

Eurozone

The fiscal policies should sustain the domestic demand

In Q4 2018, the pace of activity was still slow in the Eurozone (+0.2%, as in the previous quarter). Exports were buoyant, in line with a reduction in inventories, which hampered growth. Italy entered into a technical recession and activity stagnated in Germany (+0.0%) after edging down in Q3 2018 (-0.2%). At the start of 2019, business climates are slipping back again, except in construction. Nevertheless, purchasing power gains throughout the Eurozone should enable growth to reach +0.3% per quarter in H1 2019. As an annual average, activity was a little less brisk in 2018 than in 2017 (+1.8% after +2.5%) with a mid-year growth overhang of +0.9% expected in 2019. Unemployment is likely to stay stable on average in the zone, reaching 7.9% by mid-2019.

Italy in technical recession, stagnation in Germany

In Q4 2018, growth in the Eurozone was still sluggish at +0.2% (as in the previous quarter, *Table*), against the +0.4% forecast in the December issue of *Conjoncture* in France. Although the automotive sector no longer hampered growth (*Focus*), activity in Germany was stagnating (+0.0% after -0.2%), affected by a downturn in the chemicals and pharmacy sectors. Activity declined for the second consecutive quarter

in Italy (-0.1% as in the previous quarter), putting the country into a technical recession. However, in France, GDP growth was maintained (+0.3%, as in the previous quarter) despite the “yellow vests” movement, and activity in Spain accelerated slightly (+0.7% after +0.6%). At the beginning of 2019 sectoral business climates overall were continuing to see the downturn that had begun at the start of 2018; only construction held up. Growth should gain a little momentum in H1 2019 (+0.3% per quarter), driven by the dynamism of purchasing power stimulating consumption (*Graph 1*).

According to the business tendency surveys, the employment outlook is also in decline, except in construction. At the start of 2019, employment should grow at a similar pace to economic activity. After a decline since mid-2013, the unemployment rate is expected to stabilize at 7.9% by mid-2019. It should pick up in Italy.

Purchasing power should be dynamic in the Eurozone as a result of fairly expansionist fiscal policies

Nominal wages are expected to maintain their dynamic pace (+1.0% then +0.5% in Q2), sustained mainly by the substantial rise in the Spanish minimum wage in January 2019 (*Graph 2*). To this is added the introduction of a

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			
Eurozone	1.7	0.7	0.7	0.7	0.4	0.4	0.1	0.2	0.3	0.3	2.5	1.8	0.9
France	0.8	0.7	0.6	0.7	0.2	0.2	0.3	0.3	0.4	0.4	2.3	1.5	1.1
Germany	1.1	0.5	0.6	0.5	0.4	0.5	-0.2	0.0	0.3	0.3	2.5	1.5	0.6
Spain	0.8	0.9	0.6	0.7	0.6	0.6	0.6	0.7	0.6	0.6	3.0	2.5	2.0
Italy	0.5	0.3	0.4	0.4	0.2	0.1	-0.1	-0.1	-0.1	0.1	1.7	0.8	-0.2
Household purchasing power in the Eurozone (year-on-year changes)	1.8	1.5	1.4	1.4	1.3	1.7	2.1	1.9	1.5	1.2	1.5	1.8	0.9
ILO unemployment rate in the Eurozone	9.5	9.2	9.0	9.0	8.5	8.3	8.0	7.9	7.9	7.9	9.1	8.2	7.9

Forecast

Sources: Eurostat, National statistical institutes, INSEE forecast

International developments

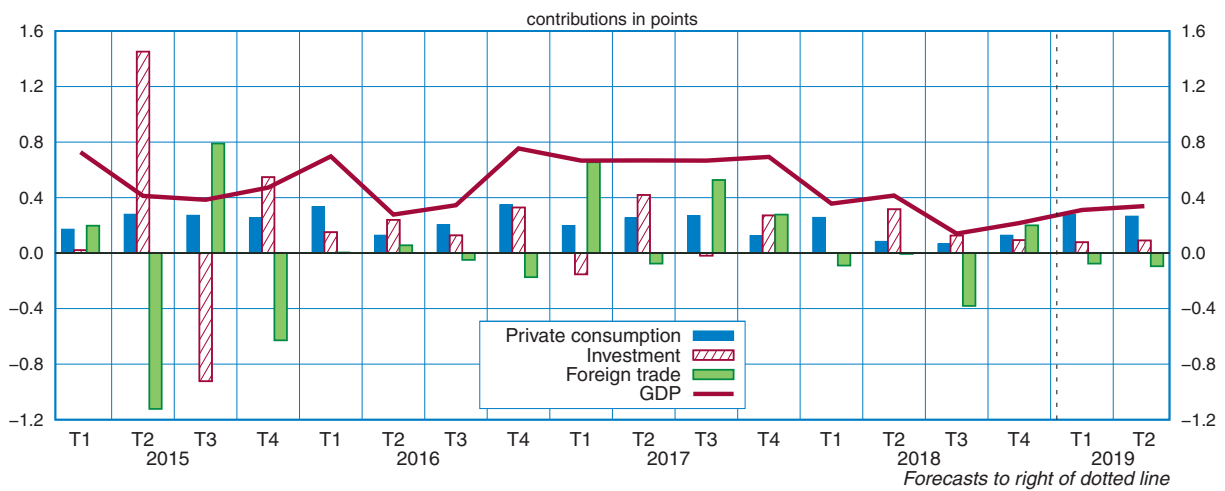
citizen's income in Italy and the measures announced in December in France in response to the "yellow vests" social movement, with the result that household income is expected to be buoyant in the Eurozone. Inflation is likely to be driven less by rising energy prices, and should continue to decline at the beginning of 2019 (Graph 3), reaching +1.2% by mid-year. Overall, as an annual average, purchasing power should become more vigorous, and its mid-year growth overhang is expected to reach +2.2% in 2019 (after +1.7% in 2018 and +1.3% in 2017 as an annual average). As a result, private consumption

should remain dynamic until mid-2019 (+0.8% per quarter), enabling households to increase their savings.

Corporate investment is likely to be a little more dynamic than activity

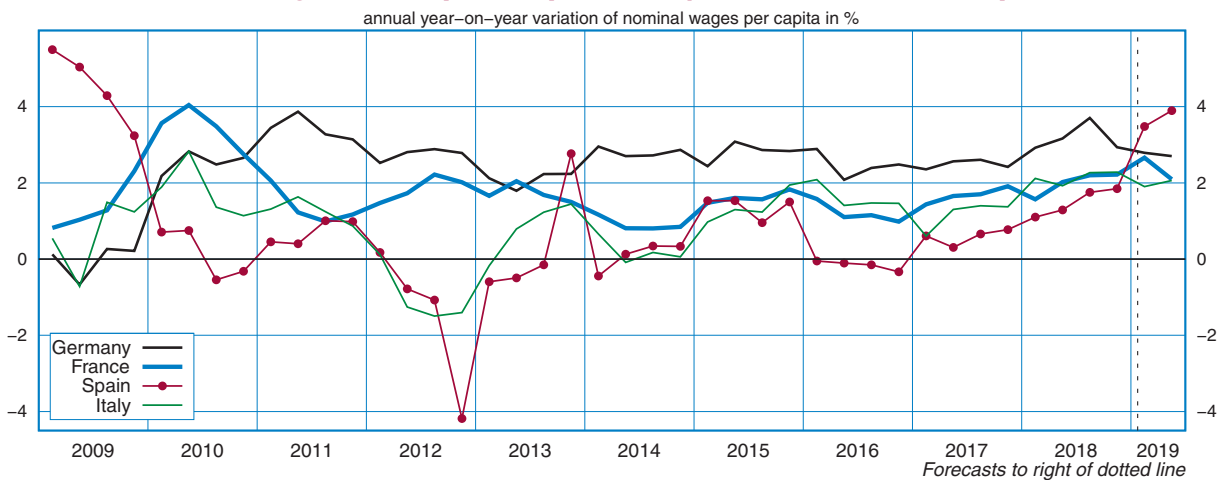
In Q4 2018, Eurozone investment in the construction sector was buoyant once again (+0.8% after +0.2%). At present, trends differ from country to country: in France building permits are declining again in collective housing, but recovering in individual housing, while in Germany and Spain they are rising strongly. In Italy, the rebuilding of the bridge at Genoa should start at the beginning of 2019. Overall, investment in

1 - In H1 2019, domestic demand is expected to remain buoyant, but foreign trade looks set to hamper growth



Source: European INSEE

2 - Wages are likely to be dynamic in Spain, a little less so in Italy



Source: Destatis,, INE, INSEE, ISTAT

construction should remain vigorous at the start of 2019 (+0.5% per quarter until the spring). As an annual average, it increased by 3.0% in 2018 after +4.3% in 2017 and its mid-year growth overhang in 2019 is expected to reach +1.9%.

Equipment investment was stagnating in Q4 2018 after a dynamic Q3 (+0.9%). Its pace is likely to be a little slower than that of activity at the start of 2019 (around +0.1% per quarter), with some problems in the manufacturing sector.

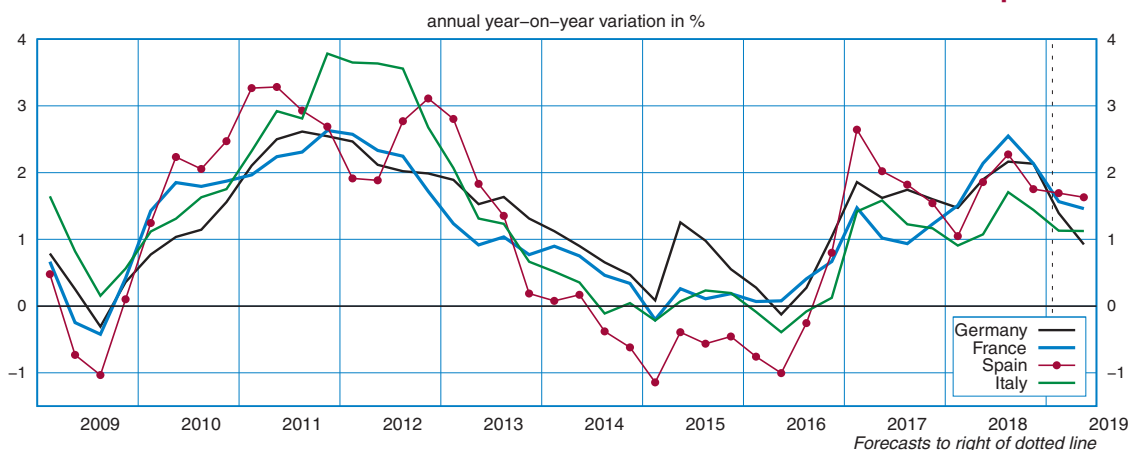
In H1 2019, foreign trade is expected to hamper growth

In Q4 2018, exports from the Eurozone gathered pace (+0.9%) after a sluggish Q3 (+0.2%). Aeronautical sales at the end of the year and the recovery of German car exports were the reason for this rebound. After this, exports are expected to slow in Q1 2019 although they should maintain a relatively rapid pace (+0.6%): the downturn in French exports is likely to be offset by the

momentum of Germany and the Netherlands. In Q2 2019, exports are expected to keep the same pace (+0.6%), although they are likely to remain less buoyant than world demand. All in all, as an annual average, exports increased by 3.0% in 2018 after 5.5% in 2017 and their mid-year growth overhang should stand at 2.1% in 2019.

Imports slowed in Q4 2018 (+0.5% after 1.1%). Over the next few quarters, they should maintain a faster pace than exports (+0.8% per quarter) to serve domestic demand, sustained by increased purchasing power. On an annual basis, imports rose by 2.9% in 2018 after 4.1% in 2017 and their mid-year growth overhang is already expected to be 2.7% for 2019. All in all, the contribution of foreign trade remained somewhat 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 (-0.2 points). ■

3 - Inflation in the main Eurozone countries should decline in the wake of oil prices



Note
Sources: Destatis, INE, INSEE, ISTAT