

## The ECB makes downward revision to its growth risk assessment

REIKO SHINOHARA  
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.  
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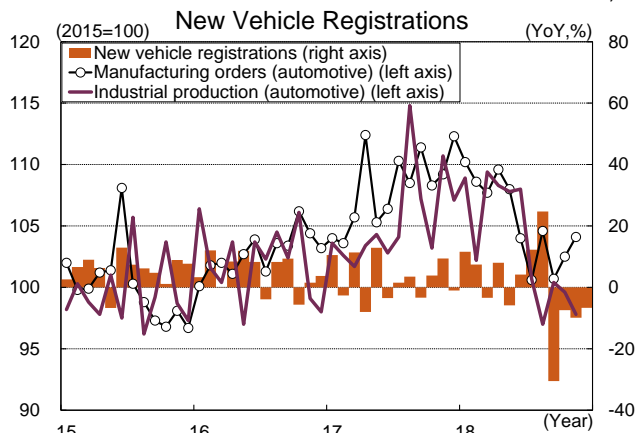
5 FEBRUARY 2019

(ORIGINAL JAPANESE VERSION RELEASED ON 30 JANUARY 2019)

The Governing Council of the European Central Bank (ECB) kept policy rates unchanged at their January 24 meeting. The ECB also maintained its forward guidance from July 2018 that policy rates would be kept at their current levels 'at least through the summer of 2019'. The ECB strengthened its precautionary tone on the economic outlook, stating that 'near-term growth momentum is likely to be weaker than previously anticipated'. The wording of the growth risk assessment changed from 'the balance of risks is moving to the downside' at the December Governing Council meeting, to 'have moved to the downside', dropping the reference to 'balance'. The context cited (uncertainties related to geopolitical factors and the threat of protectionism, vulnerabilities in emerging markets and financial market volatility) remains the same as at the previous meeting. However, there are signs that the ECB sees increasing uncertainty over these risk factors.

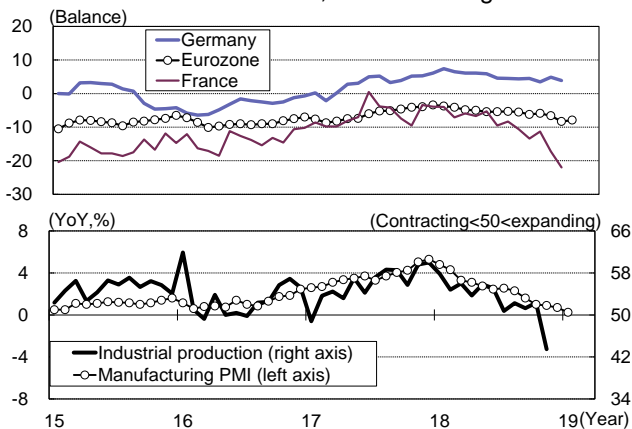
Whilst temporary factors (such as stagnation in automotive production due to the introduction of new regulation) negatively impacted growth in Q3, the adverse effects of these factors are easing. In Germany, which has the largest economy in the region, new automotive orders have bottomed out (Chart 1), indicating that improvement in the sector is forthcoming. German consumer sentiment also remains healthy (Chart 2). Apart from in France, which has seen growing opposition from citizens to its economic reforms, consumer sentiment broadly remains robust in other Eurozone countries. Based on this, economic growth is expected to remain steady, supported by private consumption in the context of improvement in wages and income conditions. However, amid growing internal and external uncertainty (Brexit-related confusion, economic slowdown in China, continued US-China trade tensions) manufacturing sentiment has continued to deteriorate beyond Q4, and industrial production has slumped (Chart 2). At present, there are few indications that the current deterioration in corporate sentiment alone will negatively impact the real economy, for example by restricting new hires. However, taken together with the ECB's downward revision to the growth risk assessment, we can conclude that the ECB is now more likely to delay policy rate normalisation (starting with the deposit facility rate, which currently stands at -0.40%) beyond our original forecast of autumn 2019, to at least until December 2019.

Chart 1: German Automotive Orders and Production, New Vehicle Registrations



Source: Destatis, European Automobile Manufacturers' Association  
MUFG Bank Economic Research Office

Chart 2: Eurozone Consumer Sentiment, Industrial Production, Manufacturing PMI



Source: European Commission, Eurostat, IHS Markit,  
MUFG Bank Economic Research Office

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Yasuhiro Ishimaru Tel: +81-(0)3-3240-3204

Written by Reiko Shinohara <reiko\_shinohara@mufg.jp>

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