Germany

The automotive sector stalls, activity comes to a standstill

In Germany, activity stagnated in Q3 2018 (–0.2% after +0.5%). Domestic demand made a smaller contribution to growth, with household consumption suffering from the automotive sector's struggles to adapt to the new emissions standard. Foreign trade significantly held back activity (–0.9 points in Q3). In reaction, GDP should pick up in Q4 2018 (+0.5%), before slowing again in 2019 (+0.3% per quarter through to the spring), adversely affected by the negative contribution of foreign trade and the slowdown in equipment investment.

The automotive sector has been disrupted by the new emissions standards

For the first time since the winter of 2015, activity in Germany – penalised by a drop in automobile production – shrank in Q3 2018 (–0.2% after +0.5%). Indeed, German manufacturers were inadequately prepared for the entry into force of the WLTP emissions standards on 1st September, which introduced stricter rules for the approval of new vehicles. Consequently, automobile production fell back by 7.4% in Q3 (*Graph*). However, the manufacturers are expected to have adapted their production lines by the winter: the output index had already picked up in September. Although the turmoil in the automotive sector led to a drop in consumption in Q3, consumer confidence remained high in the autumn, pointing towards a rebound in private consumption in Q4 (+0.8% after –0.3%).

Employment is likely to grow at a moderate rate (+0.2% per quarter in 2019), while serious recruitment difficulties and extremely low unemployment should push wages upwards. In this way, despite inflation being around 2.0%, the purchasing power of German households is expected to keep growing (+0.4% in Q4 followed by +0.6% per quarter at the beginning of 2019): private consumption should therefore be vigorous in H1 2019 (+0.3% in Q1, then +0.4% in Q2).

Investment is lacklustre

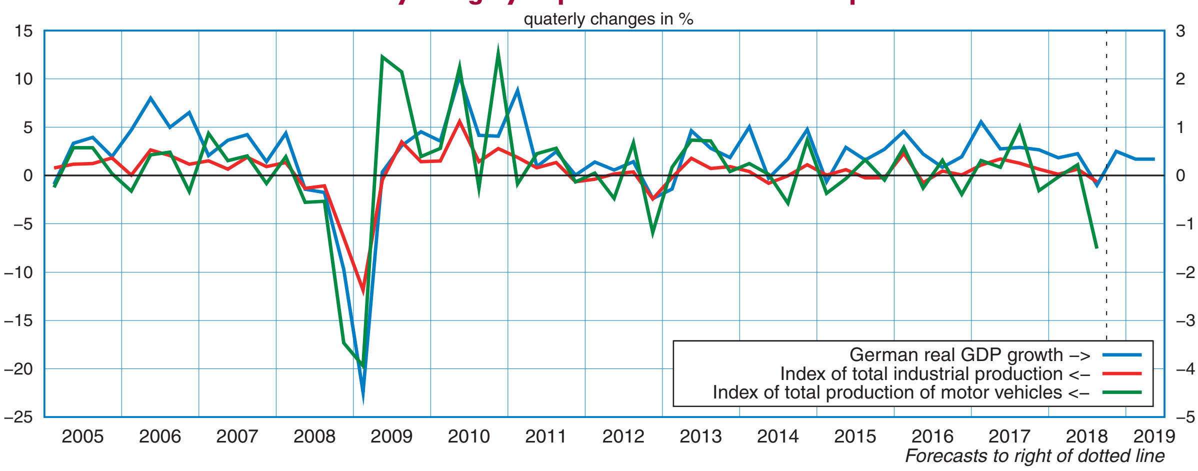
Equipment investment, which was also affected by the problems in the automotive sector in the autumn, is likely to gather pace in Q4 (+1.1% after +0.8%), before slowing again in H1 2019 (+0.7% followed by +0.5%), in the context of a downturn in the business climate. The construction sector is expected to benefit from the increase in orders to accelerate slightly at the beginning of 2019 (+0.6% per quarter). All in all, investment is likely to slow somewhat, to +0.6% per quarter.

Foreign trade is now expected to hold back activity

Through to mid-2019, imports should be buoyant (+1.3% per quarter) in response to domestic demand, compensating for the probable slowdown in the highly constrained German production capacity. As exports are likely to suffer from the slowdown in global demand and trade tensions, foreign trade is expected to make a negative contribution to growth in activity in H1 2019 (–0.1 points per quarter).

For the first time in three years PIB is set to slow in 2018 (+1.6% after +2.5% in 2017). Activity is then likely to increase at 0.3% per quarter and the GDP growth overhang for 2019 after H1 should be +1.0%. ■

German activity is highly dependent on automobile production



Sources: Destatis, INSEE calculations

Italy

Sluggish growth despite fiscal stimulus

In Q3 2018, Italian activity fell back (–0.1% after +0.2%) due to the decline in private consumption and investment. Activity is likely to increase by +0.1% in Q4, thanks to the slight investment rebound. On average over 2018, GDP is not expected to grow as quickly as in 2017 (+0.9% after +1.6%). In H1 2019, activity should only increase moderately (+0.2% per quarter): domestic demand is expected to be buoyed by fiscal stimulus from the government, but foreign trade is likely to hold back growth.

Consumption should benefit from the upturn in purchasing power

Household consumption edged down in Q3 2018 (–0.1% after +0.0%). It is likely to perk up a little in Q1 2019, thanks to dynamic purchasing power. Nominal wages, rising faster than inflation, should maintain relatively sustained growth (+0.6% per quarter in H2 2018 and +0.5% per quarter in H1 2019). In addition, the Finance Bill for 2019 provides for the introduction of a "citizen's income" of €780 per month from Q2 onwards. Household purchasing power is expected to pick up as a consequence, boosting private consumption to +0.5% in the spring (Graph). After rising slightly in 2018 (+0.6%), the mid-year growth overhang for household consumption in 2019 is likely to reach already this same rate.

Investment should grow slightly, driven by the construction sector

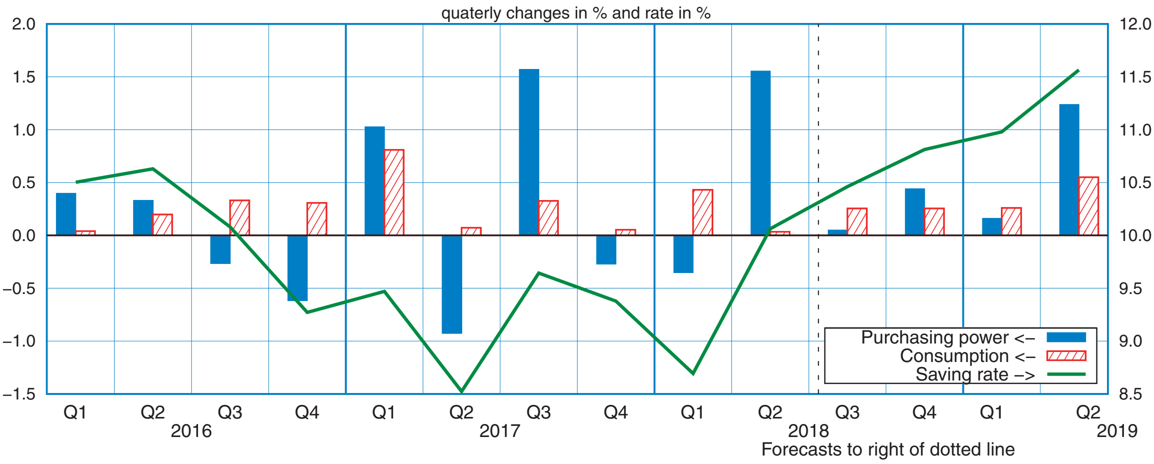
Investment intentions have declined in industry since the beginning of 2018. In Q3 2018, equipment investment plummeted (–2.8% after +6.9 %). However, the self-financing ratio for non-financial enterprises remains at a historically high level, at nearly 100%. Equipment investment is set to bounce back slightly in Q4 (+0.5%) and this growth rate is expected to continue in H1 2019.

With the rebuilding of the Genoa bridge postponed until 2019, investment in the construction sector is expected to slow down at the end of the year (+0.3% in Q4 after +0.5% in Q3). It is likely to pick up somewhat in H1 2019 (+0.7% per quarter), in line with the private investment plan set out in the Finance Bill for 2019.

Foreign trade is not likely to contribute to growth

In Q3 2018, imports slackened (+0.8% after +2.4%), whereas exports accelerated (+1.1% after +0.6%). At the end of 2018, exports should continue to grow (+1.0%), at the same rate as imports. All in all, foreign trade is likely to make a negative contribution to growth in 2018 (–0.3 points after +0.4 in 2017). In H1 2019, driven by domestic demand, imports are expected to remain dynamic (+0.8% in Q1, followed by +1.1% in Q2), whereas exports should continue to slow down. Foreign trade is therefore likely to hamper Italian growth in Q2 2019 (–0.2 points). ■

The upturn in purchasing power should boost Italian household consumption and savings



Sources: ISTAT, INSEE forecast

Spain

Growth should be slightly less vigorous but still robust

In Q3 2018, Spanish growth remained stable at +0.6%, despite another negative contribution by foreign trade. With the less favourable business climate at the end of the year, activity is expected to slow slightly, to +0.5% in Q4 2018. It should maintain this rate in H1 2019, with the rise in wages supporting consumption. However, domestic demand is likely to make a smaller contribution to growth, as investment looks set to be less dynamic. On average in 2018, activity is expected to grow less rapidly than in 2017 (+2.5% after +3.0%), due to the marked slowdown in exports.

Consumption should remain vigorous thanks to the rise in the minimum wage

In Spain, household consumption gathered pace in Q3 2018 (+0.6% after +0.1%). It is expected to slow down slightly in Q4 (+0.5%), in reaction to the high number of vehicle registrations during the summer. The agreement sought by the Spanish government concerning the 2019 budget provides for a 22% increase in the minimum wage, coming into effect in January 2019. This measure should contribute to the rise in nominal wages in H1 (+0.8% per quarter). At the same time, real wages are likely to accelerate thanks to a decrease in inflation below 2% (Graph). In this way, household purchasing power is expected to boost private consumption through to the spring (+0.6% per quarter).

Corporate investment is likely to slow

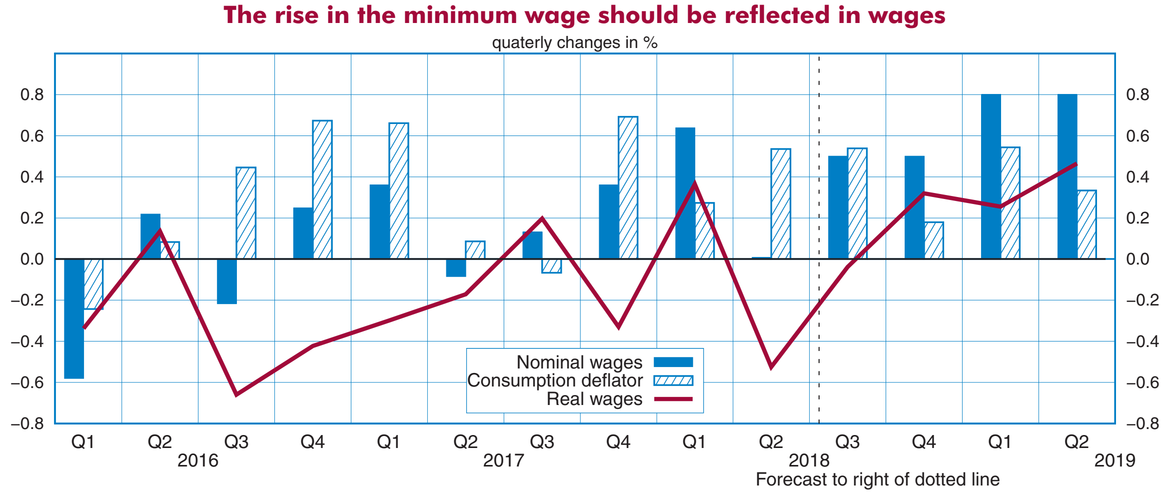
In Q3 2018, equipment investment slackened (+2.2% after +3.6%). The corporate margin rate and the production capacity utilisation rate stopped growing. Equipment investment is therefore expected to decelerate in H1 2019 (+0.8% per quarter). Investment in construction also slowed down in Q3 2018 (+0.5% after +2.2%). The number of building permits has stabilised at a high level. Investment in construction is therefore likely to remain at a moderate rate through to the spring of 2019.

All in all, the investment slowdown in Q3 2018 (+1.0% after +3.5%) looks set to continue in Q4 (+0.9%) and again in H1 2019 (+0.8% per quarter).

Foreign trade should hold back growth

Since Q1 2018, foreign trade has been making a negative contribution to growth. In Q3, imports fell sharply (–1.2%). Exports also plummeted (–1.8%) because tourism activity slipped back. Trade is expected to pick up at the end of the year: imports are likely to bounce back in response to domestic demand (+0.8%) and exports should recover (+0.9%). On average in 2018, foreign trade is likely to hold back growth (–0.6 point) after making a positive contribution to it for two years. In H1 2019, foreign trade should slow down. Exports are expected to lose some of their buoyancy (+0.6% in Q1, followed by +0.5% in Q2) in the same way as imports (+0.7% then +0.6%). All in all, foreign trade is expected to make a negative contribution to growth in H1 2019. ■

The rise in the minimum wage should be reflected in wages



Source: INE, INSEE forecast

United Kingdom
Awaiting Brexit

In Q3 2018, British activity accelerated slightly, to +0.6% after +0.4 %, buoyed by private consumption and exports. However, corporate investment, penalised by the Brexit waiting game, fell for the third consecutive quarter. Thereafter, activity is likely to slacken to +0.2% in Q4 2018, followed by +0.3% in early 2019, penalised by private consumption: households are expected to increase their precautionary savings. Assuming that the European Union and the United Kingdom approve the technical agreement struck in November 2018 before the end of March 2019, British GDP should not be negatively impacted in Q2 2019 (+0.3%). The mid-year growth overhang for 2019 is expected to stand at +1.1%, after +1.3% on average in 2018.

Households are expected to build up their precautionary savings

In Q3 2018, household consumption picked up (+0.5% after +0.4%), sustained by the buoyancy of wages and by the pay rises for National Health Service employees and the increase in the minimum wage in April, in particular. Household consumption should come to a standstill at the end of 2018 (0.0%). Households are likely to prioritise their savings, in anticipation of a coming rise in inflation associated with the risks of depreciation of the pound and increased import taxes due to Brexit. In H1 2019, consumption is expected to be sluggish (+0.2% per quarter), due to the Brexit waiting game.

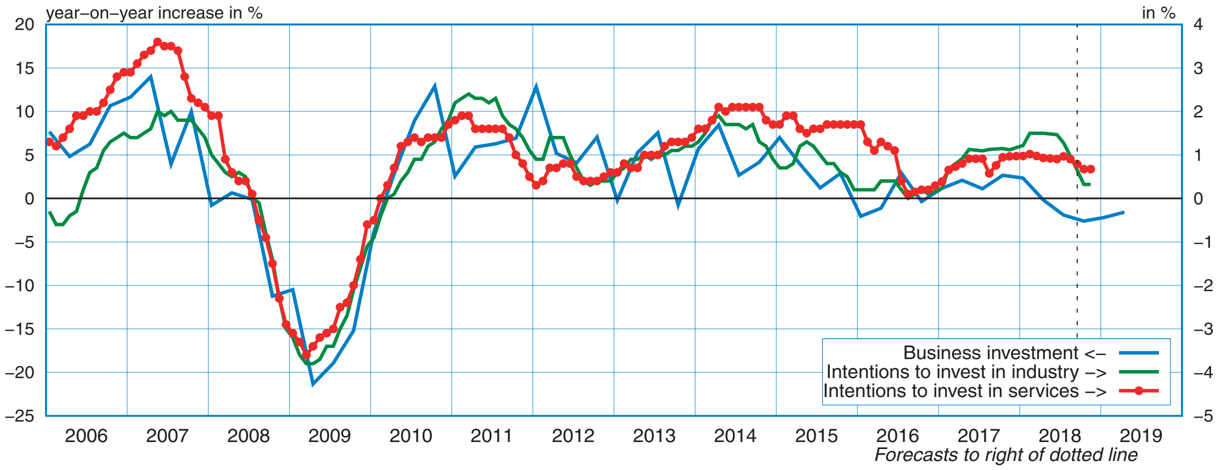
Private investment is still adversely affected by the wait-and-see attitude

Corporate investment fell for the third consecutive quarter in the summer (–1.2% after –0.7% in Q2 and –0.5% in early 2018), adversely affected by the Brexit waiting game: Bank of England surveys reveal a sharp decline in investment intentions (*Graph*). Looking ahead, corporate investment – still penalised by Brexit – should continue to fall back (–0.2% at the end of late 2018 and then –0.1% per quarter). Household investment is also expected to slacken (+0.1% per quarter after +0.2% at the end of 2018) due to the sluggishness of the real estate market, as reflected by the downturn in prices on the London market.

Foreign trade should increase in anticipation

In Q3 2018, exports bounced back (+2.7% after –2.2%). Over the coming months, they are likely to grow in anticipation of a possible increase in customs tariffs associated with Brexit (+0.6% in late 2018, followed by +0.8% in early 2019), as should imports (+0.6% and then +0.5%, after 0.0% in Q3 2018). Assuming that the European Union and the United Kingdom ratify the technical agreement of November 2018 before the deadline of 29 March 2019, ushering in a transitional period in which the United Kingdom would continue to benefit from the Single Market until the end of 2020, exports should remain buoyant (+0.7%), as should imports (+0.5%). On an annual average basis in 2018, foreign trade is expected to make a reduced contribution to growth (+0.3 points, as in 2017). ■

Corporate investment is likely to be penalised by the Brexit waiting game



Sources: ONS, Bank of England

United States

Activity is expected to slow slightly despite the continued fiscal stimulus

In Q3 2018, driven by household consumption and increased inventory levels, American activity rose by 0.9% (after +1.0% during the previous quarter). Private investment stalled, however, and foreign trade hampered growth. Activity is likely to remain vigorous in Q4 (+0.9%) before slowing down in H1 2019 (+0.6% per quarter), held back by domestic demand. On an annual average basis, growth is expected to reach +3.0% in 2018 – its highest level since 2005 – after +2.2 % in 2017. The mid-year growth overhang for 2019 should reach 2.4%.

Activity is set to slow down

In Q3, American activity slowed slightly (+0.9% after +1.0%), hampered by foreign trade (contribution of –0.5 points, after +0.3 points). Nevertheless, it was buoyed by private consumption (+0.9% as in Q3) and by significant changes in inventories (contribution of +0.6 points after –0.3 points). In the autumn, the indicators derived from surveys and industrial output remained positive. Activity is therefore expected to remain vigorous (+0.9% in Q4 2018), before slowing in H1 2019 (+0.6% per quarter), like domestic demand.

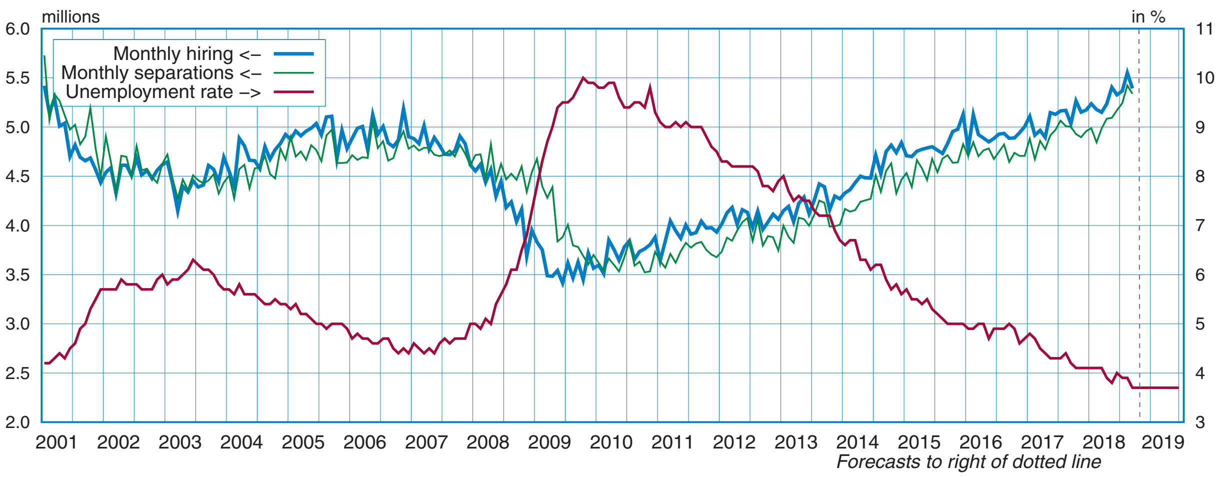
Public spending should gradually take over from private consumption

Household consumption remained buoyant over the summer. With strong wages (+0.9% in Q4 2018 and in Q1 2019, followed by +0.7%) and inflation dipping to 1.4% due to falling energy prices, the growth overhang for purchasing power for 2019 is expected to reach +2.4% in late June (after +2.8% for the whole of 2018). Household consumption should remain vigorous in the autumn (+0.9%) but is still likely to slacken in H1 2019 (+0.5% per quarter), due to the stabilisation of the unemployment rate in a very buoyant labour market (Graph) and negative wealth effects following the stock-market turmoil. The rise in inflation associated with customs duties should be limited (Focus). In this way, households are expected to stabilise their savings ratio at around 6.7% in mid-2019, as in 2018. Public spending is likely to accelerate sharply under the effect of the stimulus plans adopted in the spring: it should increase by 1.5% per quarter, after +0.6% in Q3, boosting activity significantly.

Foreign trade is likely to slow down

Exports fell back over the summer (–1.1% after +2.2%), whereas imports bounced back (+2.2% after –0.1%), in the context of an appreciating dollar and trade tensions with the United States' partners, especially China (Focus). Exports should bounce back in Q4 (+1.0%). As a backlash, they are then likely to decline at the beginning of the year (–0.5%) before stabilising in the spring. Imports are expected to rise again in Q4 (+2.0%), in anticipation of possible new increases in customs duties, before falling in early 2019 (–1.0% and then 0.0%). The contribution of foreign trade should reach –0.2 points by mid-2019. ■

The labour market remains very buoyant, sustaining the rise in wages



Source: BEA, INSEE forecast

Japan

Domestic demand should take over from foreign trade

Japanese activity, affected by unfavourable climatic and seismic conditions, shrank in Q3 2018 (–0.6% after +0.7%): domestic demand and foreign trade both contributed negatively to growth. Activity should bounce back at the end of the year (+0.6%), before returning to a more moderate growth rate in H1 2019 (+0.2% in Q1, then +0.3 % in Q2).

Household consumption is expected to regain momentum

Japanese activity, affected by major climatic and seismic events, declined in Q3 2018 (–0.6% after +0.7%). GDP is expected to gather pace at the end of the year (+0.6%) before resuming a more moderate growth rate in H1 2019 (around +0.2% per quarter). Its mid-year growth overhang for 2019 should reach +0.7%. Household consumption came to a standstill this summer, after a second quarter buoyed by highly favourable wage negotiations (–0.2% after +0.7%). It is likely to speed up in Q2 2019 (+0.5%), driven by the expected increase in the tax on consumption scheduled for October 2019. It should also benefit from a new rise in the average wage per capita resulting from the wage negotiations in March 2019: the tax incentives for employers to increase wages are expected to be renewed.

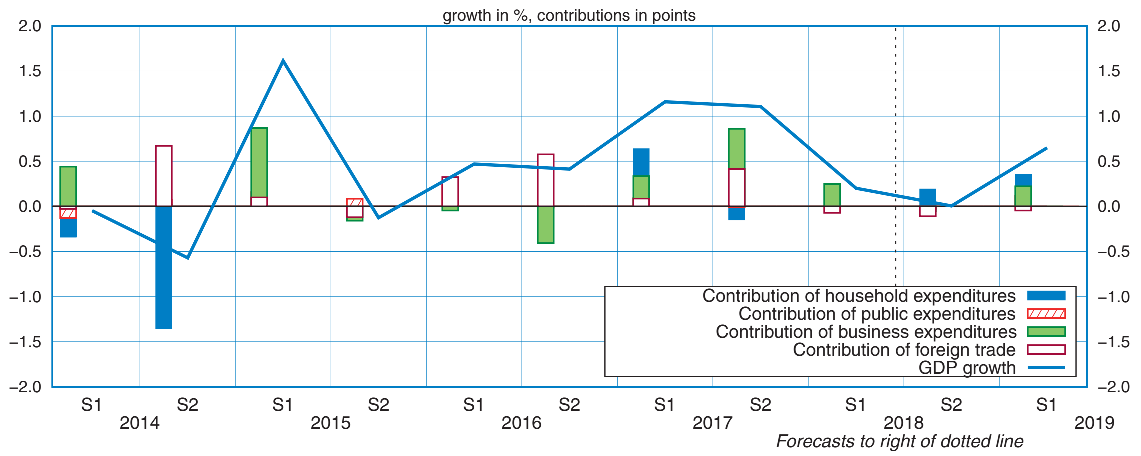
Moderate growth of corporate investment and an upturn in public investment

Despite the profit rate hitting its highest ever level, corporate investment fell back in Q3 2018 (–2.8% after +2.8%). It would rebount at the end of the year +1,5%) and regain moderate growthe in 2019 (+0,2% at the beginning of the year then +0.4% in the Q2). It should return to moderate growth (+0.4% at the end of 2018, +0.2% at the beginning of 2019, and then +0.4% in Q2), sustained by the wage negotiations in the spring, with tax benefits being dependent on corporate investment. After falling for several quarters, public investment is likely to speed up progressively, reaching +0.5% in the spring of 2019. The origins of this rise included in the budget for the 2018-2019 tax year are the rebuilding projects in regions affected by the natural disasters of the past summer, military spending and infrastructure projects, especially for the 2020 Olympic Games.

Foreign trade is no longer likely to sustain activity

Imports fell in Q3 (–1.8% after +0.3%). They should recover at the end of the year (+2.0%) and then slow in H1 2019, in an international context of trade tensions with the United States. As an annual average, Japanese exports should weaken in 2018 (+3.2% after +6.8%). Their mid-year growth overhang is expected to be just +0.8% for 2019. However, imports should regain momentum in the wake of domestic demand, rising to +1.7% at the end of 2018, before growing moderately in H1 2019. As an annual average, they would appear to have slowed down in 2018, (+2.9% after +3.4%). In this way, foreign trade is expected to contribute +0.1 points to growth in 2018, after +0.6 points in 2017 (Graph). Its mid-year growth overhang for 2019 is expected to be negative (–0.1 point). ■

Foreign trade is expected to hamper growth once again



Sources: Cabinet Office of Japan

Emerging economies

The Chinese growth drivers are running out of steam

In Q3 2018, Chinese investment would appear to have slowed slightly (+1.5% after +1.6%). It is expected to maintain this growth rate of +1.5% per quarter through to mid-2019, held back by both domestic and foreign demand. On an annual average basis, Chinese growth should decelerate only slightly in 2018, to +6.6% after +6.9%, due to the slowdown in domestic demand.

In Russia, diplomatic tensions are penalising the rouble and boosting inflation. In Brazil, after being affected by a strike in May, activity would appear to have accelerated in reaction during the summer and at the end of 2018, before an expected slowdown in H1 2019. In Turkey, the business climate has deteriorated significantly since March and inflation has soared: GDP would seem to have fallen back over the summer and should continue to decline from now on. In India, activity is expected to gather pace in 2018 and should maintain its momentum in 2019. Lastly, growth in the Eastern European countries is likely to remain dynamic but should slip back slightly, in the wake of the Eurozone.

China: activity held back by demand

In Q3, Chinese GDP would appear to have slowed down (+1.5% posted after +1.6%). The business climate indicators are misdirected and the profits of industrial enterprises are down. Lower domestic demand and uncertainties related to trade tensions with the United States are hampering production.

Investment has slackened in the real estate sector with the deceleration of new housing starts, but also in the other sectors.

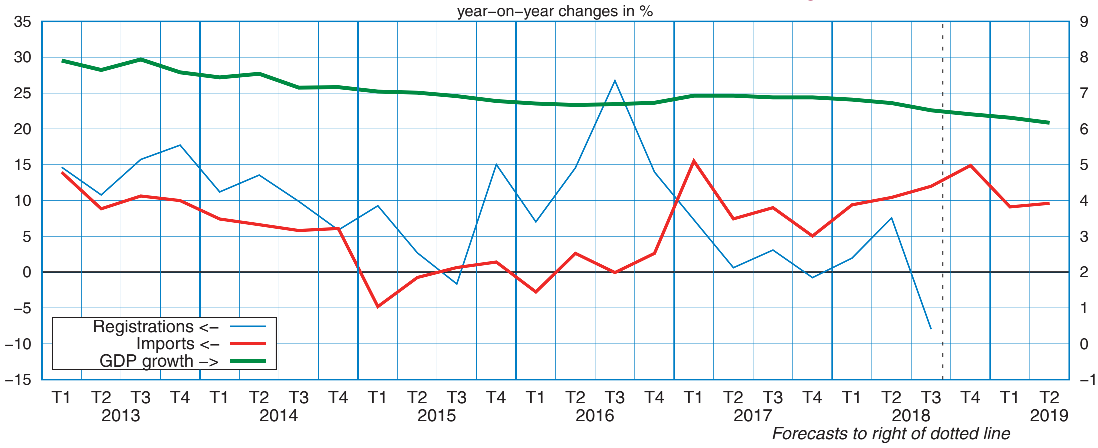
On the household side, the confidence indicators are following a downward trend. In October, retail sales slowed year on year, and car registrations fell again after previously declining in Q3 (*Graph 1*).

Exports picked up in Q3 (+2.2% after –2.3%, *Focus*), in line with the depreciation of the yuan and probably due to the anticipation of new hikes in American customs duties. Exports should gradually slow down (+1.5% at the end of the year, followed by +1.2% in Q1 and then +1.0% in Q2 2019), held back by shrinking foreign demand, especially from the United States. On an annual average basis, exports are expected to accelerate sharply in 2018, to +6.8% after +4.2%. Their mid-year growth overhang for 2019 should reach +3.6%.

Imports also bounced back (+3.3% after +0.5%). They are expected to maintain this growth rate at the end of 2018, before gradually slowing down through to mid-2019 (+2.0% at the end of the year, +1.5% at the beginning of 2019 followed by +1.0% in Q2), in the wake of activity and with the stabilisation of the share of the assembly trade in foreign trade. On an annual average basis, imports would appear to have strongly picked up pace in 2018 (+11.3% after +9.1%) and their mid-year growth overhang for 2019 should stand at +5.6%.

Between now and mid-2019, activity should maintain a growth rate of +1.5% per quarter. It is likely to be held back by less lively domestic demand (concerning both household consumption and investment) and foreign trade (under the effect of protectionist tensions).

1 - In China, domestic demand is slackening



Source: National Bureau of Statistics of China

As an annual average, activity is expected to slow down slightly in 2018, to +6.6% after +6.9%, held back by the slackening of domestic demand. Its mid-year growth overhang for 2019 should reach +5.0 % at the end of Q2. However, the Chinese authorities have declared their intention to curb this slowdown by adapting their policy mix (easing of monetary policy and provision of fiscal support).

Russia: inflationary pressures are likely to hamper growth

After accelerating gradually throughout H1 2018, GDP fell by 0.4% in the summer. Due to diplomatic tensions with the United States, the rouble lost 10% of its value between January and September, boosting inflation (*Graph 2*). Consequently, retail sales have slowed, and new vehicle registrations edged down in the summer.

Russian activity is expected to resume moderate growth at the end of 2018 (+0.7%). In H1 2019, growth is expected to decline slightly, penalised by the drop in purchasing power linked to the previous depreciation of the rouble and the implementation of a new VAT hike on 1st January 2019. On average in 2018, GDP is set to accelerate slightly to +1.8% in 2018 after +1.5% in 2017.

India: activity is expected to remain buoyant

In Q3 2018, activity in India remained buoyant (+1.1% after +1.8%), penalized by household consumption. Surveys of purchasing managers remain above the expansion threshold. Imports by volume – sensitive to oil prices – have slowed (+6.5% after 11.0%). Between now and mid-2019, they should continue to decelerate (+2.5% at the end of the year followed by +2.0% per quarter through to mid-2019), under the effect of the import tax hike on certain products.
Indian activity is likely to maintain its momentum between now and mid-2019 (+1.7% per quarter). On average in 2018, GDP growth is expected to reach 7.5% after 6.2% in 2017. Its mid-year growth overhang should stand at +5.3% in 2019.

Brazil: activity struggles to gain momentum

In the spring of 2018, activity remained sluggish (+0.2% after +0.1%), under the effect of a strike by road hauliers in May. After this industrial action, activity picked up slightly in Q3 (+0.8%). However, the business climate in services dropped below the expansion threshold. Inflation increased substantially with the depreciation of the Brazilian real due to political tensions related to the presidential elections, penalising purchasing power. From now on, growth is expected to weaken again due to inflationary pressures. On average in 2018, activity should grow by 1.2%, after +1.1% in 2017.

Turkey: monetary turmoil

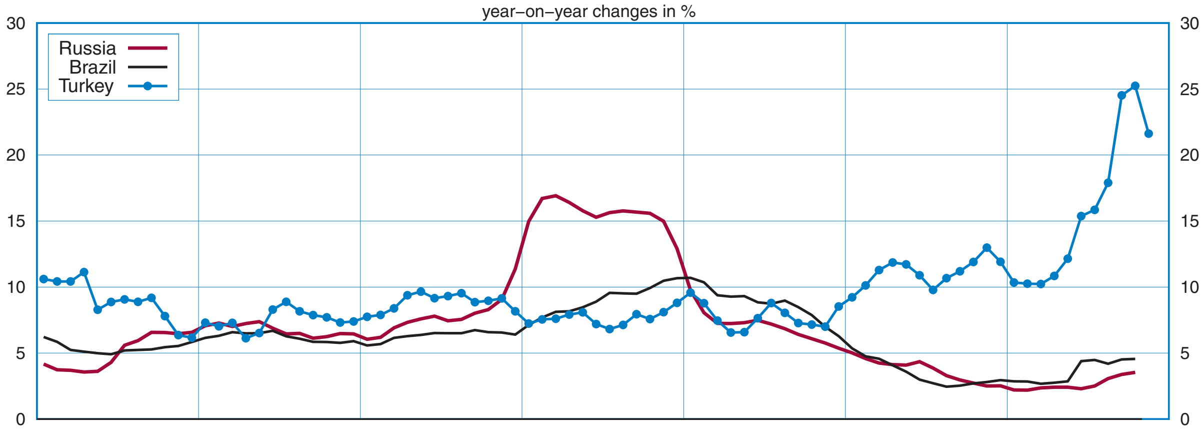
The business climate in the manufacturing sector has significantly deteriorated since March, reaching its lowest level since 2009. In Q3, industrial production slipped back again, and the Turkish lira has continued to depreciate under the effect of political tensions, boosting inflation: in November, prices had risen by 21.6% year on year.

In this way, activity would appear to have slipped back in Q3 2018 (–1.0%). GDP should continue to decline from now on, and then stagnate in Q2 2019. On average in 2018, growth is expected to reach +3.6%: a very substantial slowdown in relation to 2017 (+7.3%).

CEEC: growth is expected to slow

In Q3, activity gathered pace in the Central and Eastern European Countries (CEEC) (+1.4% after +1.1%). Activity is likely to decelerate slightly at the end of 2018, held back by declining demand from the Eurozone. In H1 2019, the GDP of the CEECs should continue to slow. On average in 2018, growth should stand at +4.4% in 2017 after +4.6% in 2017, and the mid-year growth overhang for 2019 is expected to be +2.8%. ■

2 - In Russia, Brazil and Turkey, political tensions are driving inflation upwards



Source: National statistical institutes