AAS ECONOMICS LTD

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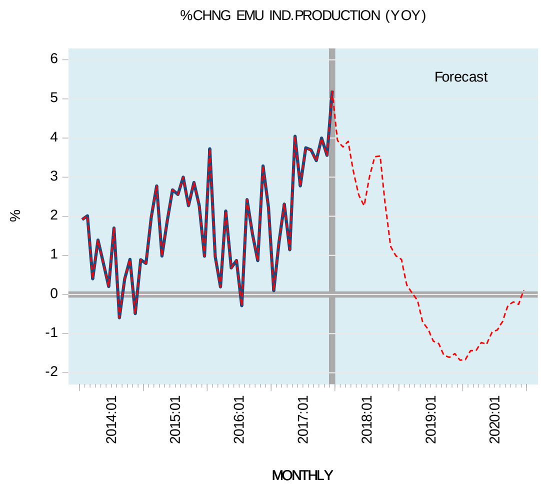
AAS Economics
From Money Supply to Markets

ECOFLASH

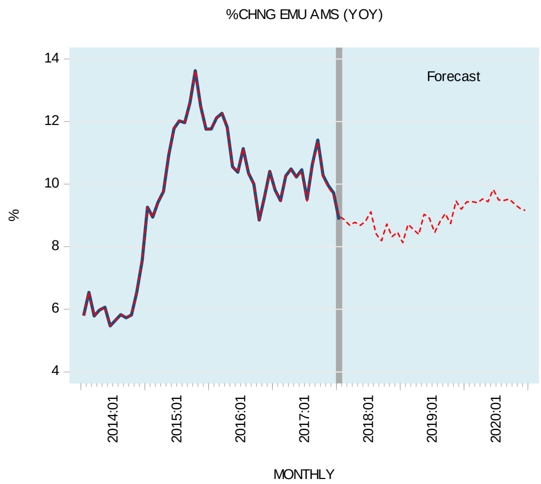
ECONOMIC COMMENTARY

Why Eurozone growth will slow

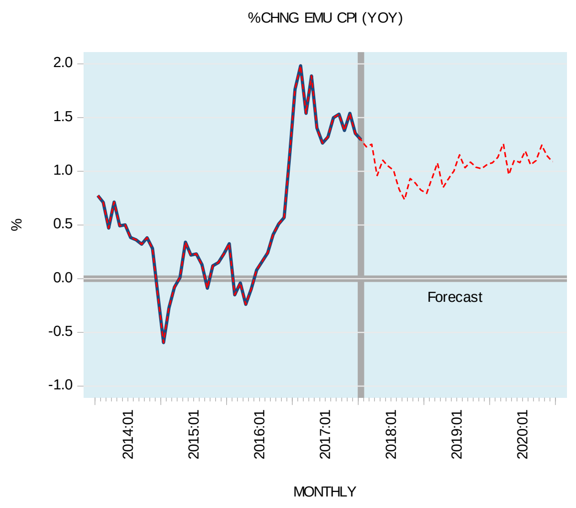
The outlook for Eurozone economic growth is deteriorating as the lagged effects of reduced monetary pumping by the ECB and the commercial banks ripple through the economy. The yearly growth rate of EMU **industrial production**, which closed at 5.2% in December last year, is forecast to fall to 1% by December this year before declining to minus 1.7% in December next year. By December 2020, we forecast a figure of 0.1%. This is not a consensus view and we alert clients to the likelihood of a significant growth slowdown towards the end of this year.



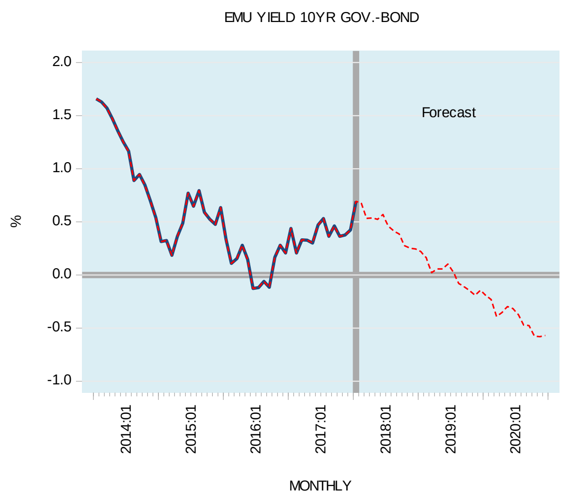
As mentioned, the yearly growth rate of Eurozone money supply AMS (our proprietary definition), which closed at 8.7% in January, is forecast to close at 8.5% by December before rising to 9.2% by December next year. By December 2020, we forecast the growth rate to settle at 9.2%.



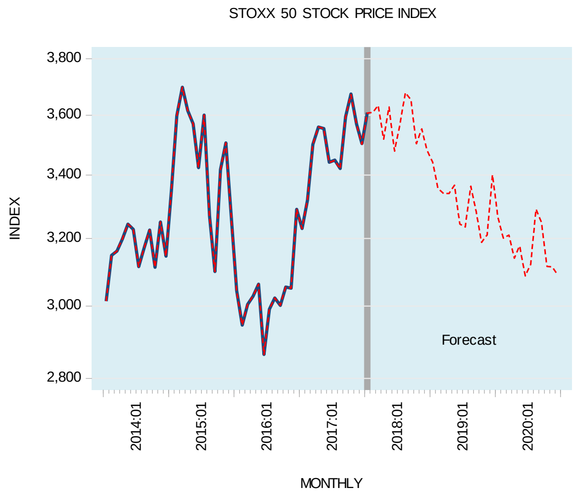
Year-on-year the growth rate of EMU **CPI** declined to 1.3% in January from 1.4% in the month before. Using our large-scale MENGER model we forecast CPI inflation to fall further, to around 0.8% by December this year before closing at 1.1% by December next year. By December 2020, we forecast the growth rate at 1.1%.



Meanwhile, the yield on the 10-year German **bund** closed at 0.69% in January against 0.42% in December last year. Our modelling suggests that this yield could fall to 0.24% by December this year before declining to minus 0.14% by December next year. By December 2020, our modelling suggests a figure of **minus 0.57**%. This appears to be the start of another significant bull market in bunds.



The **Stoxx 50**, which closed at 3503.96 in December last year, is forecast to ease by 0.7% year-on-year in December this year. By December next year, the index forecast to fall by 2.3% against December 2018. By December 2020, the index forecast to fall by 4.4% versus December 2019.



This translates into a meaningful decline in the Stoxx commencing around the end of 2018.

For the logic behind these forecasts please feel free to contact us:

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