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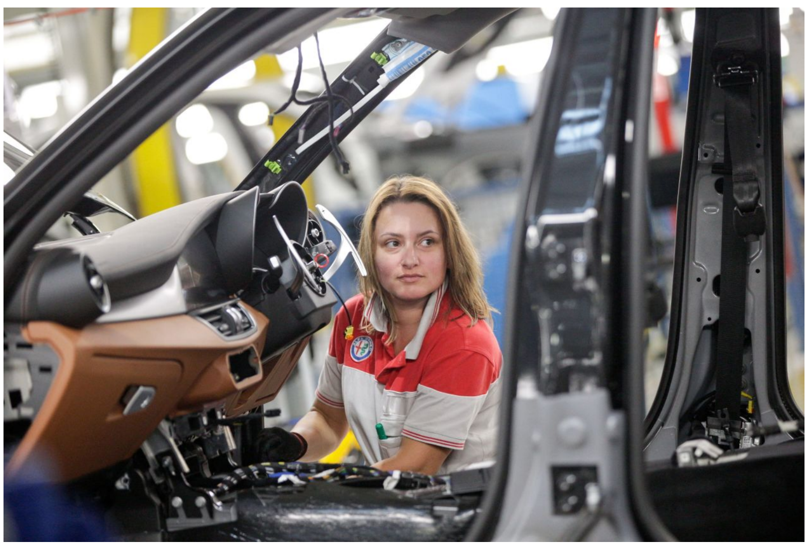
EUROPE ECONOMY

# Eurozone Economic Forecasts Slashed

The eurozone's waning fortunes reflect a drastic turn of events from just two years ago



An employee works on the Fiat Chrysler Automobiles NV's Alfa Romeo assembly plant in Cassino, Italy. **PHOTO:** MATTHEW LLOYD/BLOOMBERG NEWS

*By Emre Peker and Paul Hannon*

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BRUSSELS—Europe's economy faces a daunting combination of weaker demand for its exports from China and elsewhere, the prospect of a messy divorce with the U.K. and political problems closer to home, the European Union warned Thursday.

Adding to growing concerns about the strength of the global economy this year, the European Commission slashed its growth forecasts for Germany and Italy, with the latter expected to come close to stagnation. The Bank of England sounded a similar warning on the global economy, saying it expected to see a "sharper and more persistent" slowdown.

Both the Commission and the BOE identified a deceleration in China while it navigates a trade dispute with the U.S. as a key headwind, a threat that was underlined by figures for December that recorded a fourth straight month of declining factory output in Germany, Europe's exporting powerhouse.

They also highlighted the uncertainty facing businesses across the continent as the U.K. prepares to leave the EU. In addition, the Commission saw drags to growth from the disruption caused by the "yellow vest" protests in France and investor worries over Italy's ballooning national debt.

"This slowdown is set to be more pronounced than expected last autumn, due to global trade uncertainties and domestic factors in our largest economies," said Pierre Moscovici, EU commissioner for economic and financial affairs, taxation and customs.

The EU forecasts gross domestic product in the 19-member eurozone will grow by 1.3% in 2019 instead of the 1.9% forecast in November. The economy is expected to expand by 1.6% next year, down from 1.7% previously expected.



The eurozone's waning fortunes reflect a drastic turn from just two years ago, when the currency area grew by 2.4% in 2017—the fastest pace in a decade. But the end of the so-called "euroboom" has resurrected old structural problems, from debt sustainability to political resistance to economic reforms.

The EU forecasts that Italy's economy, which slipped into recession at the end of 2018, will grow at the slowest pace in the currency union at just 0.2% this year. Meanwhile, Germany is struggling to repeat the export-driven growth of 2014-2017, with the EU slashing its 2019 growth forecast to 1.1% from 1.8%.

BOE Gov. Mark Carney warned a messy divorce with the EU could push the U.K. into recession. The U.K. is scheduled to leave the EU on March 29, but lawmakers have rejected the departure agreement negotiated by the government. That increases the risk the U.K. could leave without a trade agreement, and a transition period that would allow businesses time to adjust to the new rules.

"When the economy is growing more slowly, the probability of it having a negative quarter or two goes up," Mr. Carney told reporters in a news conference. "If there is a shock..that further increases the possibility of negative quarters."

The Commission shared that concern, warning that failure to secure a smooth Brexit would also hit growth in the bloc's 27 remaining members harder than currently envisaged.

Italy is already in recession, defined as two straight quarters of declining economic output, and Germany is teetering on the brink. Early last month, its statistics agency estimated that its economy had narrowly avoided a second quarter of contraction as 2018 drew to a close, but more recent data such as the figures for industrial output have raised doubts about that assessment. Germany will release a new estimate on Feb. 14.

The Commission said growth could be even lower than now forecast.

"The EU economy is facing an exceptional amount of uncertainties, which could weigh as well on investment and consumption more severely than currently expected," Mr. Moscovici said. "We always establish the balance of risks, and clearly this time the balance moves to the downside."

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