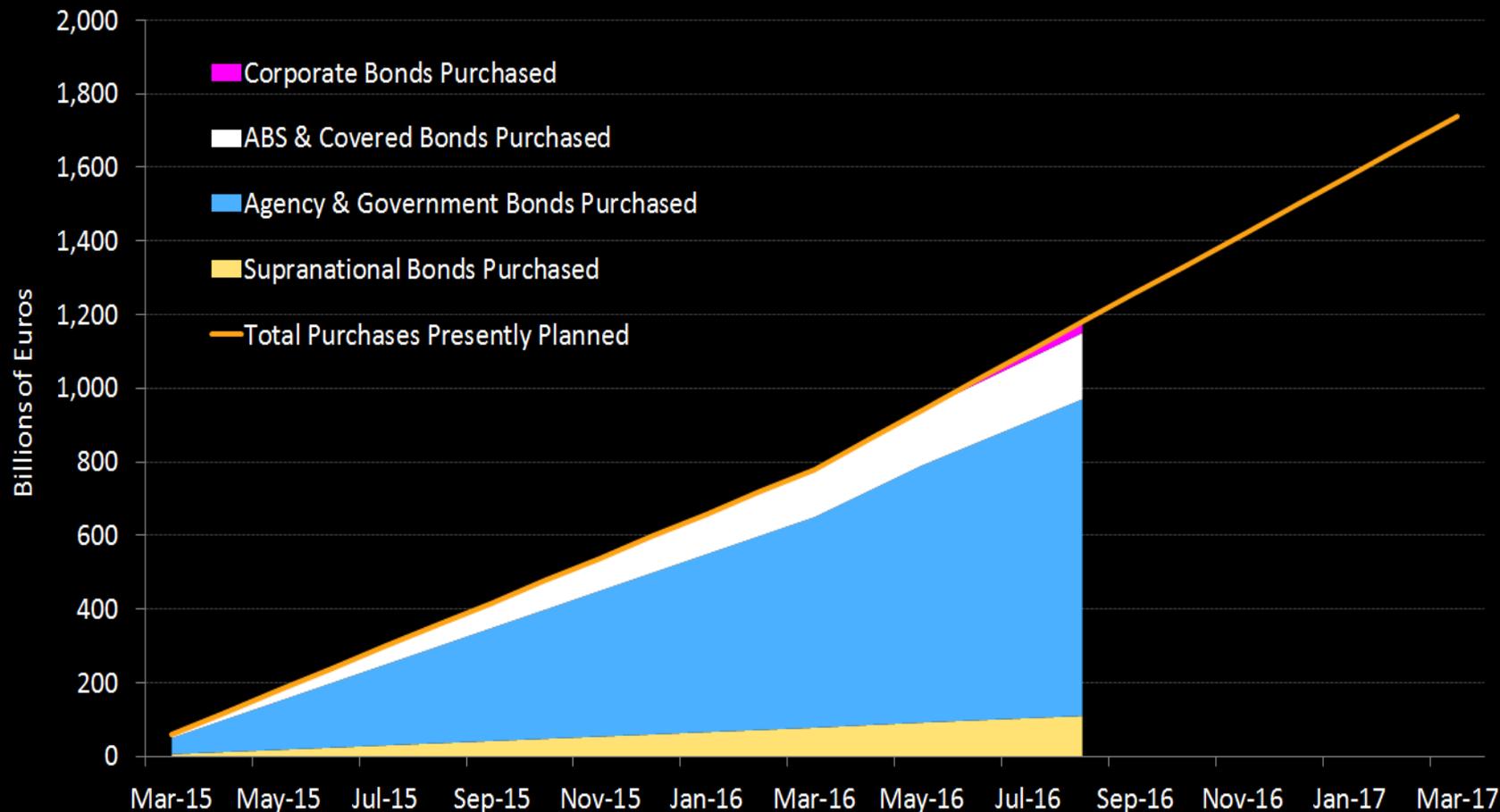
# Expect Downward Revisions to Forecasts

## How the ECB's Forecasts Have Changed



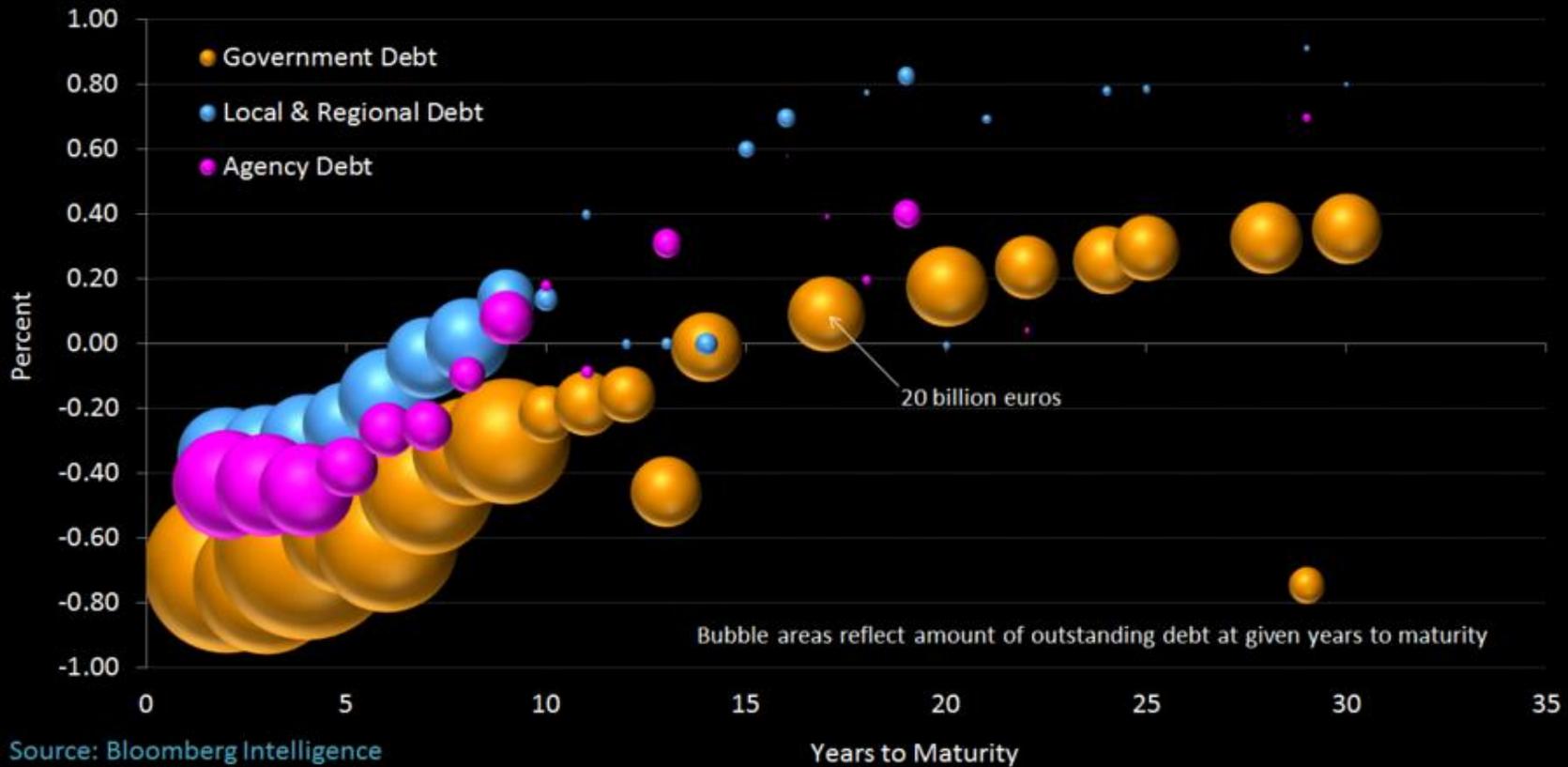
Source: Bloomberg Intelligence, NIGEM, ECB

# Likely to Cause Asset Purchases to Be Prolonged



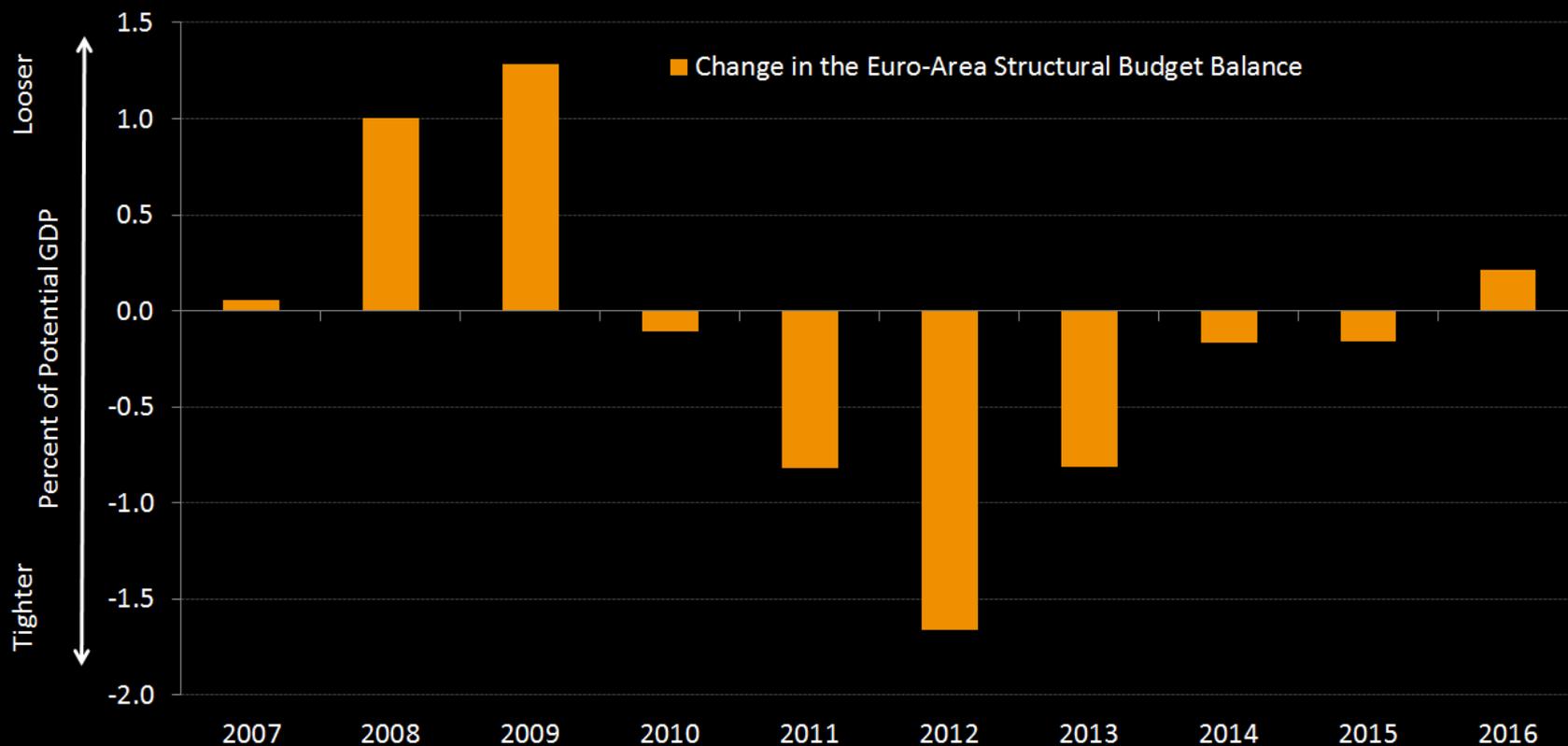
Source: Bloomberg Intelligence

# Most German Gov't Debt Yields Less Than Deposit Rate



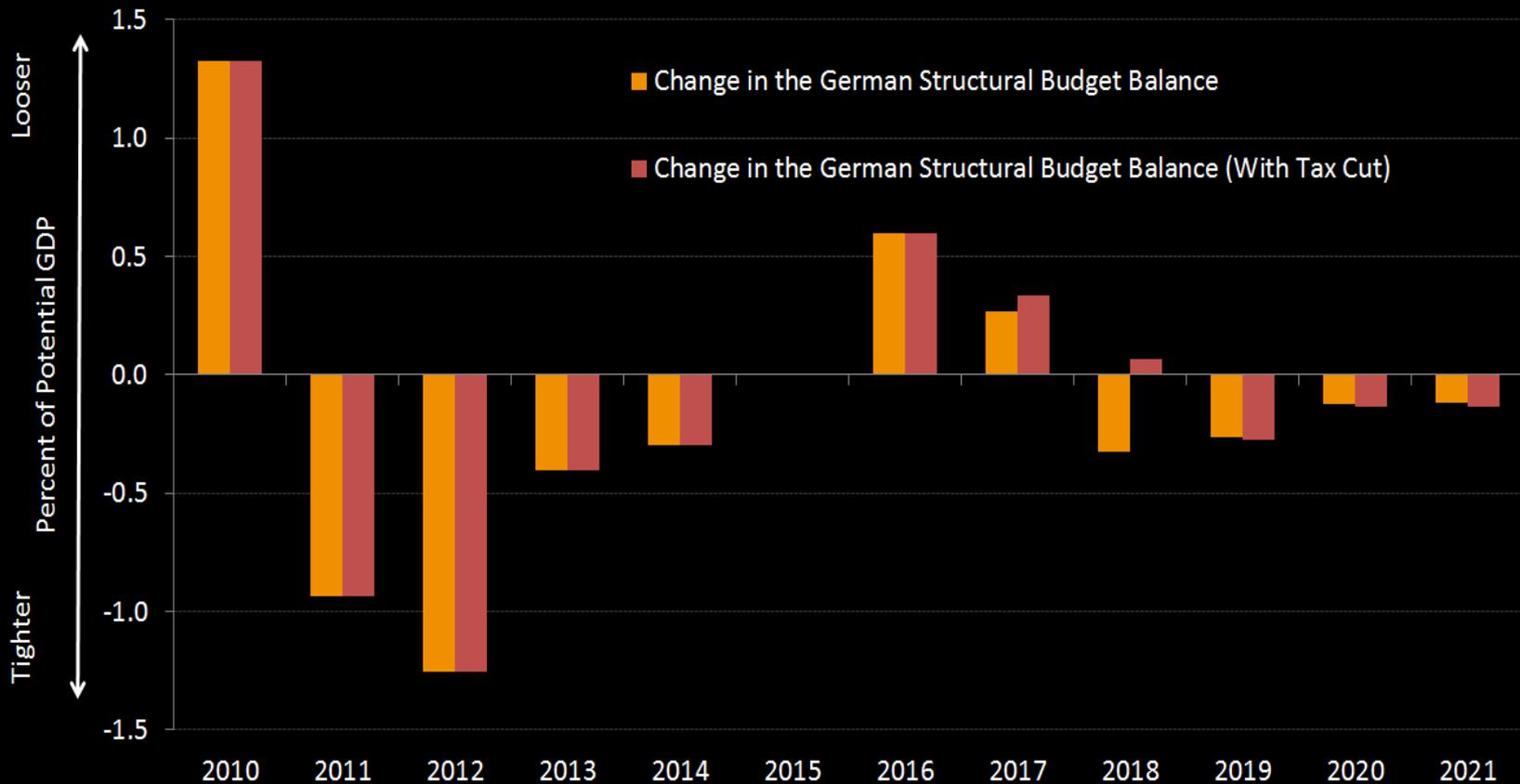
Source: Bloomberg Intelligence

# Fiscal Policy Finally Supports Euro-Area Economy



Source: Bloomberg Intelligence

# Refugee Spending to Wane, Tax Cuts Help

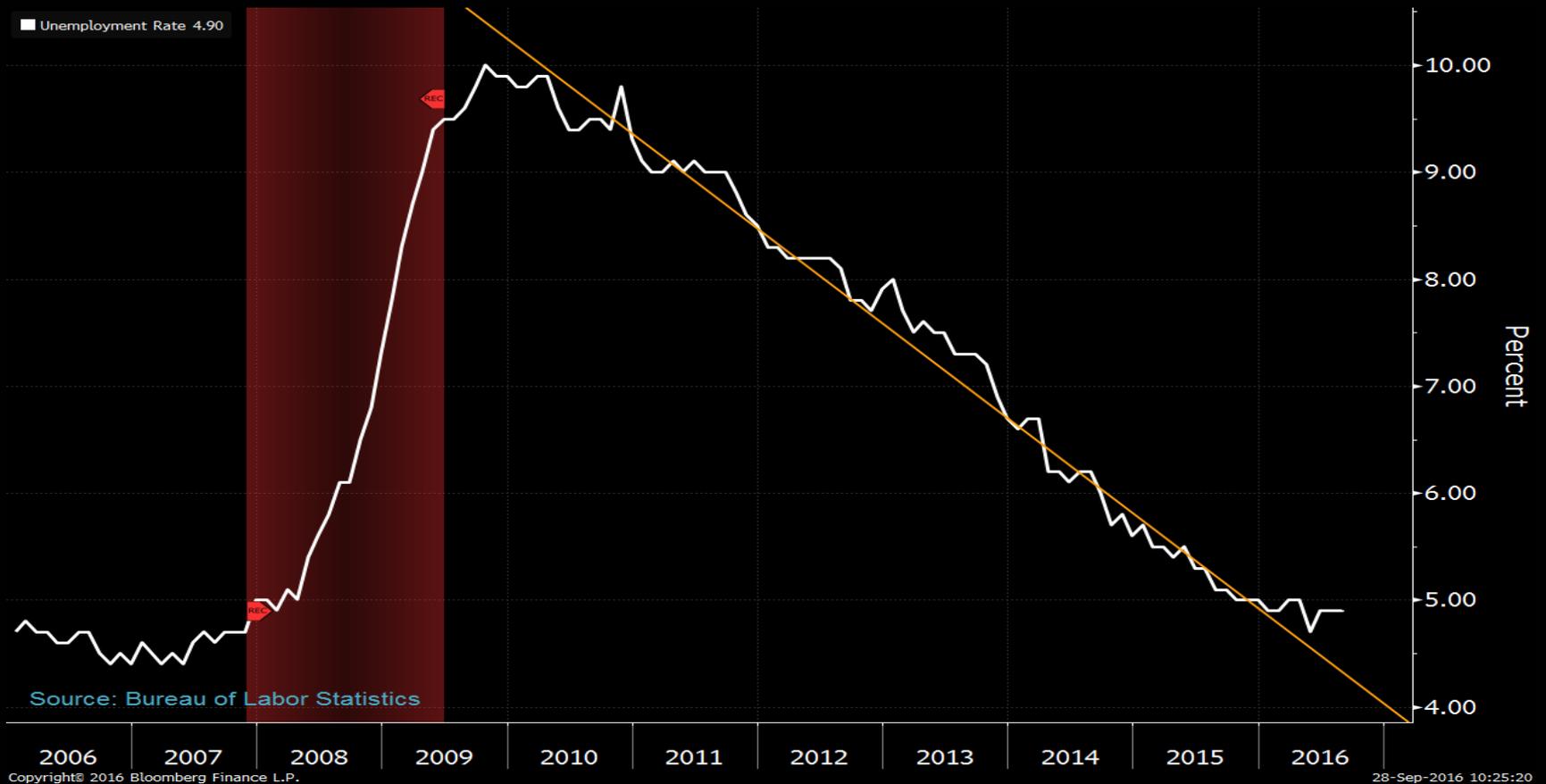


Source: Bloomberg Intelligence

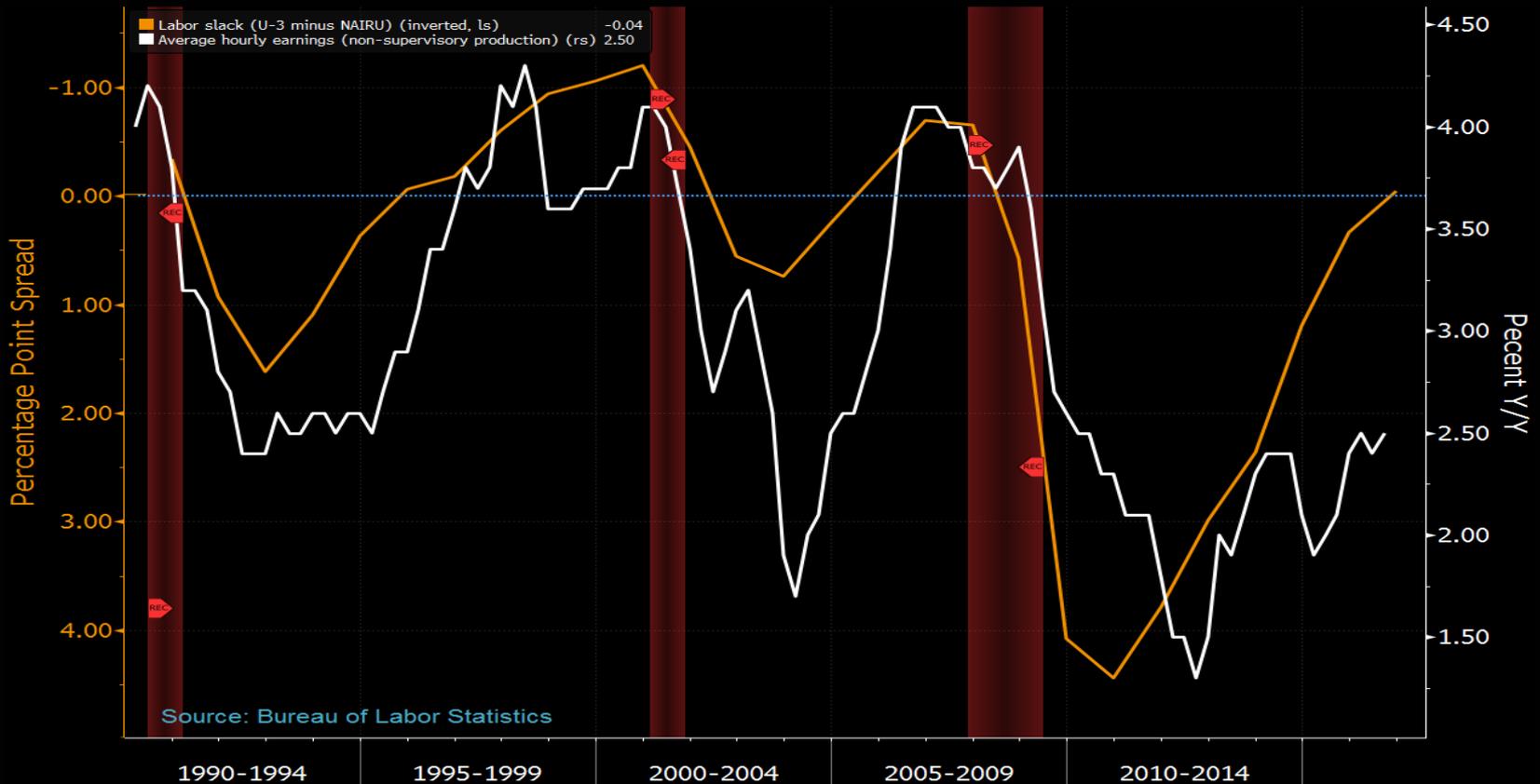
## Summing Up the Euro Area

- Little evidence of Brexit impact yet
- Uncertainty up a little, growth slower
- Biggest impact through trade channel
- Slack persists
- Inflation to remain weak
- QE likely to go on for longer than March 2017
- Fiscal response remains important

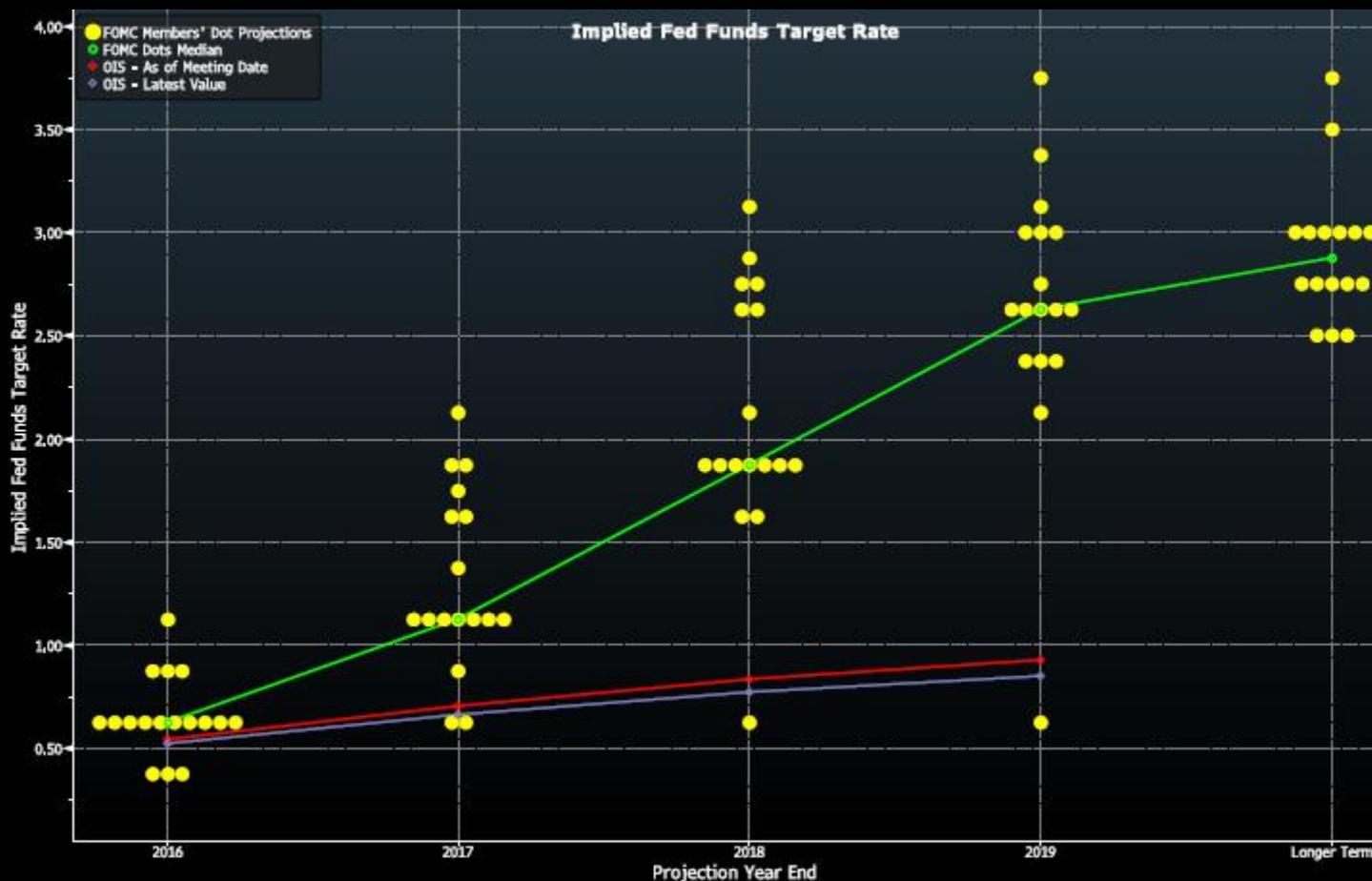
# U.S. Unemployment Continues to Decline



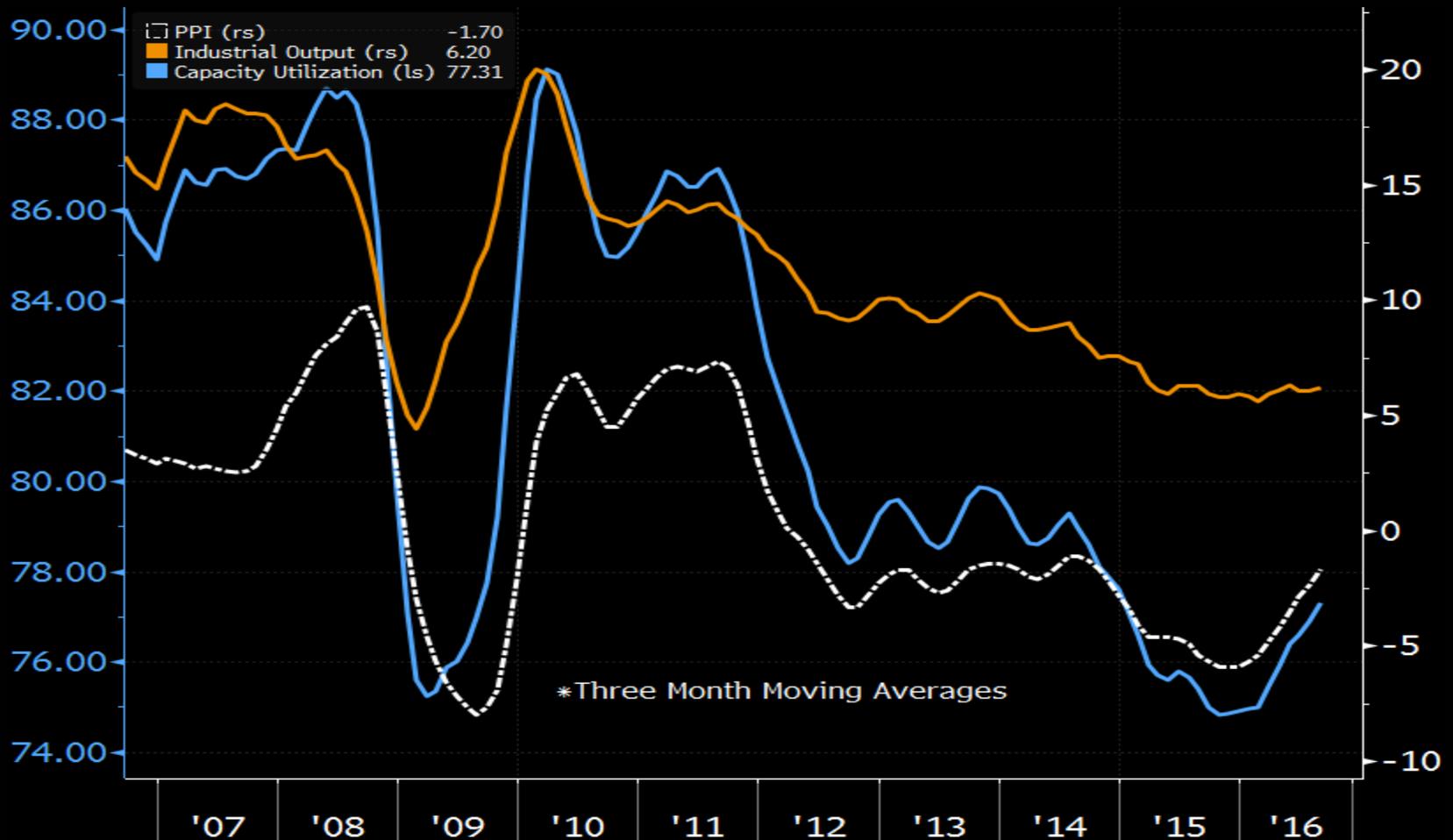
# U.S. Wages to Eventually Pick Up



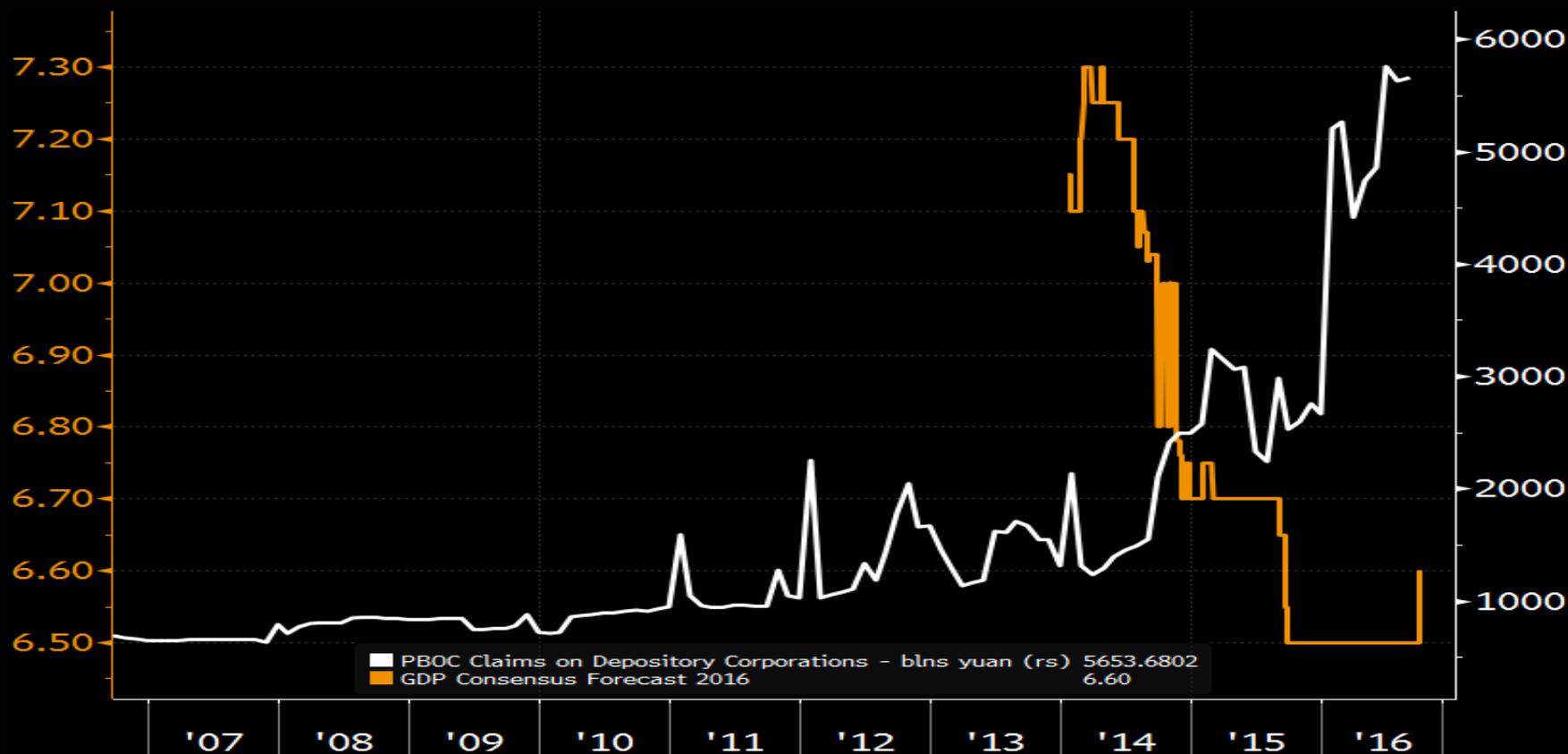
## Dots Indicate Slow Pace of Increases



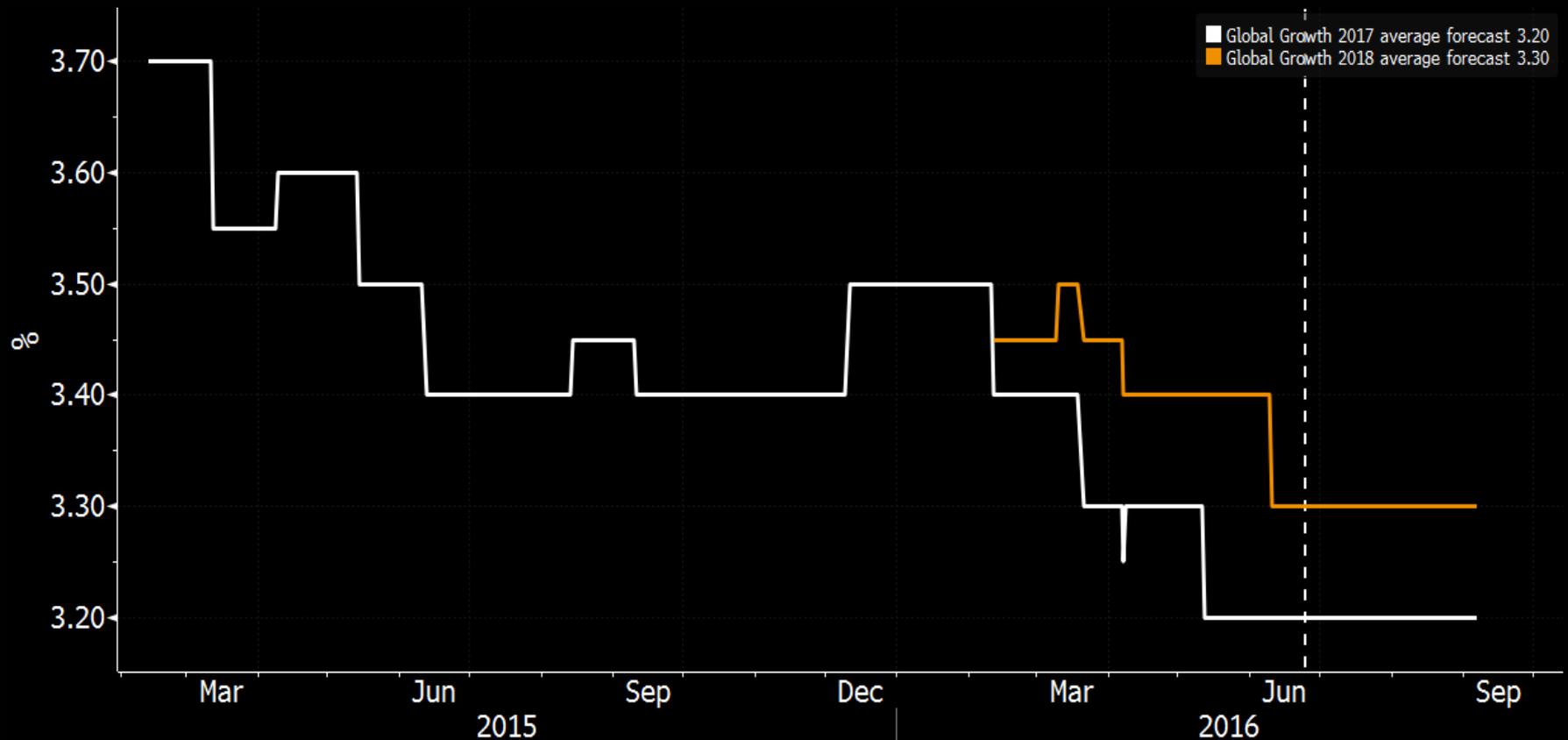
# Chinese Economy Experiences Slower Growth



# China to Continue Easing Monetary Policy



# Brexit's Global Implications – No Obvious Damage



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| Data Library    | 3) REACT: U.S. CPI Shows Ex-Rent Service Inflation Finally Rising    |          |            |          |                   |              |
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| Industrial Sec. | 11) ✓ REACT: Rise in Euro-Area CPI Only a Partial Comfort to ECB (1) |          |            |          |                   |              |
| Housing Sector  | 12) PREVIEW: What to Watch & Why -- Economics Europe, Nov. 16-20 (1) |          |            |          |                   |              |
| Retail Sector   | 13) INSIGHT: Move Aside Yen and Pound, Yuan Set for #3 in SDR Basket |          |            |          |                   |              |
| External Sector | 14) INSIGHT: Charting a Decade of Yuan Moves (1)                     |          |            |          |                   |              |
| Trans. & Logis. | 15) REACT: Inventory Drop Silver Lining in Japan 3Q Recession Cloud  |          |            |          |                   |              |
| Public Sector   | 16) REACT: IMF SDR Nod a Force for Yuan Strength, Not Weakness       |          |            |          |                   |              |
| Surveys         | 17) U.S. PREVIEW: Factory Surveys to Color Growth Outlook            |          |            |          |                   |              |
| Forecasts       | 18) INSIGHT: Brazil Retail Sales Slump Piles Pressure on Economy     |          |            |          |                   |              |
| Monitor         | 19) ✓ INSIGHT: The Week That Was -- Economics Europe, Nov. 9-13      |          |            |          |                   |              |
| Economic News   | 20) REACT: Latest Data Imply Longer U.S. Inventory Cycle             |          |            |          |                   |              |
| Credit Ratings  | 21) REACT: U.S. Consumer Sentiment Rebounds on Job Growth            |          |            |          |                   |              |
|                 | 22) REACT: Disinflation Causes U.S. Retail Sales Disappointment      |          |            |          |                   |              |

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