

# Eurozone

## European growth is faltering, despite certain fiscal support measures

In Q3 2018, Eurozone GDP slowed to +0.2% after +0.4%. Consumption lost ground, while foreign trade also made a disappointing negative contribution to growth. Activity slipped back in Germany but picked up in France. During the autumn, the European business climates deteriorated again, except in the construction sector. Growth is expected to stand at +0.4% at the end of 2018, buoyed by a reaction in Germany, before slowing in H1 2019 (+0.3% per quarter). As an annual average, activity is likely to be less lively in 2018 than in 2017 (+1.9% after +2.5%), with a mid-year growth overhang of +1.1% expected in 2019. However, a moderate increase in the labour force should see unemployment continuing to fall, reaching 7.9% by mid-2019.

### Activity has stalled in Germany and should continue to slacken

In Q3 2018, activity slackened (+0.2% after +0.4%, Table), against the +0.4% forecast in the October issue of *Conjoncture* in France. This slowdown is mainly due to the situation in Germany, where GDP has edged down (-0.2% after +0.5%), after German car manufacturers failed to make adequate preparations for the introduction of the new Worldwide Harmonized Light Vehicle Test Procedure (WLTP) emissions standard. Activity also edged down in Italy (-0.1%), whereas it regained a little momentum in France (+0.4%) and remained buoyant in Spain (+0.6%). In the autumn, business tendency surveys revealed that the business climates were down, except in construction (*Graph 1*). Growth is expected to pick

up in Q4 (+0.4%), driven by a reaction in Germany, before slowing again to +0.3% per quarter in early 2019 (*Graph 2*).

After 2017, the strongest growth (+2.5%) in the Eurozone since 2007, GDP is likely to increase by +1.9% in 2018. The rate is set to slow down a little more in 2019, when the mid-year growth overhang is expected to stand at +1.1%. Surveys on employment prospects point towards the slowdown being consistent with the slackening of economic activity. However, the slight increase in the labour force should enable unemployment to continue to edge down in the Eurozone, although at a slower rate than in previous years (-0.1 points per quarter against -0.2 to -0.3 per quarter in 2017), reaching 7.9% by mid-2019.

### Consumption should benefit from certain fiscal support measures

Private consumption is likely to remain buoyant through to mid-2019 (around +0.5% per quarter). Wages are expected to be quite dynamic (around +0.7%) in a context of serious recruitment difficulties (*Report*) and falling unemployment. Purchasing power should also benefit from a substantial increase in the Spanish minimum wage and fiscal support measures in certain countries, as in Italy – by as yet uncertain means – with the plans to introduce a “citizen’s income”, and in France with the reduction in social contributions and housing tax introduced in late 2018 added to last the measures due to the social unrest by the “yellow vests”.

All in all, household income in the Eurozone should therefore be dynamic (+3.1% in current euros in 2018 after +2.6% in 2017), and its annual mid-year growth overhang is expected to reach

### Gross domestic product and main aggregates of Eurozone economies

quarter-on-quarter and year-on-year changes in %

	2017				2018				2019		2017	2018	2019 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Eurozone</b>	0.7	0.7	0.7	0.7	0.4	0.4	0.2	0.4	0.3	0.3	2.5	1.9	1.1
France	0.8	0.6	0.6	0.7	0.2	0.2	0.4	0.2	0.3	0.3	2.3	1.5	0.9
Germany	1.1	0.5	0.6	0.5	0.4	0.5	-0.2	0.5	0.3	0.3	2.5	1.6	1.0
Spain	0.8	0.9	0.6	0.7	0.6	0.6	0.6	0.5	0.5	0.5	3.0	2.5	1.8
Italy	0.5	0.3	0.4	0.3	0.3	0.2	-0.1	0.1	0.2	0.2	1.6	0.9	0.5
Household purchasing power in the Eurozone (year-on-year changes)	1.8	1.5	1.4	1.4	1.3	1.7	2.1	2.0	1.7	1.4	1.5	1.8	1.1
ILO unemployment rate in the Eurozone	9.5	9.2	9.0	8.7	8.5	8.3	8.1	8.0	8.0	7.9	9.1	8.2	8.0

Forecast

Sources: Eurostat, National statistical institutes, INSEE forecast

+2.6% in 2019. Based on the assumption of a deceleration in energy prices, inflation should dip below 2% again at the beginning of 2019 (Graph 3) to stand at +1.4% in mid-2019. Overall, purchasing power is expected to gather pace in 2018 (+1.6% after +1.3% in 2017) and its mid-year growth overhang should be +1.6% for 2019.

### Mixed signals about investment

In Q3 2018, investment in the construction sector marks the pace 0.0 after 1.3. The signals differ from country to country: building permits are buoyant in Germany and Spain but down in France. All in all, investment in construction is likely to rise by around +0.4% per quarter through to the spring of 2019. On average over the year, it is expected to have increased by +3.0% in 2018 after +4.2% in 2017 with a mid-year growth overhang of +1.3% expected in 2019.

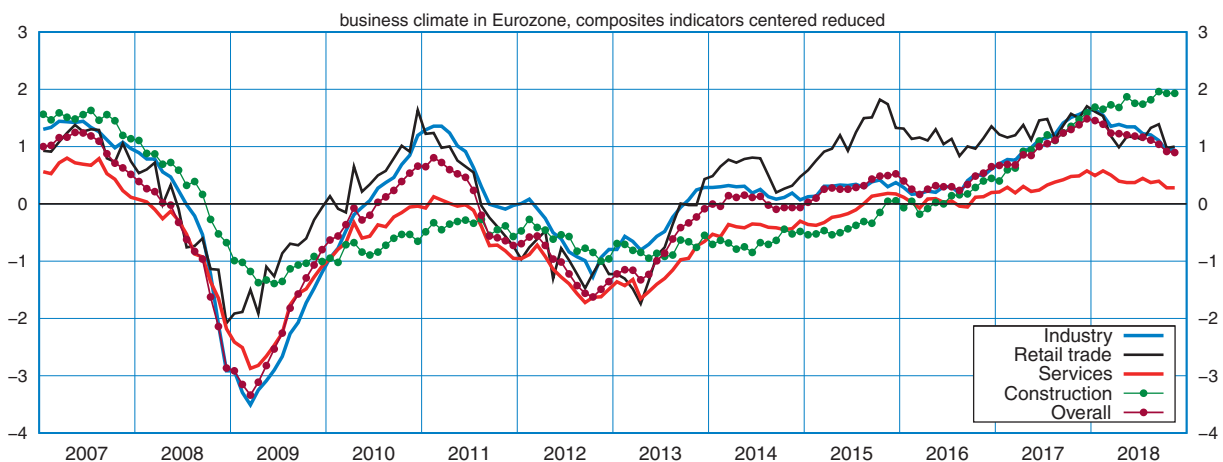
Investment in equipment slowed in Q3 2018 (+0.5%) after a second record-breaking quarter (+2.5%). It should then grow at around +0.6% per quarter, driven by the relatively sound financial situation of European enterprises and a context of production capacity tensions.

### The contribution of foreign trade to Eurozone growth is likely to become negative again by mid-2019

Exports fell back in Q3 2018 (-0.1% after +1.0%), because of the situation in Germany. They are expected to pick up again in Q4 (+1.2%) through aviation sales in France and Germany at the end of the year.

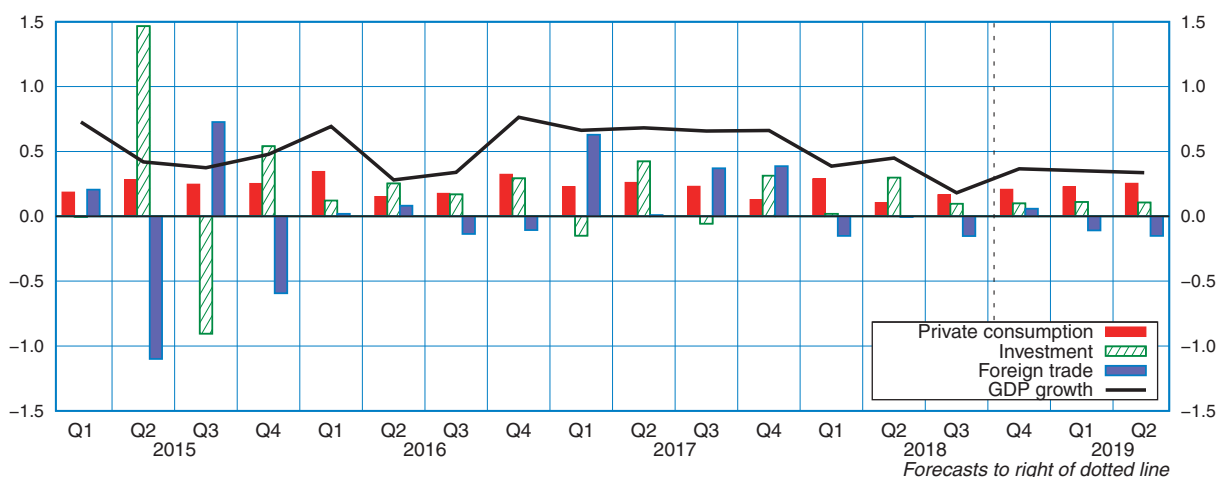
This rise is likely to be curbed by growth in the Netherlands occurring at nearer the trend rate. Exports should then slow in early 2019 as a

## 1 - Entrepreneurs' confidence slipped back at the beginning of the year



Source: European Commission (DG EcFin)

## 2 - Consumption and investment should remain buoyant; foreign trade is expected to make a smaller contribution to growth than in 2017



Source: Eurostat

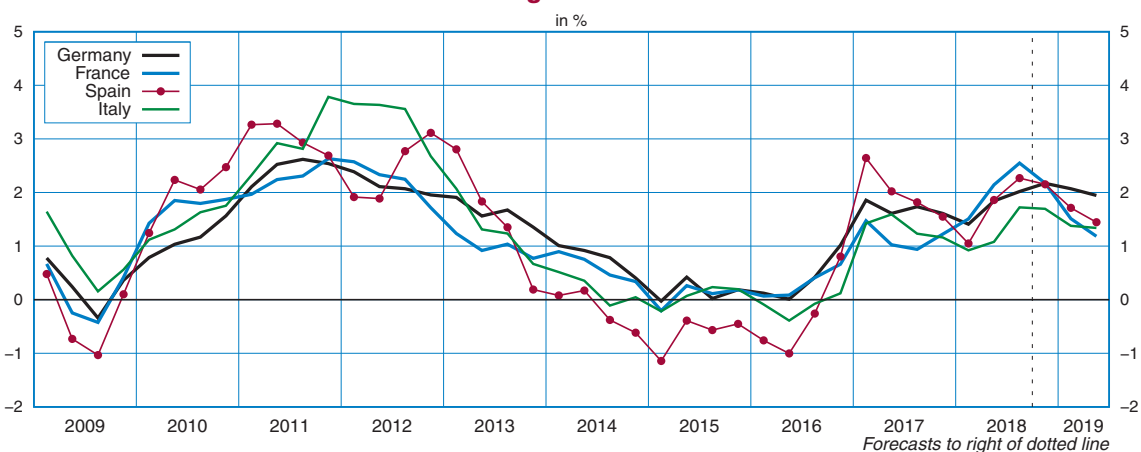
## International developments

backlash (+0.5%), and then maintain this rate in Q2 (+0.5%). All in all, exports are likely to increase by +2.9% in 2018 after +5.4% in 2017; their mid-year growth overhang should be +2.0% in 2019, in a context of uncertainty over factors including trade tensions with the United States.

Imports slackened in Q3 2018 (+0.5% after +1.1%). Over the coming quarters, they are expected to maintain a dynamic pace (+0.9% per

quarter) in response to domestic demand. On an annual basis, imports would appear to have increased by +2.6% in 2018 after +4.0% in 2017; their mid-year growth overhang should be +3.0% in 2019. All in all, the contribution of foreign trade should remain positive in 2018 (+0.2 points after +0.8 points in 2017) but its mid-year growth overhang in 2019 is likely to be negative (-0.3 points). ■

**3 - The harmonised inflation of the main Eurozone countries is expected to converge at around 2%**



Source: national statistical institutes