Germany

Domestic demand rescues growth

In Germany, activity bounced back in Q1 2019 (+0.4%) after a lacklustre H2 2018. Domestic demand contributed +0.8 points to this recovery: household consumption soared, boosted by fiscal measures, and investment remained buoyant. For the first time since the end of 2017, foreign trade buoyed up growth (+0.2 points in Q1). In spite of high income and solid employment stimulating private consumption, activity is expected to grow only by +0.2% per quarter to the end of 2019, theatened by international uncertainties.

Private consumption should sustain activity

German activity picked up at the start of 2019 (+0.4%), after a difficult end to 2018. Domestic demand buoyed up growth, driven by fiscal measures (increase in family allowances, tax reductions for low and medium wage-earners, adjustment of health insurance contributions, wage rise in the civil service). Recruitment difficulties remain significant but their easing hints at a slight downturn in wages (+0.8% in Q2, followed by +0.5% in Q3 and Q4), whilst the employment situation should remain favourable, with the unemployment rate below 3.0%. Private consumption, buoyed up by substantial income, is expected to remain vigorous through to the end of the year (+0.4% in Q2, followed by +0.3% per quarter; Graph), and looks set to be one of the main factors driving growth in 2019 (contribution of +0.9 points).

Investment: construction remains dynamic but equipment investment falters

Despite a drop in the number of building permits, construction investment should remain buoyant in 2019. Positive surveys point towards solid growth, at around +0.6% per quarter (after +1.9% in Q1). However, equipment investment is likely to suffer from low investor morale, a drop in production capacity utilisation rates and a nosedive in orders for manufactured goods. Consequently, after stagnating in Q2, it is expected to grow by only +0.2% per quarter through to the end of 2019.

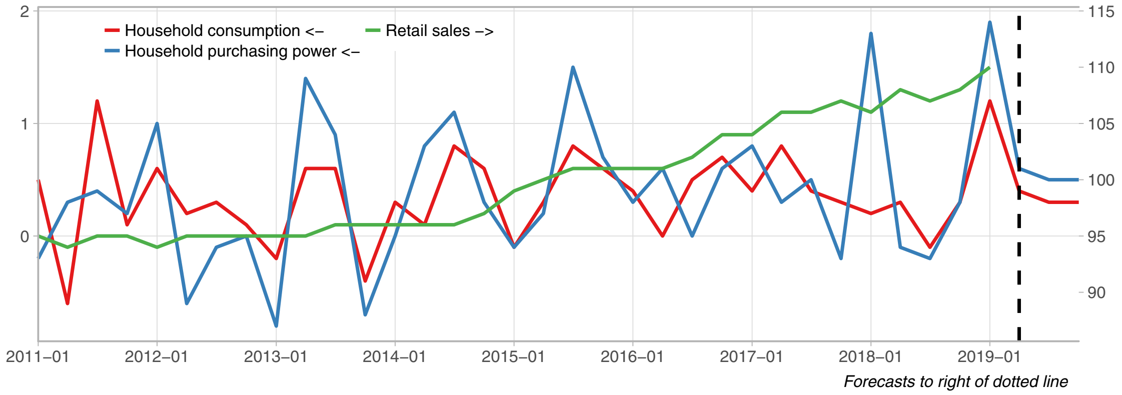
Exports face growing threats

German exports gathered pace in Q1 2019 (+1.0% after +0.6%). The threats of new increases in US customs duties and the fragile state of world trade are expected to weigh down on exports: after a stagnation in Q2, they should increase moderately in H2 (+0.6% then +0.4%). In the autumn, they are also likely to be impacted by the introduction of new motor vehicle testing requirements in September, in line with the WLTP emission standards. With imports boosted by strong domestic demand, foreign trade is likely to hamper activity again in 2019 (–0.6 points, after –0.4 points in 2018).

All in all, German activity should continue to grow at a moderate rate through to the end of 2019 (+0.2% per quarter). Annual growth is likely to slow down once again, to +0.8%, after +1.5% in 2018. ■

Household consumption looks set to perk up in 2019

quarterly variations in %, index based on 100 in 2015



Source: Destatis, Eurostat, INSEE forecast

Italy

Pianissimo

In Q1 2019, Italian activity bounced back, to +0.1%, after a half-year of technical recession in 2018. Foreign trade, with a significant decline in imports, was mainly responsible for this recovery. In Q2, growth is expected to accelerate again (+0.2%), buoyed by the "citizens' income". However, with a lukewarm business climate, activity is likely to slow down in H2 (+0.1% per quarter). As an annual average, GDP looks set to decelerate again in 2019 (+0.2% after +0.7% in 2018), hampered by the marked slowdown in domestic demand.

Private consumption should maintain a moderate pace

Nominal wages would appear to have accelerated in Q1 (+0.5%). They are expected to slow slightly in Q2 and then maintain this pace through to the end of 2019 (+0.4% per quarter). With recruitment prospects deteriorating, growth in employment is likely to be sluggish throughout the year, while the labour force is expected to increase as a result of people registering for the citizens' income. By the end of 2019, the unemployment rate should stand at 11.0% (against 10.6% one year earlier).

Household consumption increased marginally in Q1 2019 (+0.1%). It is likely to speed up slightly in Q2 (+0.3%) with the implementation of the citizens' income, which is expected to bolster household purchasing power. Nevertheless, private consumption should return to a rate of +0.1% per quarter in H2. It looks set to grow by +0.6% throughout 2019 as a whole.

Equipment investment is flagging but construction is faring better

Industrialists' confidence continued to wane at the start of the year. Equipment investment plummeted in Q1 2019 (–2.2% after +0.9%). It is expected to pick up timidly in Q2 (+0.3%), in line with the surveys on manufacturing orders, and should maintain this rate through to the end of 2019. Over the year, equipment investment is likely to decline in 2019 (–1.7%).

Investment in construction would appear to have surged at the start of the year (+2.6% after 0.4% at the end of 2018). The rebuilding of the Morandi bridge in Genoa and the government's plan to "kick-start construction projects" should boost the momentum of investment in construction for the rest of the year (+0.5% per quarter). As an annual average, growth in investment in construction should reach its highest level in over a decade (+4.5%, *Graph*).

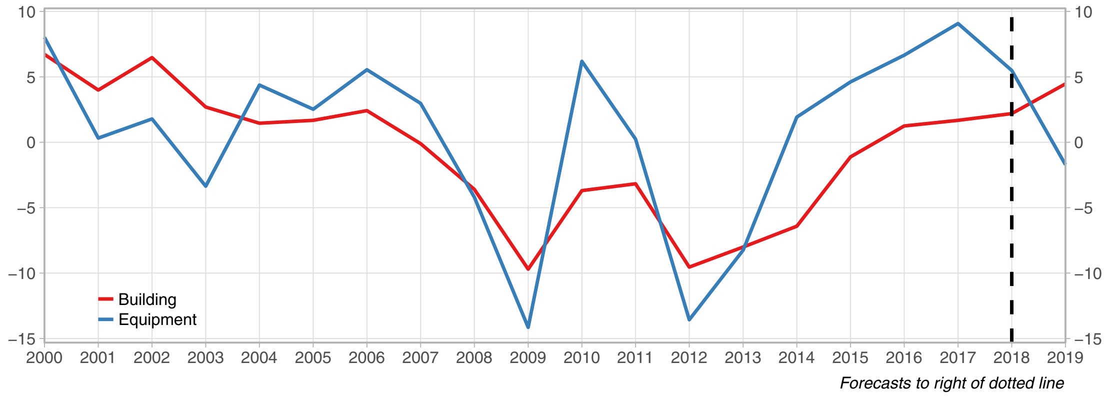
Foreign trade is likely to slow down during the year but should contribute positively to growth again

For the third consecutive quarter, foreign trade made a positive contribution to growth at the start of 2019 (+0.5 points). Imports declined whereas exports increased (–1.5% and +0.2% respectively). With the upswing in private consumption, imports are expected to bounce back in Q2 (+1.3%), in line with exports (+0.9%).

With orders declining, exports should slow down from the summer onwards (+0.5% per quarter). Imports also look likely to decelerate (+0.7% per quarter in H2) due to the slowdown in domestic demand. All in all over the year, foreign trade should contribute positively to growth again in 2019 (+0.5 points). ■

Investment in construction returns to its pre-crisis growth rate

annual % change



Source: Istat, INSEE forecast

Spain

Still top of the major Eurozone countries

In Q1 2019, Spanish growth accelerated slightly, to +0.7% after +0.6%, thanks to an upswing in investments. Foreign trade once again contributed to growth. Activity should grow by +0.6% per quarter through to the end of the year. Driven by both domestic demand and foreign trade, growth is expected to reach +2.5% in 2019 (Graph).

Purchasing power is likely to drive private consumption

Spanish household consumption slowed in Q1 2019 (+0.3% after +0.4%). Nominal wages picked up moderately, despite a 22% rise in the minimum wage. They should continue to increase at a steady pace throughout the year (+0.5% per quarter). As an annual average, nominal wages are expected to rise at a faster rate than inflation in 2019, enabling real wages to increase for the first time since 2015.

With recruitments diminishing, employment is likely to slow during the year, but should remain buoyant (+0.6% in Q2, followed by +0.5% and +0.4% at the end of 2019). The unemployment rate should drop to 12.4% by the end of the year, i.e. two points lower than in 2018. Driven by relatively dynamic purchasing power, private consumption is expected to a maintain a vigorous pace throughout the year (+0.6% in Q2 followed by +0.5% per quarter). All in all, it should increase by 1.8% in 2019.

Investment is expected to remain brisk

In Q1 2019, equipment investment bounced back (+3.8% after –2.7%). In reaction, it is likely to decelerate in Q2 (+0.9%), before regaining momentum in H2 2019 (+1.5% per quarter).

Investment in construction slowed down in Q1 (+0.6% after +1.3%). With the number of building permits continuing to rise, investment in construction looks set to remain steady throughout the year (+0.6% per quarter).

All in all, investment accelerated in Q1 (+1.5%). It should slacken slightly in the spring (+0.6%), before increasing again in H2 (+0.9% per quarter).

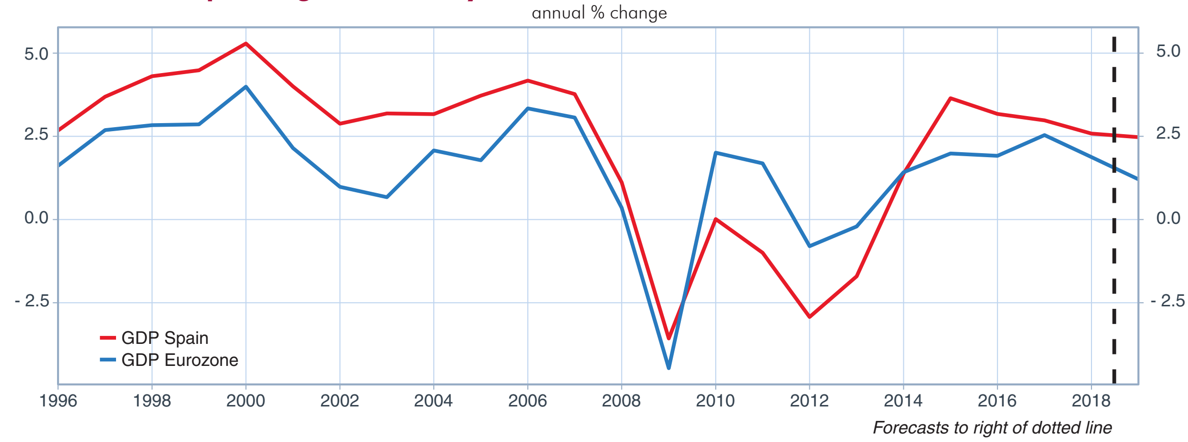
Foreign trade is expected to boost growth in 2019

While exports tumbled in Q1 2019 (–0.5%), imports declined even further (–1.1%). In line with exports (+1.0%), imports are likely to bounce back (+0.8%) in Q2, driven by private consumption. In H2, both imports and exports are expected to slow down in a highly uncertain world trade context.

All in all, foreign trade should make a positive contribution to growth once again in 2019 (+0.4 points after –0.3 points in 2018). ■

Spanish growth is likely to withstand the slowdown in the Eurozone

annual % change



Source: Eurostat, INSEE forecast

United Kingdom

Stockpiling in anticipation of Brexit

In early 2019, British activity accelerated (+0.5% after +0.2%), driven by household consumption. In Q2, activity is set to come to standstill in reaction (+0.0%). Assuming the ratification of a Brexit agreement on 31 October, GDP should accelerate in the summer (+0.4%), bolstered again by Brexit-related anticipation effects, before decelerating at the end of 2019 (+0.1%). On average in 2019, British growth is expected to remain moderate (+1.5%, after +1.4% in 2018).

Households seemingly anticipating an inflation hike

At the start of 2019, household consumption picked up strongly (+0.7% after +0.3%), boosted by the increase in purchasing power. Households would also appear to have over-consumed in anticipation of an inflation hike: with Brexit initially expected on 29 March 2019, they would seem to have been anticipating the impact of an increase in customs duties on prices. In Q2, their spending looks likely decelerate due to a backlash effect (+0.2%) but should regain a little momentum in Q3 (+0.4%), with the return of inflation expectations linked to Brexit, now planned for 31 October 2019. However, the acceleration in consumption is expected to remain restrained in light of the buoyancy of purchasing power, with households having already over-consumed at the beginning of the year. Consequently, the savings ratio is likely to increase (4.7% in Q3 against 4.1% one year earlier). In reaction, consumption should slacken again at the end of 2019 (+0.2%).

Corporate investment picked up temporarily

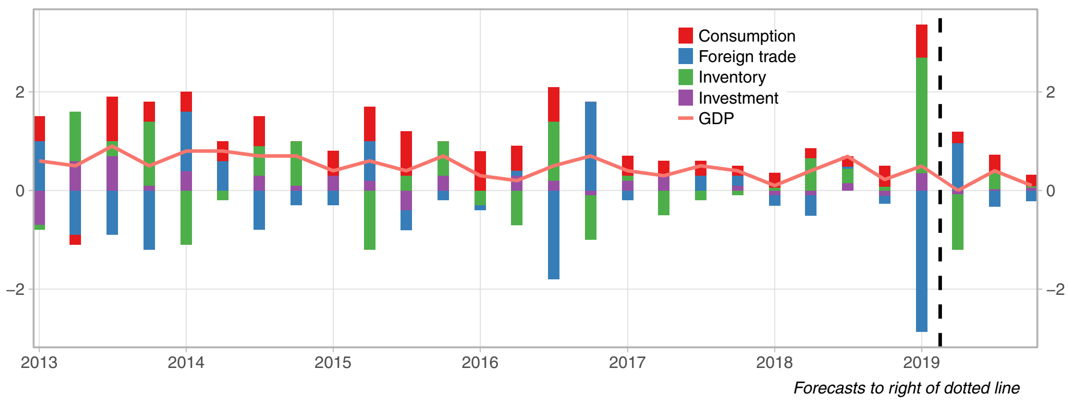
After declining for four quarters, corporate investment picked up slightly at the start of 2019 (+0.5%) but remains hampered by the Brexit waiting game: investment intentions remain very low in Bank of England surveys. Corporate investment is likely to decline in Q2 and should come to a standstill in the summer. However, it is expected to bounce back in Q4 (+0.5%), assuming that the European Union and the United Kingdom ratify an agreement on Brexit, approving a transitional period in which the United Kingdom would continue to benefit from the Single Market through to the end of 2020.

In early 2019, the sharp rise in imports led to massive stockpiling

At the start of 2019, foreign trade reduced growth by 3.0 points in accounting terms: exports came to a standstill (+1.5% after +1.6%), but imports surged (+10.8% after +2.1%), in anticipation of price rises and the possibility of Brexit-related disruptions to supply chains (*Focus*). As a consequence, enterprises exhibited a strong stockpiling tendency at the start of 2019 (*Graph*), contributing 2.3 points to GDP growth in Q1. Imports are expected to decline in the spring (–5.0%) after the stockpiling behaviour in Q1, before bouncing back in the summer, buoyed by new anticipations in the run-up to Brexit. In Q4, imports should not be negatively impacted (+0.2%), remaining consistent with British activity losing momentum. Exports should decrease slightly in Q4 (–0.5%) after accelerating temporarily in Q3, with foreign enterprises making advance purchases prior to possible increases in customs duties ■

After increasing their product inventories in Q1, enterprises are expected to sell off their stocks in Q2

quarterly variations in GDP (%) and contributions in points



Source: ONS, INSEE forecast

Planning for Brexit is providing a temporary boost to British imports

Initially scheduled to take effect on 29th March 2019, the departure of the United Kingdom from the European Union (EU) has been delayed until 31st October 2019, with no guarantee that a trade agreement will be reached by that deadline. While trade between the United Kingdom and its partners is expected to suffer as a result of Brexit, regardless of the outcome of negotiations, Brexit appears to have affected trade before even taking effect. Probably acting in anticipation of the Brexit deadline set at the end of Q1 2019, British businesses in the manufacturing sector expanded their inventory with massive purchases from other European countries, bolstering French exports in particular.

In late 2018 and early 2019, British businesses accumulated substantial inventory of imported products in preparation for Brexit

As the deadline of 29th March 2019 approached, initially set as the date on which the United Kingdom would leave the European Union, more and more British businesses reported that Brexit was a major source of uncertainty in the surveys conducted by the Bank of England (*Graph 1*).

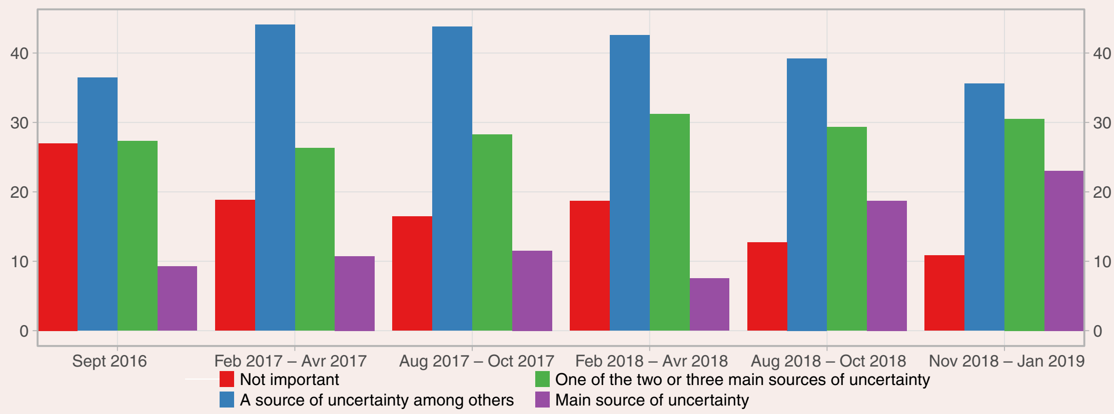
Anticipating an increase in customs duties and potential disruption to supply chains in the event of a no-deal Brexit, more than half of the businesses surveyed decided to increase their inventory levels. This was the response most frequently reported by businesses in the survey on Brexit preparations conducted in January by the Bank of England. In particular, according to the Markit institute, the balances of opinion of purchasing managers in the manufacturing sector regarding existing inventory of inputs and finished products leapt up in Q1 2019 (*Graph 2*).

The stocks estimated in the national accounts therefore rose sharply in Q1 2019: inventory change contributed approximately 2.3 points to the increase in British GDP, the highest level seen since Q2 2012, just before the Olympic Games in London.

Meanwhile in early 2019, British imports of goods and services in volume as measured in the national accounts picked up pace considerably, growing by +10.8% compared with the preceding quarter. This

1 - More than half of British businesses considered Brexit to be a major source of uncertainty in January 2019

in %

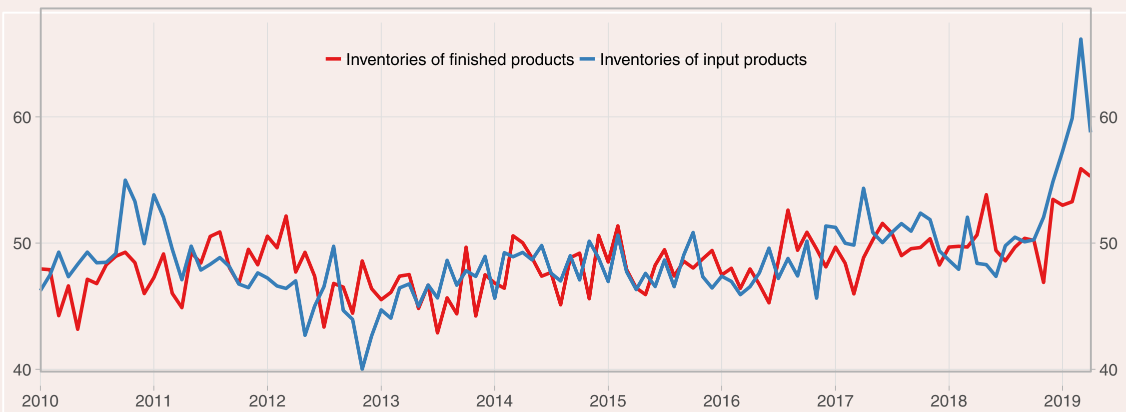


Note: responses to the question 'To what extent has the referendum on the United Kingdom leaving the EU affected the level of uncertainty facing your business? Please select one answer only."

Source: The Bank of England's 'Decision Maker Panel'

2- In early 2019, businesses reported a sharp increase in inventory

in %



Source: Markit

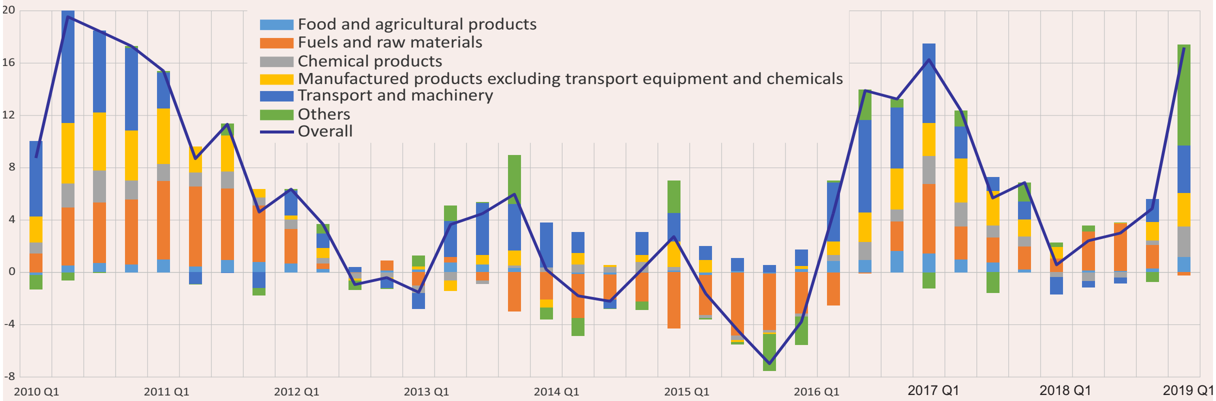
was the biggest jump recorded since 1981. According to Her Majesty's Revenue and Customs, imports of goods in value terms also picked up pace to grow by +17.2% year on year in Q1 2019, up from +4.9% in late 2018 (*Graph 3*). This is the strongest rate of growth recorded since early 2017, when imports in value were boosted by the depreciation of the pound following the referendum result. This acceleration, which has affected trade with the EU and the rest of the world, has been driven largely by stockable goods such as chemical products (+2.3 points), other manufactured goods (+6.2 points) and food products (+1.2 points).

Conversely, the United Kingdom's exports saw no exceptional increase over the same period.

All of the United Kingdom's trading partners benefited from the exceptional increase in British imports in Q1 2019

As the fourth biggest supplier of UK imports (*Table 1*), the USA looks to have been the primary beneficiary of these Brexit anticipation effects (*Graph 4*). In early 2019, US exports to the United Kingdom increased by 49.6% year on year, with British companies increasing their inventory of American products before potential increases in customs duties and resulting disruptions to supply chains. Indeed, Brexit would not only affect customs duties between the United Kingdom and EU member states. By leaving the EU, the United Kingdom would no longer be covered by the preferential terms of trade negotiated by the EU with the rest of the world. The effects of Brexit therefore seem to have extended to trade between the United Kingdom and trading partners outside the EU such as the USA and China. These countries seem to be benefiting from the same anticipation effects as EU member states. Moreover, it is possible that other anticipation effects unrelated to Brexit were also at play in this period, particularly the escalation of the trade war between China and the USA.

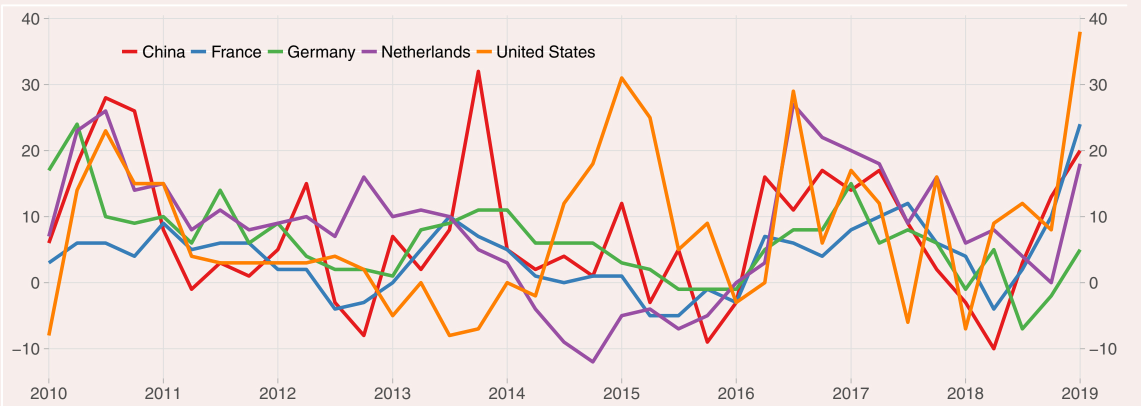
3 - British imports grew considerably in early 2019



Source: Markit

4 - Imports to the United Kingdom from principal trading partners

in %



Source: Markit

Table 1- The United Kingdom's main suppliers in 2018

	Country's share of British imports by value in 2018 (in %)
Germany	13.9
China	9.0
Netherlands	8.6
United-States	8.6
France	5.8
Belgium	5.5
Norway	4.1
Italy	3.9
Spain	3.4
Ireland	2.9

Source: Office for National Statistics (ONS), British customs

France, as the fifth largest supplier to the UK, also benefited from the dynamism of British imports in Q1 2019 (+23.3%, *Graph 5*). In particular, deliveries of chemical and pharmaceutical products (+3.4 points) and other manufacturing products (+18.0 points) have played a significant role in this increase. Food and agricultural goods also contributed +2.0 points to the growth of French exports to the United Kingdom.

Chinese exports to the United Kingdom also enjoyed a substantial boost in early 2019: they accelerated by +19.8% year on year, their most dynamic performance since 2013 (*Graph 4*).

The Netherlands, third largest supplier to the United Kingdom, have also benefited from the apparent effects of Brexit planning: in Q1, British imports of Dutch products grew by 17.7% compared with the previous year, when Dutch trade with the UK had actually been shrinking since 2017. Deliveries of chemical products (+14.8 points) and other manufactured products (+4.3 points) have made the greatest contribution to this upturn.

For Italy and Spain, respectively the 7th and 9th largest suppliers to the United Kingdom, effects of Brexit have been significant since Q4 2018 (+12.1% for Spain and +8,5% for Italy). In Q1 2019, British imports increase at a similar pace.

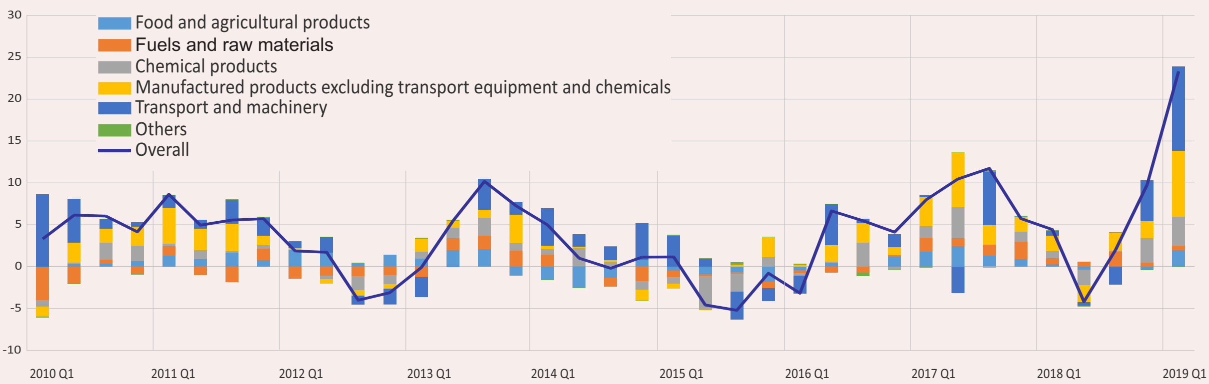
Other countries have benefited less from the acceleration of British imports in Q1 2019. Germany, second largest supplier of the United Kingdom, saw only a slight rebound in its cross-channel exports in Q1 2019, although the uncertainty surrounding Brexit does seem to have contributed to the recovery of German trade with the United Kingdom. After a tough end to 2018 for the automobile sector (adapting to new anti-pollution regulations) and the chemical industry (problems navigating on the Rhine), German exports to the United Kingdom saw a modest rebound in early 2019: they grew by 4.7% compared with the previous years, after shrinking in two successive quarters, by 7.1% then 1.8%, according to UK customs figures. This increase was primarily driven by imports of manufactured goods (+1.9 points) and chemical products (+1.6 points).

Belgian exports to the UK also increased by just 5.1% year on year to Q1 2019.

In response to concerns about Brexit and its consequences for trade flows and supply chains to production facilities, British businesses therefore appear to have opted for a strategy of massive inventory accumulation. In early 2019 they significantly ramped up their purchasing of manufactured goods, particularly transport equipment and chemical products, from multiple partners simultaneously. In reaction, they are expected to sell off their stocks in Q2 2019 and these variations should contribute –1.1 points to the GDP growth. In April, imports of goods in value decreased by 9.9% compared to March. ■

5 - Evolution of French exports to the United Kingdom

in %



Source: Markit

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United States

US activity is expected to slow down

In Q1 2019, activity in the United States accelerated (+0.8% after +0.5%), driven by foreign trade but also by public consumption and investment. However, private consumption decelerated (+0.3% after +0.6%). Activity is likely to slow down in Q2 (+0.4%) but looks set to remain vigorous through to the end of the year. As an annual average, growth is expected to reach 2.5% in 2019 – slightly down on 2018 (+2.9%). It should be driven primarily by domestic demand, whereas foreign trade is likely to hold back activity.

Activity is set to slow slightly in 2019

In Q1, activity in the United States accelerated (+0.8% after +0.5%), driven by foreign trade (contribution of +0.2 points). For the spring, the indicators derived from surveys have slipped back in all sectors. Growth is expected to decline to +0.4%, held back by the downturn in exports.

In H2, growth should remain relatively high (+0.5% per quarter), driven by vigorous domestic demand. As an annual average, activity is likely to slow down slightly in 2019 (+2.5% after +2.9% in 2018).

Private consumption should bounce back, buoyed by wages

Private consumption slowed again in Q1 (+0.3% after +0.6%), partly due to the shutdown of certain federal administrations (see *Focus in the March 2019 Conjoncture in France*). Wages are expected to remain dynamic, buoyed by labour market tensions and unemployment standing at its lowest level since 1969. Household consumption looks set to accelerate in Q2 (+0.8%) and should remain vigorous thereafter (+0.5% per quarter). As an annual average, it is likely to slow down slightly (+2.4% after +2.6% in 2018). The savings ratio should drop to 6.4%, after 6.7% in 2018.

Corporate investment looks likely to weaken

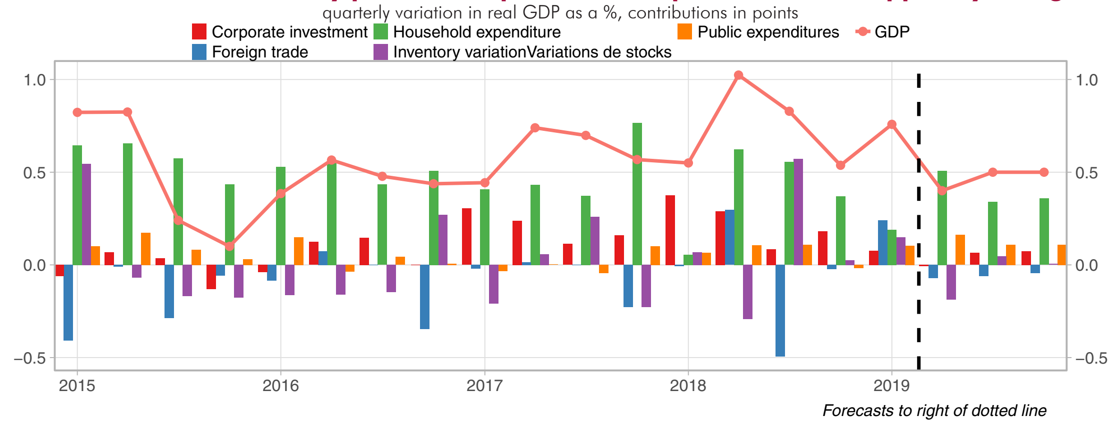
Corporate investment is expected to slacken in Q2 (+0.0% after +0.6% at the start of 2019 and +1.3% in the autumn of 2018), before accelerating in H2 (+0.5% per quarter). It should be driven by its equipment and structural components, and sustained by capacity constraints and the stabilisation of the Federal Reserve base rates. All in all, corporate investment is likely to weaken significantly in 2019, to +2.7% after +6.9% in 2018, with the effects of the depreciation measures and tax incentives tending to fade.

Foreign trade is expected to slow down

Exports accelerated in Q1 (+1.2% after +0.4%), driven by sales of petroleum and gas products, whereas imports declined (–0.6% after +0.5%), held back mainly by a decline in purchases of Chinese goods and petroleum and gas products. Imports are likely to edge down again in Q2 (–0.1%), before gradually ramping up in H2 (+0.4% followed by +0.7%), in line with domestic demand. As an annual average, imports look set to decelerate in 2019 (+1.1% after +4.5%), as do exports (+1.0% after +4.0%). Foreign trade is expected to hamper US activity once again, reducing its growth by 0.1 point in 2019, after –0.3 points in 2018. ■

Growth should be sustained by private and public consumption but handicapped by foreign trade

quarterly variation in real GDP as a %, contributions in points



Source: BEA, INSEE forecast

Japan

Variations in activity to be marked by the consumption tax rise

Japanese activity remained brisk in Q1 (+0.65% after +0.5%), automatically sustained by the decline in imports. Domestic demand came to a standstill (+0.1% after +0.6%) but should take over from foreign trade in sustaining growth from Q2 onwards. Activity is expected to slow in Q2 (+0.2%) and then gather pace in Q3 (+0.5%), in anticipation of the consumption tax rise on 1st October, before edging down at the end of the year (–0.3%). Foreign trade is expected to hamper activity in 2019 (–0.1 point).

Consumption is up prior to the consumption tax rise

In Q1, activity remained brisk (+0.6% after +0.5%), with imports falling more sharply than exports, whilst domestic demand came to a standstill (0.1% after +0.7%). Buoyed by household consumption, activity looks set to grow in Q2 and Q3 (+0.2% followed by +0.5%) before edging down at the end of the year (–0.3%). After declining in Q1 (–0.1%), household consumption is likely to pick up again in Q2 (+0.3%). It should be driven by a rise in the average wage per capita (+0.5% after –0.45%), with wage negotiations facilitated by tax incentives for companies and by an increase in employment, boosted by new measures to promote the admission of foreign workers. Household consumption is then expected to surge in Q3 (+1.5%), spurred on by anticipations of the two-point rise in consumption tax on 1st October (Graph). It is then likely to fall back by 2.1% at the end of the year, with inflation rising to +0.6% year-on-year.

Investment should hold firm

With enterprises benefiting from tax incentives to invest, their gross fixed capital formation is likely to increase again in Q2 and Q3 (+0.4% followed by +0.3%), before coming to a standstill at the end of 2019 (+0.0%).

Household investment should continue to grow steadily in Q2 (+1,5 %), before marking time in H2 (+0.1% then 0.0%). In the run-up to the 2020 Olympic Games, public investment looks set to accelerate steadily (+0.5% in Q2, +1.0% in Q3 and +1.5% at the end of the year).

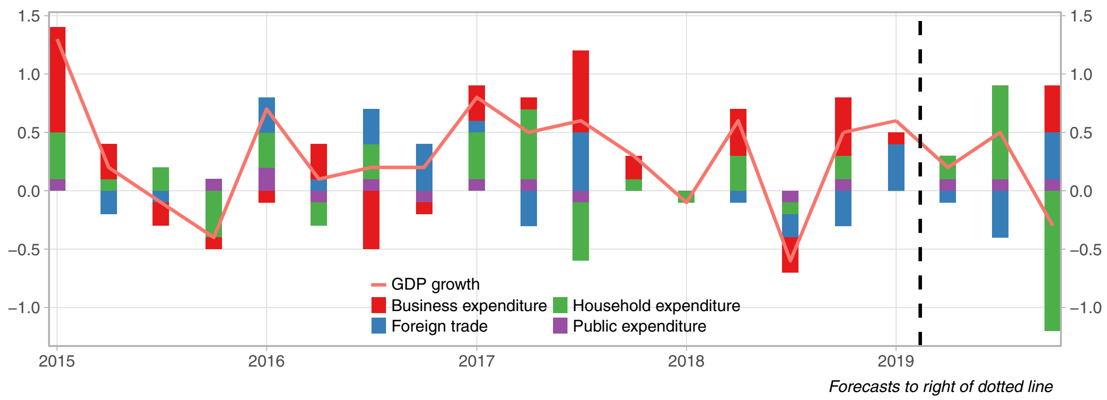
Foreign trade is expected to handicap activity in 2019

Exports should pick up in Q2 (+2.0% after –2.4%) in the wake of world demand, and then slow down in H2 (+0.2% followed by +0.3%) in the context of tensions and uncertainties over trade with the United States. As an annual average, Japanese exports are expected to decline in 2019 (–0.7% after +3.3%).

Imports are likely to perk up in Q2 and Q3 (+2.5% per quarter), in line with domestic demand, before falling back at the end of the year (–2.0%). As an annual average, they should decline by 0.1% (after +3.4% in 2018). Driven by the sharper drop in exports, foreign trade looks set to hold back activity in 2019 (–0.1 points, after making a neutral contribution in 2018). ■

Household consumption is expected to influence the variations in activity

quarterly variations in % and contributions in points



Source: Cabinet Office of Japan

Emerging economies

Chinese fiscal measures sustain domestic demand

In Q1 2019, Chinese activity accelerated slightly (+1.6% after +1.5%), according to estimates by the NBSC. Through to the end of the year, it should stabilise at +1.6% per quarter, driven by the policy mix adopted in the context of the trade war with the United States. As an annual average, activity is likely to slow down slightly in 2019, to +6.4% after +6.6%, held back by domestic demand. In Russia, the rise in VAT has aggravated inflationary pressures: GDP dropped in Q1 and should then grow slowly. In Brazil, activity slipped back slightly at the start of 2019, penalised by the failure of a dam, and should struggle to regain momentum afterwards. In Turkey, the business climate remains very poor and a high rate of inflation persists. Despite bouncing back in Q1, activity is likely to remain sluggish going forward. In India, activity looks set to remain buoyant in 2019, despite a slight slowdown in H1. Lastly, growth in Eastern Europe is expected to slip back slightly, in the wake of the Eurozone.

China: domestic demand should pick up again

In Q1, Chinese growth increased marginally (+1.6% after +1.5%). Domestic demand was sustained by the fiscal, monetary and regulatory policies implemented recently (*Graph 1*).

Industrial output gathered pace in Q1, to +7.6% year-on-year after +5.7%.

In May, business climate indicators remained above the exansion thereshold in the manufacturing sector, but they decreases in the service sector.

Household confidence indicators increased in April and remain at a high level. Despite slowing down in April, retail sales are expected to pick up again with the reduction in the VAT rate in April.

Growth is likely to stabilise at +1.6% per quarter through to the end of 2019. Domestic demand should continue to be boosted by the government's measures – especially the reduction in the VAT rate. As an annual average, activity is likely to slow down in 2019, to +6.4% after +6.6%.

Real estate investment – one of the growth drivers – bounced back, in line with the measures introduced by many local authorities, including the relaxation of real estate acquisition conditions. Corporate investment should also recover.

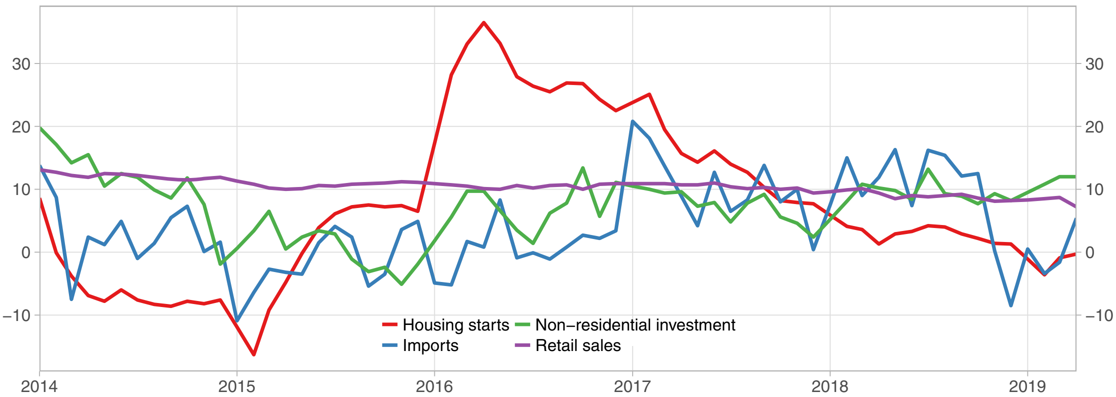
In Q1, Chinese customs data – reprocessed in accordance with the National Accounts and adjusted to account for the seasonal effects of the Chinese New Year – show a rebound in exports (+3.1% after –2.7%) and imports (+4.6% after –9.3%) as a result of an upswing in domestic demand. As an annual average, exports look set to slow down in 2019 (+0.3% after +5.8%) in a context of growing trade tensions with the United States. Imports are likely to slow down sharply in 2019 (+0.1% after +9.0%).

India: activity is likely to remain buoyant

In Q1 2019, Indian activity weakened slightly (+1.6% after +1.7%). The balances of opinion derived from surveys of purchasing managers fell back in the service sector in May but picked up in the manufacturing sector. Industrial output fell in Q1 (–1.7% after +1.0%). Imports stabilised in

In China, domestic demand picked up slightly at the start of 2019

year-on-year change in (%)



Source: National Bureau of Statistics of China (NBSC), INSEE calculations real terms (+0.1% after –1.0%) under the effects of the drop in oil prices and the appreciation of the rupee. They are expected to gather pace through to the end of 2019: +1.0% in Q2 followed by +1.5% per quarter. Indian activity is likely to remain buoyant, despite a slight slowdown in Q2 (+1.2%) when it was hampered by the manufacturing sector. It should pick up in H2 (+2.0% per quarter), bolstered by solid domestic demand. On average in 2019, GDP growth should decrease slightly (+6.4%, after +7.4%).

Russia: inflationary pressures should continue to hinder growth

At the end of 2018, economic activity came to a standstill (0.0% after +0.2%), adversely affected by diplomatic tensions with the United States and the drop in oil prices. At the start of 2019, the two-point rise in the VAT rate fuelled inflation and reduced purchasing power (–0.8% after +1.0%). In addition, exports edged down, particularly in the energy sector, leading to a decline in GDP (–0.6%). Activity is expected to bounce back somewhat in Q2 (+0.5 %), with Brent crude oil prices picking up in April and May, before slackening thereafter. On average in 2019, GDP is likely to slow down significantly, to +0.4%, after +2.2% in 2018.

Brazil: activity struggles to gather pace

At the end of 2018, activity weakened (+0.1%), due to a downturn in investment. In early 2019, industrial output fell (–0.6%), penalised by the failure of the Brumadinho dam, and activity declined in Q1 (–0.2%). The business climate slipped back in the early spring (*Graph 2*). Activity should continue to grow at a modest pace from now on, slowed down by inflationary tensions, by the wait-and-see attitude of investors vis-à-vis pension reform and by the slowdown in world trade. On average in 2019, activity is likely to slow down (+0.5%, after +1.1% in both 2018 and 2017).

Turkey: activity is expected to decline in 2019

Since March 2018, the business climate in the manufacturing sector has been deteriorating significantly, hit by political tensions. It stabilised in early 2019 but remains well below the expansion threshold. Inflation has stopped rising as a result of the appreciation of the Turkish lira in late 2018, but it remains at a very high level (+19.5% in April, year-on-year).

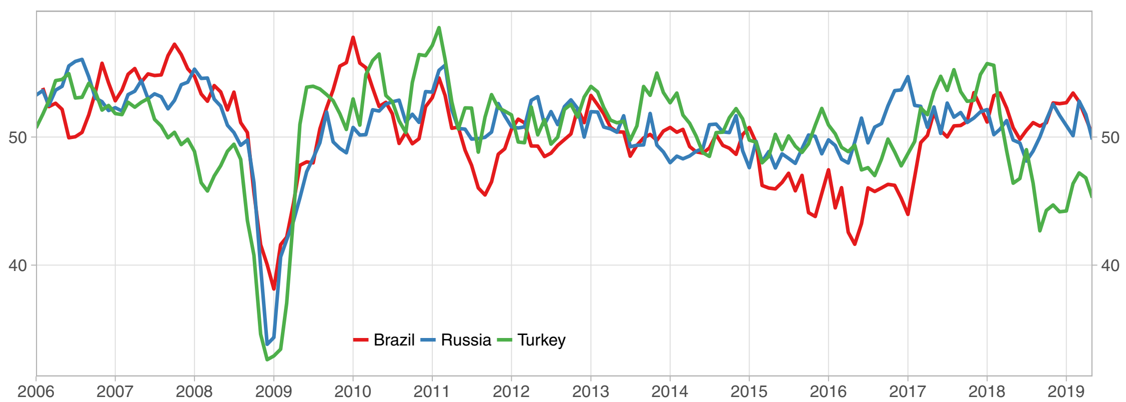
In Q1 2019, activity bounced back temporarily, to +0.6%. GDP is expected to stabilise in Q2, before growing moderately in H2. On average in 2019, GDP is likely to fall by 1.5%, after +2.8% in 2018 and +7.3% in 2017).

CEEC: growth is set to slow

At the start of 2019, activity gathered pace in the Central and Eastern European Countries (CEEC) (+1.0% after +0.8%). However, since the start of 2018, the balances of opinion derived from surveys of purchasing managers have deteriorated significantly, in the wake of German activity. Consequently, activity is expected to decelerate slightly (+0.5%) in Q1 2019, held back by the decline in demand from the Eurozone, and should continue to slow down in the summer (+0.5%). At the end of 2019, growth should decline a little further (+0.3%), hampered by global trade tensions and Brexit. On average in 2019, growth is likely to stand at +3.1%, after +3.9% in 2018. ■

The balances of opinion derived from surveys of purchasing managers are struggling to regain momentum in Russia and Brazil, and are deteriorating in Turkey

balance of opinion



Source: PMI, Markit