Germany

Foreign trade no longer likely to sustain activity

In Germany, activity did not bounce back in Q4 2018 (+0.0%), after the 0.2% downturn in Q3 as a result of difficulties in the automotive sector. Government consumption supported activity strongly in Q4 (+1.6% after –0.3%). However, inventory held back growth significantly (–0.6 points after +0.8). Activity in Germany looks set to take on a measured pace at the start of 2019 (+0.3% per quarter), despite being supported by fiscal policy. Given Germany's exposure to the slowdown in world trade, foreign trade is no longer likely to be a driving force for growth.

Household consumption should regain its dynamism

German growth stagnated in Q4 (+0.0% after –0.2%), after a Q3 that was mainly affected by difficulties in the automotive sector and occasional navigability problems on the Rhine. Destocking by manufacturers was accompanied by a rebound in private consumption (+0.2% after –0.3%). The employment situation was favourable once again and the unemployment rate dropped to its lowest level (3.1%). In H1 2019, consumption should support activity once again, encouraged by budgetary measures (increase in family allowances, tax reductions, pension levels maintained). Recruitment difficulties are still acute and should boost wages in H1 (+0.8% then +0.7% per quarter), notably with wage rises in the civil service being applied retroactively on 1st January 2019. Employment should remain brisk (+0.3% per quarter) and the decline in inflation, due to the fall in oil prices, should ensure that households' purchasing power remains dynamic (+1.2% in Q1 then +0.7% in Q2). Private consumption is therefore expected to remain strong until the middle of the year (+0.5% in Q1 then +0.4%).

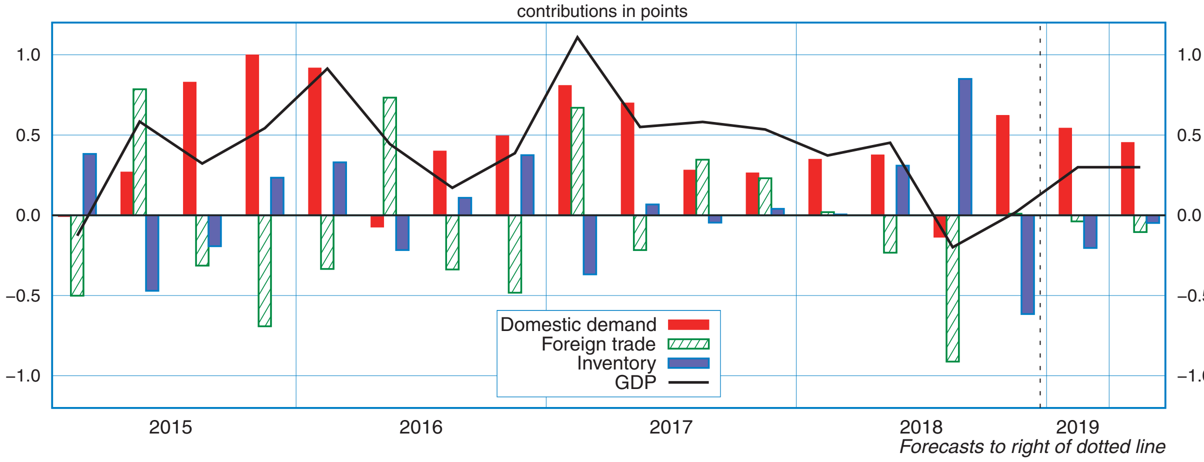
The investment climate is fading

In Q4 2018, investment in construction gathered pace (+1.3% after +0.7%), as did that in capital goods (+0.7% after +0.0%). With a fall in building permits at the start of 2019, construction is likely to grow by only 0.6% per quarter until mid-2019, a long way from its dynamism of last year. Equipment investment also looks set to suffer from low morale among investors and a drop in orders for manufactured goods: it should increase moderately by 0.4% in Q1 then 0.2% in Q2.

Foreign trade is no longer likely to sustain activity

Exports took off again in Q4, boosted by aeronautical and automobile deliveries (+0.7% after –0.9%). As imports were also dynamic, foreign trade did not contribute to growth at year's end. At the beginning of 2019, exports overall are expected to maintain this same pace (+0.7% then +0.6% per quarter), given the uncertainties hanging over world trade. With imports remaining solid, foreign trade is once again expected to make a zero contribution to activity in Q1 then a slightly negative one in Q2 (–0.1 points). All in all, German growth seems set to move at a moderate pace at the start of the year (+0.3% per quarter). As an annual average, German GDP appears to have slowed in 2018, for the first time in three years (+1.5% after +2.5% in 2017). Its growth overhang after H1 2019 is expected to be only +0.6%. ■

Domestic demand should drive growth, the automotive sector is set to gradually destock



Sources: Destatis, INSEE calculations

Italy

Between technical recession and sluggish growth

In Q4 2018, Italian activity contracted once again (–0.1%, as in the previous quarter). Changes in inventories held back growth in H2 2018 (Graph). As an annual average, GDP slowed significantly (+0.8% after +1.7%). In Q1 2019 activity is expected to fall back further (–0.1%), then rebound slightly in Q2 (+0.1%). Despite a poorly directed labour market and sluggish investment, domestic demand should be sustained by the government's fiscal measures. Foreign trade is no longer expected to contribute to growth.

Purchasing power and consumption should pick up in spring

Household consumption rebounded slightly (+0.1%) in Q4 2018. It is likely to maintain this pace in Q1 2019 (+0.1%). The introduction of a "citizen's income" from 1st April 2019 should sustain household purchasing power, which is expected to accelerate in Q2, along with household consumption (+0.4%).

In H1 2019, nominal wages look set to slow (+0.3% per quarter). Growth in employment is likely to be weak in H1 and the unemployment rate should increase until the spring (11.3%).

Investment is likely to remain sluggish, despite the construction sector

Equipment investment picked up in Q4 2018 (+0.9% after –3.7%). Over the year, it slowed by three points more than in 2017. Investment intentions declined during 2018. At the end of the year, uncertainty over the agreement between the Italian government and the European Commission over the 2019 Finance Bill probably affected entrepreneurs' investment decisions. Equipment investment is likely to decline further in H1 2019 (–1.5% in Q1 then –0.3% in Q2). In 2019, the mid-year growth overhang of equipment investment is expected to be negative (–1.6%).

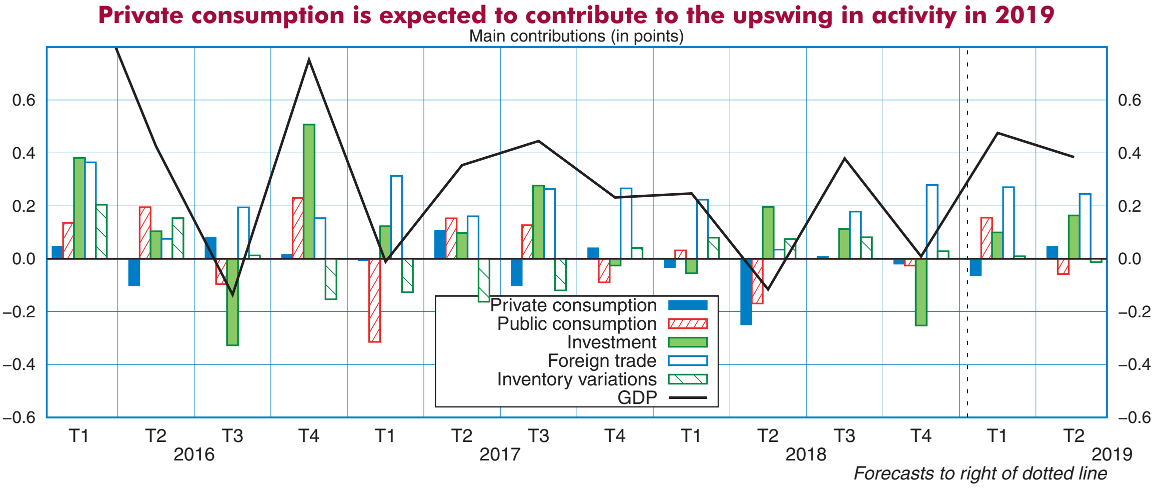
Investment in the construction sector declined at the end of 2018 (–0.1% in Q4 after +0.6%). Nevertheless, on average it remained dynamic throughout the year. The rebuilding of the Morandi bridge in Genoa should contribute to an upswing in construction investment in H1 2019 (+0.5% per quarter).

Foreign trade is likely to slow down

Foreign trade made a positive contribution to growth once again in Q4 2018 (+0.2 points). Imports accelerated (+0.7%), but exports remained more dynamic still (+1.3%). All in all, imports and exports slowed significantly in 2018 after being very vigorous 2017.

From Q1 2019, foreign trade is unlikely to contribute further to growth. Since orders are declining, exports look set to slow in Q1 (+0.5%), but they should then gather pace in Q2 (+0.9%), in line with global demand. However, imports are expected to maintain their dynamic pace at the start of the year (+0.9%), before accelerating in the spring (+1.4%), driven by the upswing in consumption. ■

Private consumption is expected to contribute to the upswing in activity in 2019



Sources: Istat, Markit, INSEE forecast

Spain

Economic momentum holds firm

In Q4 2018, Spanish growth accelerated slightly, to +0.7% after +0.6%, thanks to the significant rebound in exports. In 2018, however, GDP grew less quickly than in 2017 (+2.5% after +3.0%). Foreign trade contributed negatively to growth in 2018. In H1 2019, the business climate remains favourable and activity should improve by +0.6% per quarter. Driven by household consumption, domestic demand should sustain growth, for which the mid-year growth overhang is expected to reach +2.0% for 2019.

Consumption is likely to be buoyed by the rise in the minimum wage

Spanish household consumption slowed down in Q4 2018 (+0.5% after +0.8%), in reaction to the high number of vehicle registrations in the summer. The 22% rise in the minimum wage on 1st January 2019 should contribute to an acceleration in nominal wages in Q1 (+2.3% after +0.4%). As a consequence, household purchasing power is likely to boost private consumption (+1.0% in Q1 followed by +0.8% in Q2).

Recruitment prospects are deteriorating, and employment is expected to decelerate in H1 2019, while remaining vigorous (+0.5% per quarter after +0.7%). The unemployment rate should drop to 13.4% in the spring, i.e. two points lower than in 2018 (*Graph*).

Corporate investment is expected to pick up slightly

In Q4 2018, equipment investment fell (–1.7% after +0.8%). On an annual basis, it remained very dynamic in 2018. The production capacity utilisation rate has returned to its pre-crisis levels. However, in early 2019, the margin rate should drop sharply due to the rise in the minimum wage. Equipment investment is likely to bounce back in H1 2019 (+1.0% in Q1 followed by +0.7% in Q2).

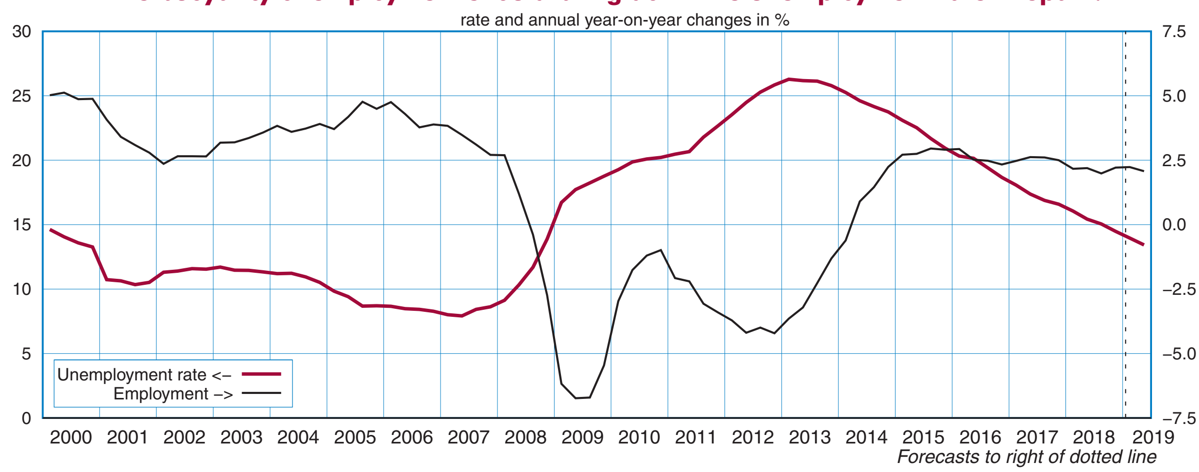
Investment in construction slowed down in Q4 2018 (+0.1% after +1.0%). It should bounce back in H1 2019 (+0.6% per quarter), with the number of building permits continuing to rise.

All in all, investment edged down marginally in Q4 2018 (–0.2%), but it is expected to pick up slightly through to mid-2019 (+0.7% in Q1 followed by +0.6% in Q2).

Foreign trade is unlikely to contribute to growth

At the end of 2018, foreign trade contributed positively to growth, in contrast to the three previous quarters. Exports bounced back in Q4 2018 (+1.9%). Likewise, imports recovered at the end of the year, but not as quickly (+1.1%). On average in 2018, foreign trade hampered growth (–0.4 points) after making a positive contribution for two years. In Q1 2019, exports are likely to slacken (+0.5%), before accelerating a little in Q2 (+0.7%), in line with world demand. Imports, bolstered by domestic demand, are expected to remain buoyant in H1 (+1.0% in Q1 followed by +0.8% in H2). All in all, foreign trade looks likely to make a negative contribution to growth in H1 2019. ■

The buoyancy of employment should bring down the unemployment rate in Spain.



Source: INE, INSEE forecast

United Kingdom

Keep calm and carry on

At the end of 2018, British activity slowed (+0.2% after +0.6%), penalised by the downturn in private investment. In Q1 2019, activity is expected to slow down again (+0.1%), with enterprises adopting a wait-and-see attitude in the run-up to Brexit. Assuming that before the end of March 2019 the European Union and the United Kingdom approve a technical agreement which is similar to the agreement reached in November 2018, British GDP should regain a little momentum in Q2 (+0.2%). The mid-year growth overhang for 2019 is expected to stand at +0.8%, after +1.4% on average in 2018.

Precautionary savings

At the end of 2018, household consumption remained vigorous (+0.4%, as in the summer), in the wake of the acceleration in purchasing power. However the entry into force of the WLTP emissions standards held back automobile purchases (–8.9% after +3.9%). In H1, household consumption should slow down slightly (+0.3% per quarter). Indeed, with Brexit negotiations still in progress in Q1 2019, the climate of uncertainty is expected to take a toll on employment with enterprises likely to postpone their recruitment decisions. In this context, households are likely to set aside precautionary savings: the savings ratio should reach 4.4% by mid-2019, after 3.9% at the end of 2018 (Graph).

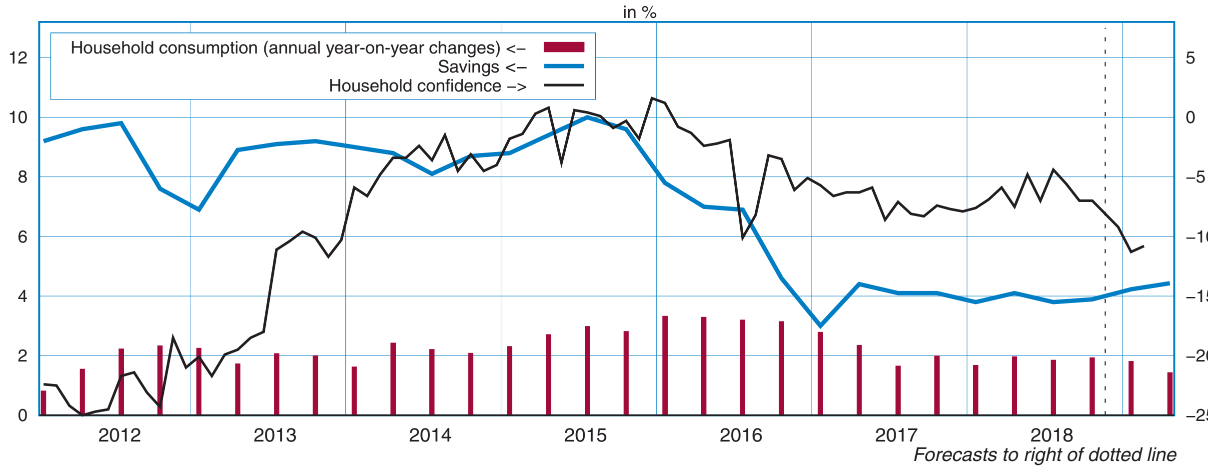
Private investment still penalised by Brexit

Corporate investment dropped for the fourth consecutive quarter at the end of 2018 (–1.4% after –1.2%). In the Bank of England surveys, corporate investment intentions remain at rock-bottom and Brexit is reported to be the major concern of enterprises. In Q1 2019, corporate investment should continue to deteriorate (–1.0%). If a Brexit deal were ratified before 29 March 2019, initiating a transitional period in which the United Kingdom would continue to benefit from the single market until the end of 2020, corporate investment should bounce back in the spring (+0.5%). Household investment slowed down at the end of 2018 (+0.4% after +0.9%). It is expected to keep decelerating in H1 (+0.1% per quarter), due to the sluggishness of the property market, as reflected by the downturn in prices on the London market and their slowdown nationwide.

A "soft Brexit" scenario should preserve foreign trade in the short term

At the end of 2018, exports gathered pace (+0.9% after +0.2%), and imports followed suit (+1.3% after 0.0%), with enterprises anticipating the risk of rising customs barriers. In Q1 2019, exports are likely to slow considerably (+0.2%), in the wake of world demand. If a Brexit deal were struck, exports would probably not be negatively impacted in Q2 2019 (+0.3%). Likewise, imports should remain in line with domestic demand (+0.5% per quarter). However, a more pessimistic "no-deal Brexit" is also a possibility (Focus). On average in 2018, foreign trade reduced the growth in British activity by 0.2 points (+1.4% in 2018 after +1.8% in 2017). For 2019, the growth overhang at the mid-year point is expected to be only +0.8%. ■

In the wait-and-see climate related to Brexit, households are likely to prioritise their savings



Sources: ONS,DG Ecfin, INSEE forecast

United States

The shutdown at the start of this year has held back activity and consumption

In Q4 2018, American activity slackened (+0.6% after +0.8%), due to household consumption. At the start of 2019, activity is set to decelerate again to +0.3%, under the effect of a sharp slowdown in domestic demand, which was also adversely affected by the partial or total shutdown of certain administrations from 22 December 2018 to 25 January 2019. Growth should bounce back slightly in Q2, to +0.5%. On an annual average basis, growth reached +2.9% in 2018 after +2.2% in 2017. The growth overhang for 2019 should stand at +1.8% by mid-year.

Activity is expected to slow down in H1 2019

In Q4, American activity slowed down marginally (+0.6% after +0.8%), as did household consumption (contribution of +0.5 points, after +0.6 points). In December and January, the indicators derived from surveys deteriorated sharply, suggesting another slowdown in H1 2019. In Q1, private consumption should slacken considerably, and public spending is likely to slip back as a result of the shutdown. Therefore, activity is expected to decelerate (+0.3%), before picking up a little in Q2 (+0.5%), with greater support from domestic demand. All in all, activity has accelerated again in 2018 (+2.9% after +2.2%), but it is expected to slow in 2019, with its mid-year growth overhang standing at +1.8%.

The shutdown looks likely to hamper consumption and activity

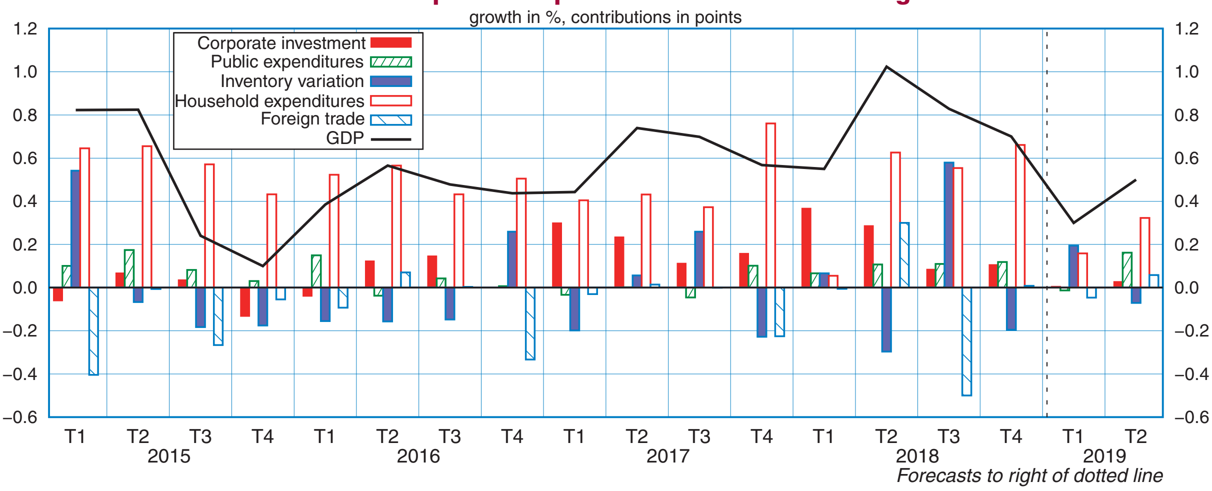
Private consumption weakened in Q4 (+0.7% after +0.9% in Q3 and Q2), despite still-vigorous purchasing power (+1.0%). Wages should remain buoyant in H1 2019 and inflation is expected to fall, which should sustain household purchasing power. However, the shutdown involving several federal administrations from 22 December 2018 to 25 January 2019 had a negative impact on household morale and is expected to slow down their consumption, which should decelerate to +0.4% in Q1 and barely pick up in Q2 (+0.5%). The stabilisation of the unemployment rate at 3.9% is likely to be an additional factor in decelerating consumption in 2019. Therefore, the household savings ratio looks set to stabilise at around 6.8% in late June.

Corporate investment gathered pace in Q4 2018 (+1.5% after +0.6%) but is expected to stall in Q1 and increase only very moderately in Q2 (+0.2%), penalised by the shutdown and by a wait-and-see attitude in a context of economic and commercial uncertainty.

Trade is likely to slow

Exports increased slightly in the autumn (+0.4% after –1.2%), whereas imports slowed down (+0.7% after +2.2%). Exports are expected to stagnate in Q1 under the combined effects of trading uncertainties and the appreciation of the real effective exchange rate. They should then pick up in the spring (+0.6%). Through to mid-2019, imports are likely to slow down again in Q1 (+0.2%) and increase by 0.3% in Q2. Finally, foreign trade would appear to have hampered American activity again in 2018, reducing GDP by 0.3 points. It is expected to contribute around –0.3 points to the mid-year growth overhang. ■

The slowdown in private expenditure should hold back growth.



Source: U.S. Bureau of Economic Analysis

Japan

Japanese activity picked up in Q4 (+0.5% after –0.6%), in reaction to Q3 with its unfavourable weather conditions and the effects of seismic activity. Domestic demand was the only factor sustaining growth (+0.8 points after –0.6). In 2019, activity is likely to grow at a more moderate rate in Q1 (+0.2%), before accelerating a little in Q2 (0.4%).

The rise in wages is expected to drive household consumption in Q2

Japanese activity picked up in Q4 2018 (+0.5% after –0.6%). Industrial production bounced back (+2.0% after –1.4%) in reaction to the significant disruption caused by weather and seismic events in Q3. Activity should slow down in Q1 2019 (+0.2%) and then accelerate slightly in Q2 (+0.4%). Domestic demand – the sole factor supporting growth in the context of protectionist tensions originating from the United States – rose in Q4, thanks to the upswing in household consumption (+0.4% after –0.2%), which is likely to increase more modestly at the start of the year (+0.2%). It should accelerate more briskly in Q2 2019 (+0.5%), driven by a new rise in the average wage per capita (+0.5% after +0.0% in Q1) resulting from the wage negotiations in March 2019 (*Graph*).

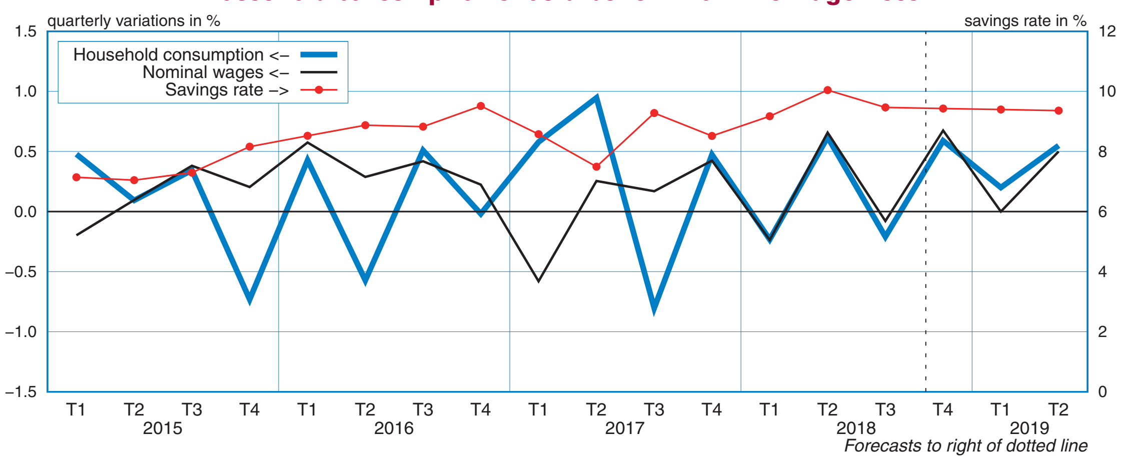
Investment should hold firm

After rebounding to +2.7% in Q4 2018, corporate investment is expected to return to more moderate growth in Q1 2019 (+0.2%). In Q2, bolstered by tax benefits linked to corporate investment, it should accelerate to +0.4%. After falling for several quarters, public investment is likely to be favoured by rebuilding work in regions affected by natural disasters in the summer of 2018, as well as the rise in military expenditure and spending on infrastructures for the 2020 Olympic Games. It should pick up steadily to reach +0.5% in the spring of 2019. Household investment increased again in Q4 2018 (+1.1% after +0.6%). It is set to gather pace in Q1 2019 (+1.6%), before slowing down in Q2 (+0.6%).

Exports are expected to edge down

Exports look likely to fall in Q1 2019 (–0.2% after +1.0% at the end of 2018), in an international context of protectionist tensions with the USA. They should then barely increase in Q2 (+0.1%). On an annual average basis, Japanese exports slowed significantly in 2018 (+3.1% after +6.8%) and their mid-year growth overhang for 2019 is likely to be nil. Imports are expected to change in the wake of domestic demand: they should stabilise at the start of 2019, before gathering pace to +0.5% in Q2 2019. On average over the year, imports slackened in 2018 (+3.2% after +3.4%) and their growth overhang for 2019 should reach +2.4% by mid-year. The contribution of foreign trade to growth was nil in 2018 (after +0.6 points in 2017); its mid-year carry-over effect is likely to be negative in 2019 (–0.4 points). ■

Household consumption should benefit from the wage rises



Sources: Statistics Bureau, Ministry of Internal Affairs and Communications, Cabinet Office of Japan

Emerging economies

Growth is faltering

In Q4 2018, Chinese activity decelerated again over 12 months (+6.4% after +6.5%), in a context of trade tensions and efforts to combat high-risk indebtedness. It should continue to slow in 2019 (+6.3% over a year in Q1 followed by +6.2% in Q2), held back by both domestic and foreign demand. The Chinese authorities are adapting their policy mix in an attempt to curb this slowdown, by easing monetary policy and providing fiscal stimuli. On an annual average basis, activity decelerated in 2018, to +6.6% after +6.8% in 2017.

In Russia, the depreciation of the ruble is likely to favour inflationary pressures: activity is expected to slow down in Q1 before regaining a little momentum in Q2. In Brazil, the pace of activity should remain moderate through to mid-2019, in the wake of foreign trade. In Turkey, the business climate deteriorated significantly and inflation soared: activity is likely to keep shrinking through to mid-2019. In India, activity accelerated in 2018 and looks set to remain vigorous in 2019. Finally, growth in Eastern Europe is expected to decrease slightly, in the wake of the Eurozone.

China: launching stimulus policies in an attempt to curb the slowdown in activity

According to official estimates, Chinese growth slowed in Q4 2018 (+6.4% over 12 months, after +6.5%), its slowest rate since 2009. Domestic demand – the sole source of support for growth in the context of a trade war with the United States – weakened, due largely to the effects of measures designed to combat high-risk indebtedness (*Graph 1*).

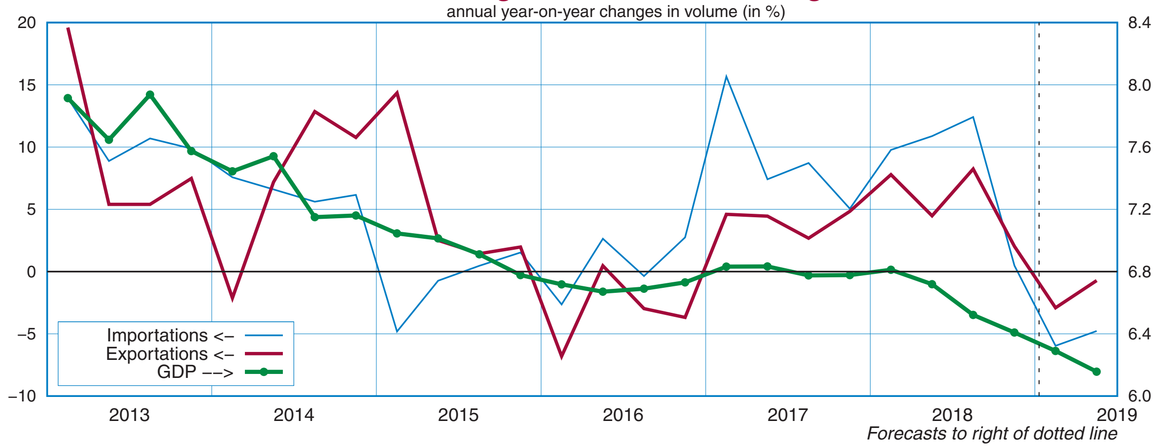
In January, the business climate indicators were negative, particularly in the manufacturing sector in which activity is shrinking. Industrial output slowed in Q4, to +5.7% after +6.0% on a quarterly average basis. The profits of enterprises in the sector continue to decline due to the slowdown in output and the drop in prices. In addition, protectionist tensions with the United States and the difficulties faced by enterprises seeking to finance their investments are also adversely affecting output and penalising employment.

Real estate investment, one of the growth drivers, has slowed down as a result of the decline in the rate of building starts. On the household side, retail sales have slackened on a year-on-year basis and vehicle registrations have plummeted again, due mainly to the end of incentives to purchase vehicles. Certain tax measures, such as an income tax reduction, have already been in force since January 2019 and others are likely to be announced in order to boost consumption. In addition, the Chinese Central Bank has eased its policy by lowering its minimum reserve requirement despite being required to combat high-risk indebtedness.

Through to mid-2019, activity should therefore continue to decelerate steadily (+6.3% in Q1 followed by +6.2% in Q2 year-on-year). On an annual average basis, after the slowdown in 2018 (+6.6% posted after +6.8% in 2017), linked to

1 - Domestic and foreign demand are slackening in China

annual year-on-year changes in volume (in %)



Source: NBSC

domestic demand in particular, the growth overhang for 2019 is expected to stand at +5.0% at the end of Q2.

Russia: growth is by hampered inflationary pressures

At the end of 2018, purchasing power accelerated slightly and retail sales continued at a sustained pace. In addition, the depreciation of the ruble, associated with the diplomatic tensions with the United States, boosted exports again. Consequently, activity would appear to gathered pace in Q4 2018 (+0.5%), after the one-off decline in Q3 (–0.1%). However, it is expected to slow down in Q1 2019 (+0.2% to +0.3% per quarter), penalised by the rise in inflation resulting from the fall in the value of the ruble and the VAT rise on 1st January. On average in 2018, GDP picked up slightly (+1.9% after +1.5%) and the mid-year growth overhang for 2019 is likely to stand at +1.1%.

Brazil: activity struggles to regain momentum

In Q2 2018, activity stagnated, handicapped by the road hauliers' strike, before bouncing back in the summer (+0.5%). In Q4, activity slowed (+0.1%) and inflation stabilised, reaching +3.7% in December and supporting retail sales, but investment fell back significantly (–2.5%). In H1 2019, growth is expected to remain modest (+0.4% per quarter), still adversely affected by inflationary tensions and the slowdown in world trade. On average in 2018, activity grew by 1.1%, as in 2017, and the mid-year growth overhang for 2019 should stand at +1.1%.

Turkey: in turmoil

At the end of 2018, Turkish GDP would appear to have fallen for the third consecutive quarter (–1.5% after –1.0% in the summer and –0.1% in the spring). The business climate in the manufacturing sector fell to its lowest level since 2009 (*Graph 2*) and industrial output slipped back again in Q4. At the end of 2018, the Turkish lira continued to depreciate under the effect of the political tensions, which continued to fuel inflation (+20.3% over one year in December). In H1, GDP should continue to decline (–0.5% per quarter). On average in 2017, growth would appear to have slowed to +3.1% in 2018 after +7.3% in 2017, and the growth overhang for 2019 is expected to be 1.8% by mid-year.

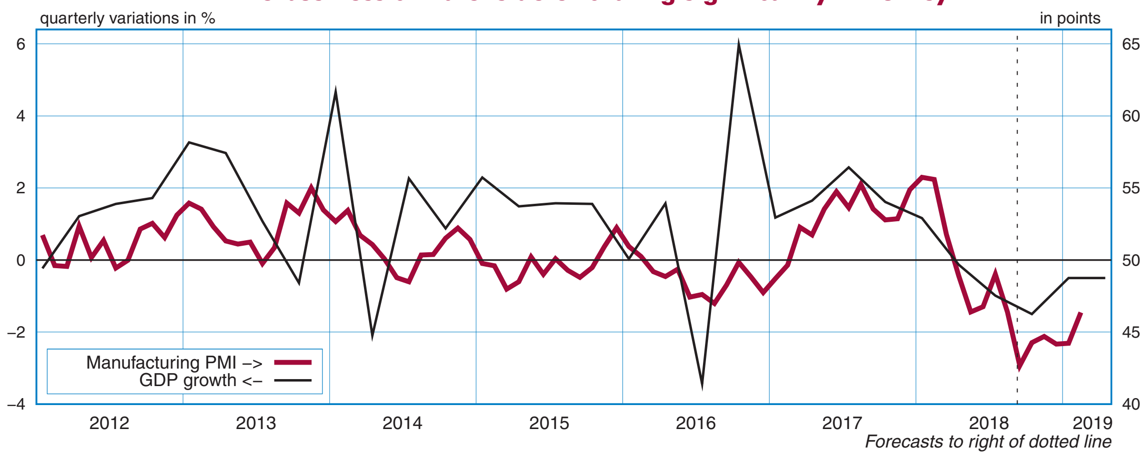
India: activity remains buoyant

In Q4 2018, Indian activity accelerated (+1.7% after +1.2%), driven by household consumption. The balances of opinion derived from surveys of purchasing managers remained above the expansion threshold. However, industrial output slowed (+1.0% after +1.5%). Imports in real terms, which are sensitive to oil prices, (+0.1% after +4.2%). Through to mid-2019, they are expected to recover in in Q1 (+1.5%) and then barely accelerate in Q2 (+2.0%) as a result of the raising of import taxes on certain products. GDP gathered pace on average in 2018, to +7.4% after +6.9%, buoyed by domestic demand.

CEEC: activity is expected to slow down, in the wake of the Eurozone

In 2018, activity remained vigorous in Central and Eastern European countries (CEEC) (+1.3% in Q3, after +1.0% per quarter in H1). However, the balances of opinion derived from surveys of purchasing managers deteriorated significantly: at the end of 2018, activity decelerated (+0.7%), held back by the decline in demand from the Eurozone. In H1 2019, GDP growth should continue at a moderate pace (0.8% per quarter). On average in 2018, growth settled at +4.2%, after +4.6% in 2017, and should continue to slow down from now on. ■

2 -The business climate is deteriorating significantly in Turkey



Source: Turkstat, Markit