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Editorial: Deflation in the Euro Area: still a threat, not already a reality

Once installed, roots of deflation are highly difficult to remove, which is witnessed by the 20 years of deflation in Japan. Now, there is a threat of deflation in the Euro area – a threat with a probability to come true being one third according to the IMF.

More than a decrease in consumer prices, deflation is, first of all, a self-reinforcing process where consumers as well as businesses are adapting their behavior to an anticipated decrease in prices. By delaying expenses because prices are expected to decrease, they create the conditions for a drop in activity, which spills over to incomes and then – to prices. The very story of the mantra used by Mr Draghi ('to ensure that medium-term inflation expectations are well-anchored") is precisely referring to such a process: How to avoid self-fulfilling expectations towards decrease in prices? From this point of view, the relevance of the deflation threat has to be examined in relation with both the evolution of prices and of price expectations. More generally, this is the whole context of trends in consumption, revenues as well as balance sheets that has to be understood.

Concerning the first two points: An evolution towards disinflation, first, and deflation, second, is clearly at work. Consumer price inflation has slowed, mainly due to the drop in energy and food prices. But also core inflation has followed a slowly decreasing path in about all Euro area countries: This is the disinflation process. Concerning price expectations, the appreciations are lost somewhere between myopia and a long view. Households as well as business are expecting that prices will again slow down. Up to now, they do not expect any decrease in prices but only a slowing down or a stagnation. But the observation of the past tells us that household and business expectations are more adaptive than really forward looking. More interesting is the long view provided by the financial markets: the 5 year forward inflation breakeven rate is giving a good description of inflation expectations on the market. This rate has recently dipped far below the 2 % bottom line. This move was the background of the change in the tone of the ECB starting from the Jackson Hole speech last August. This indicator is probably the best one to illustrate the increase of deflation threat: the view that prices increases are going to be low for an extended period is gaining support. But such an indicator does not reveal anything in the incoming process of deflation.

In fact, when turning to hard data, it is harder to find many observations describing a deflation process at work. Retail sales, in real terms, are on the upside. Their annual growth rate of 1.4 % in August may appear feeble. It is nevertheless the highest seen since 2007. Retail sales are supported by a low increase of 1 % of gross disposable income (in nominal terms). But the composition of this small increase is highly significant. It is associated with a 2 % growth (yoy) of compensation of employees. Employment at the Euro area level is now on the upside. A lot remains to be done to recover with the number of jobs of 2007. Right, the investment is still faltering. But the level of gross operating surplus for non-financial corporations is close to have completely recovered with its level of 2007. It is already the case in Spain and Germany, a lot has still to be done in France and Italy.

The missing weapon to escape deflation trap is the recovery of credit. Up to September, loans to private sector were still on a decreasing trend. The deleveraging process of the banking sector was still on track while the reduction of households and enterprises levels of debt was proceeding very slowly. Two points are to be made. Firstly: The financial asset side of the balance sheets for households and corporations has significantly improved with the recovery in many asset prices (at least up to the end of September). Also, the level of deposits held by private sector has never been so high. Secondly: The quite positive outcome of the Asset Quality Review as well as the steps towards a banking Union are probably good news for an expected recovery in the distribution of credits. The release of the last ECB bank lending surveys has revealed significant improvements in the demand for credit coming both from households and corporations. The conditions for credit have also eased somewhat. These two qualitative results still have to translate in hard data. If this lacking engine is to recover, the deflation trap can be avoided, leaving the floor for a probable long-lasting low inflation period.

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New Member States in Shadow of Uncertainty

Economic recovery will proceed, but risks increased

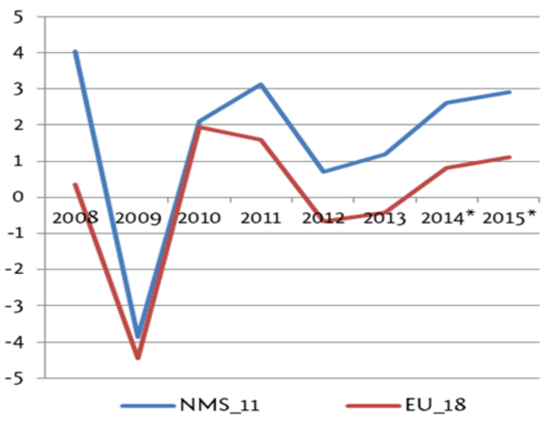
Picking up of domestic demand

In the new member states (NMS) of the European Union the recovery observed in majority of them (except for Croatia) since the beginning of 2013 continued in the first half of 2014 (Graph 1). However 2014 Q2 figures signalled slowdown tendencies. Impulses from an improving economic activity in the Euro area - a key growth driver in the NMS - shrunk. The unexpected contraction of economic activity in Germany, the continuing recession in Italy and zero growth in France resulted in stagnation in the Euro area as a whole. Huge uncertainty about military conflict in Ukraine and possible extension of sanctions by EU and other countries vis-á-vis Russia dimmed the economic outlook additionally.

Preliminary figures for 2014 Q2 show considerable variations within the NMS (Table 1). Annual GDP growth accelerated in majority of NMS except for Latvia, Lithuania and Romania where growth weakened; in Croatia GDP even contracted. The highest rates were recorded in Hungary, in Poland and despite the deceleration also in Latvia. Exports in 2Q 2014 decelerated, mainly due to the stagnation in the Euro area. This was compensated by a recovery of domestic demand, which was supported by stronger final consumption expenditures (except for Croatia, Slovenia), and gross fixed capital expenditures (mainly in V4 countries). On the other hand, austerity measures resulted in a deceleration of government spending almost in all NMS (except for Czech Republic, Lithuania, and Slovakia). With respect to associated acceleration of imports, net exports contributed to growth to a significantly lower extent in some countries, or even negatively compared to previous quarters.

Graph 1

GDP growth in New Member States compared to the Euro Area



*Source: ECB, Eastern Europe Consensus Forecasts, Eurostat, Infostat - * forecast*

Table 1

GDP growth in NMS
in per cent, seasonally adjusted

	Quarter on quarter			Year over year		
	2013 Q4	2014 Q1	2014 Q2	2013 Q4	2014 Q1	2014 Q2
Bulgaria	0.3	0.3	0.5	1.2	1.2	1.6
Czech Rep.	1.5	0.8	0.0	1.1	2.9	2.7
Estonia	0.6	0.3	1.0	1.6	0.4	2.8
Croatia	-0.3	0.0	-0.3	-0.6	-0.6	-0.8
Latvia	0.7	0.6	1.0	3.6	2.3	3.5
Lithuania	1.2	0.7	0.8	3.4	3.1	3.1
Hungary	0.7	1.1	0.8	2.9	3.3	3.7
Poland	0.7	1.1	0.6	2.5	3.5	3.3
Romania	1.2	0.9	0.6	-1.1	0.9	2.2
Slovakia	0.6	0.7	0.6	1.6	2.2	2.4
Slovenia	1.2	-0.3	1.0	1.9	1.5	2.9

Source: Eurostat

Uncertainty about an escalation of geo-political tensions, discussions about ad-ditional sanctions against Russia and especially potential Russia´s adverse reper-cussions on energy and car making sector worsened economic sentiment indicators since May 2014 in the majority of the NMS (Table 2). Such an escalation may have a significantly negative impact on economic activity in NMS. It could have direct impact on (1) exports to Russia in countries highly exposed to Russia´s demand (Estonia, Latvia, and Lithuania), (2) energy supply and prices in particular in countries heavily dependent on Russian energy deliveries (Estonia, Latvia, Lithuania, Bulgaria, Slovakia, and Hungary). Moreover, it could have also indirect impact through close integration within the Euro area.

Besides external risks some structural problems within NMS remain. While there are risks of delays in fiscal consolidation in some NMS (Croatia, Slovenia), some flexibility to use fiscal policy to support growth has been given to countries that exited EU excessive deficit procedure (Czech Republic, Slovakia). However, there are some risks of further loosening of fiscal policy.

Table 2

Economic sentiment in NMS
2014; seasonally adjusted

	May	June	July	Aug	Sep
Bulgaria	104.1	102.9	102.3	99.8	96.9
Czech R.	99.7	101.8	101.0	101.5	102.3
Estonia	99.2	98.5	97.8	99.9	99.7
Croatia	113.5	114.1	112.1	117.2	113.9
Latvia	103.7	103.7	104.7	102.9	102.1
Lithuania	103.4	102.1	99.9	100.5	99.6
Hungary	118.8	119.7	115.4	113.4	117.1
Poland	97.5	98.7	97.8	96.8	96.4
Romania	97.4	97.6	99.6	101.0	99.8
Slovakia	101.3	100.4	103.3	102.0	100.9
Slovenia	102.4	103.8	105.9	103.3	104.4

Source: Eurostat

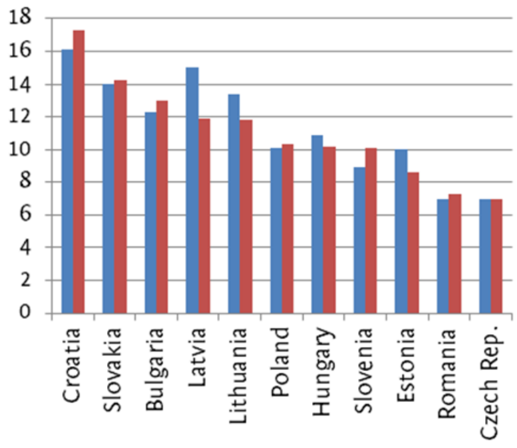
Despite of all uncertainties mentioned, GDP growth of NMS should accelerate to 2.5 % in 2014 and to 2.8 % in 2015 respectively. However, risks of this forecast increased.

Labour market still subdued

The economic deceleration registered in 2012 was reflected with time lag also in labour market developments in the NMS. In 2013 the unemployment rate increased to 10.1% on average, which, however; still is slightly below the EU28 average of 10.8% and more significantly below the Euro area average. Nevertheless, the unemployment rates increased in more than half of the NMS and the differences between NMS remain marked (*Graph* 2). A significant decrease of unemployment was only registered in Baltic countries, though remaining at two-digit levels in Latvia and Lithuania. In *Hungary* unemployment receded slightly, which, however, is rather based on a government-backed 'workfare' scheme, according to which claimants for benefits have to work on public projects in order receive payments, than on economic recovery. In the Czech Republic unemployment rate remained unchanged. The other new member states are characterized with increasing unemployment. The highest level as well as the strongest increase is found in Croatia with an unemployment rate of

Graph 2

Unemployment rates
2013 compared to 2012, in %



Source: Eurostat

17.3% which is followed by Slovakia and Bulgaria with slightly better numbers.

The labour market expectations for 2014 are not very encouraging. Economic growth, which speeded up towards the end of 2013, lost momentum in 2014. Thus, seasonally adjusted unemployment rates decrease slightly only on this year with the exception of Slovenia. The biggest progress was made in the *Czech Republic* (decrease by 0.7 p.p. in July 2014 against January 2014), thus remaining the country with the lowest rate within NMS.

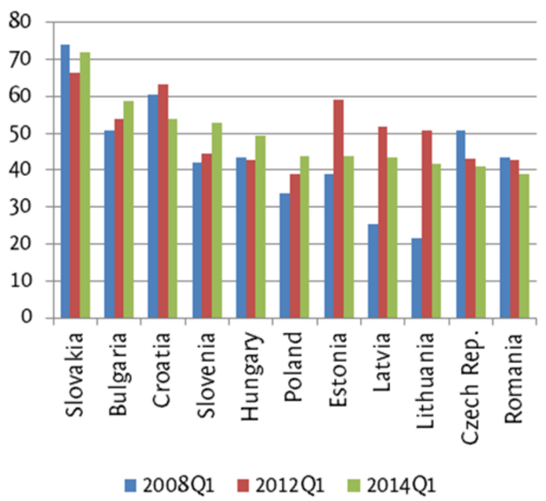
Though doing better, unemployment continues to be high in the Baltic countries and in Slovakia and Bulgaria. And it obviously is largely structural in nature. It is particularly high for young people – especially in *Slovakia* where more than 30% of the population aged below 25 is unemployed. Furthermore, about half of unemployed have been out of a job for more than one year. The highest long-term unemployment is registered in Slovakia followed by Bulgaria and Croatia (Graph 3). Thus there is a scope for policies to reduce structural unemployment. Neither minimum wages nor unemployment benefits appear excessive in these countries, so policymakers could focus attention on reducing the labour "tax wedge," which is a difference between labour costs to the employer and the net take-home pay of the employee. High taxes on labour income tend to depress labour supply and employment and expand the shadow economy. Skill and education mismatches also appear to be a concern, while spending on active labour market policies is still very low. Policymakers can therefore take action to emphasize education and training and expand active labour market policies.

Concerning *Croatia*, the unemployment is expected to rise further before stabilising at around 17% in 2015, if the expected recovery gradually starts to take hold. More worrying is the extreme high youth unemployment in Croatia – the percentage of young people actually looking for work and unable to find any is above 40% – well above the EU average.

As most of projections for economic growth were revised downward except for the Visegrad countries, we expect that the labour demand will also remain subdued this year. However, the average unemployment rate in the region could get below 10%.

Graph 3

Long-term unemployment
in % of unemployment



Source: Eurostat

Slight improvement in reducing budget deficits

In a number of NMS the situation of the state budget has improved slightly over the past two years. Improving economic performance and fiscal austerity measures both contributed to a reduction of budget deficit. Based on the end year projections for this year, nine countries will show a deficit below the Maastricht threshold, the two exceptions are Slovenia and Croatia. These two countries are at present under the excessive deficit procedure (*Table 3*).

Slovenia suffered severely under the consequences of the crisis leading to an extremely high budget deficit: Therefore, fiscal consolidation now is the major priority of the government. In 2013 the budget deficit jumped to almost 15% of GDP, mainly due to the recapitalisation of the banking sector. The estimated decline of the deficit ratio to 6.2% for 2014 seems to be quite optimistic considering that economic growth will remain sluggish. Thus tax revenues (despite increasing direct as well as indirect taxes this year) might fall short of expectations. Public debt ratio increased substantially in 2013, from 38.7% in 2010 to 71.7% in 2013, and despite of tight fiscal policy in the forecast period the level of gross public debt will continue to grow relative to the GDP since growth forecasts for Slovenia are rather pessimistic. According to the EDP recommendations Slovenia should reach a correction of the deficit by 2015 but on the basis of the current figures this target can hardly be met.

Table 3

General government budget balance
% of GDP

	2013	2014*	2015*
Bulgaria	-1.5	-2.6	-1.9
Czech Republic	-1.5	-2.0	-2.3
Estonia	-0.2	-0.5	-0.5
Hungary	-2.2	-2.9	-2.7
Latvia	-1.0	-1.2	-1.2
Lithuania	-2.2	-2.0	-1.7
Poland	-4.3	5.0	-2.9
Romania	-2.3	-2.2	-2.2
Slovakia	-2.8	-2.8	-2.6
Slovenia	-14.7	-6.2	-4.2
Croatia	-4.9	-5.1	-4.5

*Source: Eurostat, Eastern Europe Consensus Forecasts, * projections by local and international authorities*

Croatia took various measures to improve the budget situation in 2014. The health care contributions and energy excises have been increased, telecommunication fees have been introduced, the taxation of lotteries was changed, and pension contributions were shifted from the second to the first pillar[1]. A reduction of subsidies especially in the transport and in the agrarian sector will contribute to an improvement on the expenditure side. The fight against tax fraud is one of the priorities of the Croatian government. However sluggish growth will partly offset the effects of above measures. Gross debt of the general government is only slightly above the Maastricht criteria but the rising trend indicates growing fiscal tensions. According to the EDP recommendations Croatia should correct the excessive deficit by 2016.

The positive balance of the general budget in case of *Poland* in 2014 is due to a reversal of the pension reform, and within this frame to a one-off transfer of assets from the second pension pillar of about 9% of GDP[2]. However, under the new national accounts system ESA 2010, these revenues will not be counted as budget revenues any more. Due to different fiscal measures, amongst others cuts on the expenditure side and changes in VAT as well as excise duties the fiscal situation in Poland will improve in the forecast period, also leading to a slight decline of the debt ratio.

1 See for details European commission: Spring 2014 forecast: Growth becoming broader-based, http://ec.europa.eu/economy_finance/eu/forecasts/2014_spring_forecast_en.htm

2 See for details European commission: Spring 2014 forecast: Growth becoming broader-based, http://ec.europa.eu/economy_finance/eu/forecasts/2014_spring_forecast_en.htm

Table 4

General government growth debt
% of GDP

	2013	2014*	2015*
Bulgaria	18.9	23.1	22.7
Czech Republic	46.0	44.7	45.8
Estonia	10.0	9.8	9.6
Hungary	79.2	80.3	79.5
Latvia	38.1	39.5	33.4
Lithuania	39.4	41.8	41.4
Poland	57.0	49.2	50.0
Romania	38.4	39.9	40.1
Slovakia	55.4	56.3	57.8
Slovenia	71.7	80.4	81.3
Croatia	67.1	68.9	69.2

Source: Eurostat, AMECO database

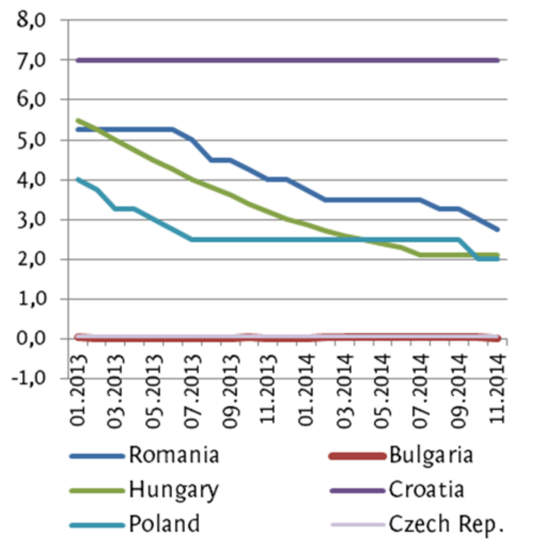
In two countries the Excessive deficit procedure was closed in 2014. In case of the *Czech Republic* this happened in summer 2014 as the country met the Council's recommendation and managed to reduce its deficit to 1.5% by 2013. Also under a no policy change scenario a slight increase in the deficit is expected in the forecast period staying below the reference value of 3 % of GDP. The same applies to *Slovakia*: here the Excessive Deficit Procedure was launched in 2009, and the Slovak government was committed to an average annual budgetary effort of at least 1% of GDP over the 2010-13 period. As a result the budget deficit was cut, and it will stay below 3% of GDP in the forecast period.

Concerning the gross debt of general governments, there are only two countries out of the 11 East-European member states where the debt to GDP ratio is above the Maastricht criteria: Hungary and Croatia (*Table 4*). All the other countries are below which is a much better situation than in most of the other Euro area members.

Declining central bank rates but still substantial differences

Central bank reference rates show a great variety among the non-Euro area members. In Bulgaria and the Czech Republic central bank rates are practically 0. In the other countries the rates show a declining trend, but are still above the ECB rate. In Croatia the base rate continues to be the highest by far.

Graph 4
Central bank reference rates in non-Euro area East-European countries



Source: National Central Banks

Long-term government bond yields also show a declining trend. Differences between the countries are getting smaller as well as the difference against the German rate as a benchmark. As of October 2014 the highest rates were measured in case of Hungary (4.59) and Romania (4.09), whilst the lowest were in the Czech Republic (1.21) and Slovakia (1.57).

Exchange rates remain volatile

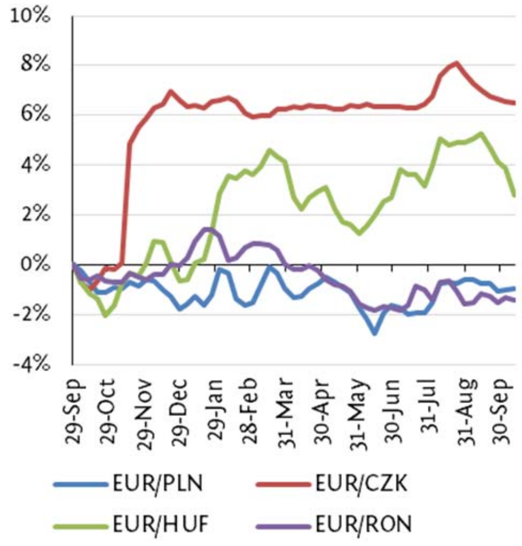
The Russian-Ukrainian crisis as well as uncertainties concerning the policy of the FED triggered some volatility in the exchange rates of the East-European region. Especially those exchange rates suffered which are not pegged to the Euro. The outflow of capital from emerging countries also had a depreciating impact on these currencies.

In particular the Hungarian Forint and the Czech Koruna showed a substantial depreciation compared to autumn 2013. In the

Graph 5

Euro exchange rate developments in 2014 in East-European countries

29.9.2013=100



Source: ECB

latter case interventions of the central bank aiming at a support of exports contributed to a great deal to the depreciation. In case of Hungary the depreciation follows a long-term trend. It can only be partly explained by international market trends, it is rather a specific phenomenon related to the risk assessment of the country.

The Polish Zloty as well as the Romanian Lei showed some volatility, especially recently due to uncertainties concerning the Russian-Ukrainian crisis.

Inflation remains moderate

Inflation in the NMS had reached its lowest level in June 2014 when the aggregate inflation rate in the region dropped to 0.2%. Although there was a slight increase in July and August (0.3% in the two consecutive months), the risk of deflation has not faded away even if it is very low. However, in Poland the consumer price index has been decreasing since February, inflation standing at0.1% in August. Due to the large weight of Poland, the Polish disinflation may cause a stagflation at regional level, although in that case the Polish inflation rate must be -1.5% for the rest of this year. On the other hand consumer price indices started to rise faster in the Czech Republic, Hungary and Romania which can offset the Polish disinflation. Therefore the NMS inflation forecast for 2014 is 0.4%.

Besides still weak but strengthening domestic demand, there are two sources of disinflation. Energy prices will be definitely lower compared to the year before and food price indices tend also to deflate in the course of the next months. However, whilst energy prices should become more stable in the next year, the disinflation in food prices will most probably continue. This year's weather was quite favourable which is reflected at commodity stock markets; price of wheat decreased by 50% while corn prices are 30% lower than last year at London Commodity Exchange.

Ukrainian-Russian conflict on the one hand may depress food prices in the EU additionally due to Russian import restrictions. On the other hand it may have an unfavourable influence on energy prices implying some risks to our forecast for next year. The weight of energy in the consumer basket is around 15-20% in all NMS which means 5% increase in energy prices may cause a 1% increase in the price index.

Table 5

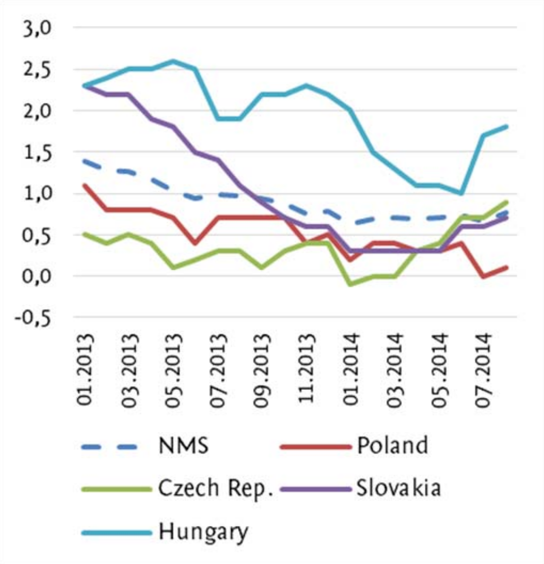
Consumer price indices in NMS

% of GDP

	2013	2014*	2015*
Bulgaria	0.4	-0.8	1.4
Czech Republic	1.4	0.5	1.8
Estonia	3.2	0.3	1.8
Hungary	1.7	-0.1	1.7
Latvia	0.0	0.8	2.0
Lithuania	1.2	0.4	2.0
Poland	0.8	0.2	1.3
Romania	3.2	1.7	2.6
Slovakia	1.5	0.1	1.4
Slovenia	1.9	0.5	1.5
Croatia	2.3	0.2	1.8

*Source: Eurostat, Kopint-Tárki, * forecast*

Graph 6
Core inflation in NMS and Visegrad countries
2013-2014; in %



Source: Eurostat

Table 6

Summary of forecasts

	GDP (yoy)		HIPC (yoy)		Unemploy-ment rate	
%	2014	2015	2014	2015	2014	2015
Bulgaria	1.5	2.5	-0.8	1.4	12.5	11.9
Czech Rep	2.7	2.7	0.5	1.8	6.4	6.0
Estonia	1.3	2.4	0.3	1.8	7.0	7.0
Hungary	3.4	2.5	-0.1	1.7	7.8	7.3
Latvia	2.8	3.3	0.8	2.0	10.3	9.7
Lithuania	3.0	3.1	0.4	2.0	11.0	10.7
Poland	3.2	3.4	0.2	1.3	9.5	9.5
Romania	2.4	3.2	1.7	2.6	7.2	7.1
Slovakia	2.4	2.9	0.1	1.4	13.5	13.3
Slovenia	1.4	1.5	0.5	1.5	9.9	9.5
Croatia	-0.9	0.5	0.2	1.8	16.8	17.1
NMS aver.	2.5	2.8	0.4	1.7	9.5	9.3

Source: Kopint-Tárki, Infostat, Eastern European Consensus Forecasts, Oct. 2014

At the same time there are still some groups of goods with declining prices. Transport prices decreased by 0.1% (therein the price of personal motor vehicles decreased by 1.5%until August) while communication prices lowered by 2.5% on average in the first eight months compared to the same period of 2013.

Core inflation (CPI without food and energy) is also below 1%, averaging at 0.7% this year and showing a slow increase as domestic demand is improving and interest rates are staying low. As inventory stocks are running out, prices tend to increase but it is not expected to reach 1% in 2014. In 2015 1.7% inflation is awaited but due to the Ukrainian-Russian crisis and the upcoming EU downturn this forecast contains upward risks.

Risks in outlook remain

Weak growth in Euro area will limit the speed of recovery in NMS. Export and import will show some moderation mainly due to a slowdown in Germany as a key driver of growth in Euro area. Domestic demand will compensate weakened foreign demand in some countries; however, it will be still weak.

However, growth prospects are still positive for the NMS for the next year, despite of downside risks getting stronger. Most new member states are likely to reach growth rates at least as high in 2015 as in 2014. We expect the new member states to grow by 2.5% in 2014 (a slight upward revision) and by 2.8% in 2015 (a minimal upward revision). In Romania consumption and investment boom are the major engines of economic growth. Both Poland and Romania – two countries with larger weights within the region – will show a GDP growth above 3% in 2015, pushing the regional average upwards. The Finnish recession is likely to end in 2015, which might give some boost to the Baltic economies as well. After six years of decline a slight GDP growth is expected in Croatia next year.

Two risks may endanger this positive outcome: the first is a possible escalation of the Russian-Ukrainian crisis; the second is a weakening of growth in the Euro area. The latter would affect the export of the new member states negatively, resulting in a considerably lower economic growth within the region. The Ukrainian crisis can affect the region primarily through the mutual trade sanctions that can cause tense situations as winter is approaching.

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Imprint

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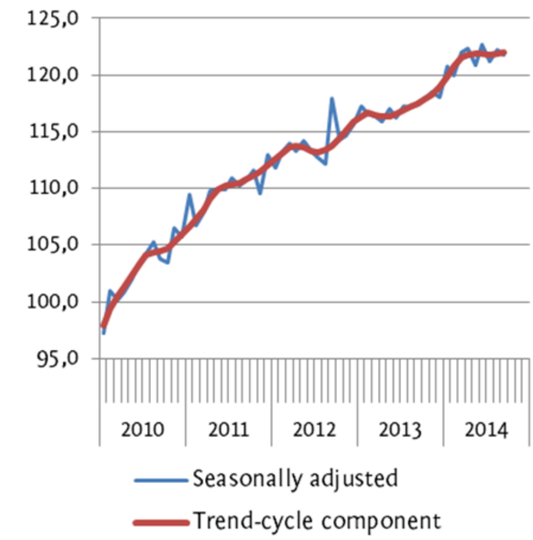
RWI/ISL Container Throughput Index: Stagnant World Trade

After having shown a clear upward tendency during the last months of 2013 and the first months of 2014, the trend cycle component of RWI/ISL Container Throughput Index is now stagnating for almost half a year. This indicates that world trade shows little dynamism currently.

The index is based on data of 75 world container ports covering approximately 60% of worldwide container handling. The ports are continuously monitored by ISL as part of the institute's market analyses. Because large parts of international merchandise trade are transported by ship, the development of port handling is a good indicator for world trade. As many ports release information about their activities only two weeks after the end of the respective month, the RWI/ISL Container Throughput Index is a reliable early indicator for the activity of the global economy.

Updated October 22nd, 2014



RWI/ISL calculations. 2008 = 100. September 2014: flash estimate.

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Forecast of the EUREN/CEPREDE High Frequency Model

Last update: July 14st, 2014

	13Q3	13Q4	14Q1	14Q2	14Q3	14Q4	2013	2014	2015
Apr-13	-0,6;0,1	0,0;0,0					-0,6		
May-13	-0,6;0,0	-0,5;-0,5					-0,7		
Jun-13	-0,4;0,3	0,2;0,0					-0,5		
Jul-13	-0,3;0,3	0,1;-0,3					-0,5		
Sep-13	-0,2;0,4	0,2;-0,2	0,4;0,0	0,8;0,7			-0,5	0,8	
Oct-13	-0,1;0,5	0,3;-0,2	0,5;-0,1	0,7;0,5			-0,4	0,8	
Nov-13	-0,4;0,1	0,6;0,5	1,0;0,2	1,0;0,3			-0,4	1,1	
Dec-13	[-0,4;0,1]	0,6;0,5	1,1;0,2	1,1;0,3			-0,4	1,1	
Jan-14	[-0,4;0,1]	0,6;0,5	1,1;0,2	1,2;0,4			-0,4	1,1	
Feb-14	[-0,4;0,1]	0,5;0,4	0,8;0,1	1,1;0,5			[-0,4]	1,2	
Mar-14	[-0,4;0,1]	[0,6;0,3]	1,0;0,3	1,2;0,4			[-0,4]	1,3	
Apr-14	[-0,4;0,1]	[0,6;0,3]	1,0;0,2	1,2;0,5			[-0,4]	1,3	
May-14	[-0,4;0,1]	[0,6;0,3]	[0,9;0,2]	1,3;0,8	1,5;0,3	1,4;0,2	[-0,4]	1,2	
Jun-14	[-0,4;0,1]	[0,6;0,3]	[0,9;0,2]	1,2;0,7	1,4;0,3	1,4;0,2	[-0,4]	1,2	1,5
Jul-14	[-0,4;0,1]	[0,6;0,3]	[0,9;0,2]	1,1;0,6	1,4;0,4	1,7;0,6	[-0,4]	1,3	1,7
Sep-14	[-0,3;0,1]	[0,6;0,3]	[1,0;0,2]	[0,6;0,0]	0,7;0,3	1,0;0,6	[-0,4]	0,8	1,2
Oct-14	[-0,3;0,1]	[0,6;0,3]	[1,0;0,2]	[0,6;0,0]	0,6;0,1	1,0;0,6	[-0,4]	0,8	1,4

In brackets: GDP data published by EUROSTAT. In italics: quarter on quarter rates.

After the decline caused by the bad figures registered in the second quarter our High Frequency Model forecasts a slightly higher rates from July onwards. On average, the third quarter could have closed with yoy growth rates similar to the rate in second quarter, which is in line with Flash estimate, recently published by Eurostat. The latter shows a qoq growth rate of 0.2, compared to 0.1 in our model. The annual average for the Euro area GDP growth rate is forecasted to be 0.8% in this year. The latest trends being stable, the annual GDP rate in 2015 could reach 1.4%.

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