MOODY’S ANALYTICS: EURO ZONE RECESSION EXPECTED TO END IN 2013

LONDON, November 29, 2012—Moody’s Analytics, a leading independent provider of economic forecasting, expects Euro zone GDP to stop falling in 2013, according to the Euro Zone economic outlook presented at its annual economic outlook conference in London today.

Germany is anticipated to be among the few countries in the currency union to post positive GDP growth in 2013, forecast for 1.2%, a rate just half of that expected for the U.S.

“We expect Euro zone GDP to grow 0.2% in 2013, which marks a mild improvement compared to the -0.5% GDP estimate for 2012. However, significant downside risks remain that could send the region into recession,” notes Petr Zemcik, Director of European Economic Research for Moody’s Analytics.

Germany will remain a key driver of Euro zone growth in 2013, and Moody’s Analytics expects domestic demand and surprisingly stable external trade to enable it to achieve positive GDP growth. Moody’s Analytics also expects French GDP growth to settle in mildly positive territory at 0.4%. However, GDP in Spain and Greece is expected to remain negative in 2013, at -1.5% and -4.2%, respectively.

Moody’s Analytics expects economic activity in 2013 to be shaped by two key events. First, whether Spain will apply for bailout funds, which would make its debt eligible for purchase by the ECB, and could relieve some pressure on Euro zone growth. Second, the potential for a Greek exit from the Euro zone. “If Greece leaves the currency union, Moody’s Analytics expects that Euro zone output would decline by 4.5% in 2013,” continues Zemcik.

Country-specific challenges besides fiscal risks include high household debt in the U.K., Portugal, and Spain, inflexible two-tier labor markets in southern European economies, and somewhat over-valued real estate in Germany and France.

A downside scenario to Moody’s Analytics central Euro zone GDP growth forecast of 1.2% in 2013 is the potential for a new Spanish banking crisis. This would have a ripple effect across Europe via the exposures of banks in other countries to Spain, aggravating pre-existing sovereign debt problems elsewhere. This scenario would cause euro zone real GDP to decline 6.7% by mid-2015.

For more information on Moody’s Analytics Forecasts with Alternative Scenarios, visit www.economy.com/scenarios.
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Moody’s Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody’s Investors Service, Moody’s Analytics integrates and customizes its offerings to address specific business challenges. Moody’s Analytics is a subsidiary of Moody’s Corporation (NYSE: MCO), which reported revenue of $2.3 billion in 2011, employs approximately 6,700 people worldwide and has a presence in 28 countries. Further information is available at www.moodysanalytics.com.