

Eurozone

European activity holds firm, buoyed by domestic demand

In Q3 2019, GDP growth in the Eurozone, driven by domestic demand, remained at the same pace as during the previous quarter (+0.2%). Activity returned to moderate growth in Germany, while maintaining a more sustained pace in France and Spain. In autumn 2019, the business tendency surveys in industry and services were relatively stable. Growth is expected to continue at 0.2% in late 2019 and early 2020, driven by domestic demand, before accelerating slightly in Q2 2020 (+0.3%). As an annual average, activity is likely to be less dynamic than in 2018 (+1.1% after +1.7%), with a mid-year growth overhang of +0.7% expected in 2020. The relatively small increase in employment should stabilise the unemployment rate at around 7.5% until spring 2020.

Activity recovers slightly in Germany and holds firm in France and Spain

In Q3 2019, activity continued to grow by +0.2% (Table), as forecast in the October 2019 issue of *Conjoncture in France*. German exports and consumption regained momentum in the summer of 2019, enabling the German economy to return to growth (+0.1% after -0.2%). At the same time, growth in France and Spain continued at the same pace as in the spring (+0.3% and +0.4%, respectively), buoyed up by domestic demand but held back by foreign trade. Italian activity would also appear to have kept growing at +0.1%. In November 2019, confidence indicators in industry and services remained stable in France

and Italy, while picking up in Spain, in contrast to the German balances of opinion, which were slightly down. Growth is likely to stand at +0.2% in Q4 2019 and then start accelerating slightly in Q2 2020, benefiting from the German recovery and widespread fiscal stimuli (Graph 1).

However, employment prospects remain mixed according to the November business tendency surveys. Employment is therefore expected to grow moderately at +0.1% – close to the level in previous quarters – and the Eurozone unemployment rate is expected to stabilise at around 7.5%.

Private consumption should be bolstered by rising purchasing power

Over the forecasting period, nominal wages look set to maintain their dynamic growth rate (around +0.5% per quarter until Q1 2020). Income is likely to benefit from fiscal stimuli in Germany and France, including an income tax cut scheduled for early 2020 in both countries. As a result, income dynamics are expected to remain robust in H1 2020 (+0.6% per quarter after +0.7% in Q4 2019). Assuming that energy prices fall, headline inflation should stabilise and fluctuate between +0.8% and +1.1% until mid-2020 (Graph 2). Overall, and on an annual average basis, purchasing power is expected to accelerate once again in 2019 (+2.1% after +1.7% in 2018), and its mid-year growth overhang should increase by +1.3% in 2020. In the wake of rising

Gross domestic product and main aggregates of Eurozone economies

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

	2018				2019				2020		2018	2019	2020 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Zone euro	0.3	0.3	0.2	0.3	0.4	0.2	0.2	0.2	0.2	0.3	1.7	1.1	0.7
France	0.2	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.3	1.7	1.3	0.9
Germany	0.1	0.4	-0.1	0.2	0.5	-0.2	0.1	0.0	0.2	0.3	1.5	0.5	0.4
Spain	0.5	0.5	0.5	0.6	0.5	0.4	0.4	0.4	0.4	0.4	2.4	2.0	1.3
Italy	0.1	-0.1	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7	0.2	0.4
Household purchasing power in the Eurozone (year-on-year changes)	1.3	1.7	2.1	1.9	1.4	1.4	1.0	0.8	1.1	0.8	1.8	1.2	0.8
ILO unemployment rate in the Eurozone	8.5	8.3	8.0	7.9	7.8	7.6	7.6	7.6	7.5	7.5	8.2	7.6	7.5

■ forecast

Source: Eurostat, National statistical institutes statistiques, INSEE forecast

purchasing power, private consumption is likely to remain relatively vigorous (+0.2% in Q4 and close to +0.4% in 2020).

Equipment investment set to return to growth in early 2020

In Q3 2019, equipment investment fell (-0.5% after +1.4%) due to the decline in investment in Germany and Italy. In a context of weak production capacity pressures and persistent difficulties in industry, equipment investment is also expected to fall back in Q4 (-0.3%). At the beginning of 2020, benefiting from the accelerating German economy and incentive policies in Italy, it is set to return to growth of +0.3% per quarter.

Construction investment rebounded in Q3 (+0.3% after 0.0%) and is expected to accelerate in Q4 (+0.4%), due to the buoyancy of the sector in Germany and Spain and bolstered by public investment stimulus plans in Italy. In H1 2020, it is likely to remain brisk in the Eurozone, growing at slightly above +0.3% per quarter.

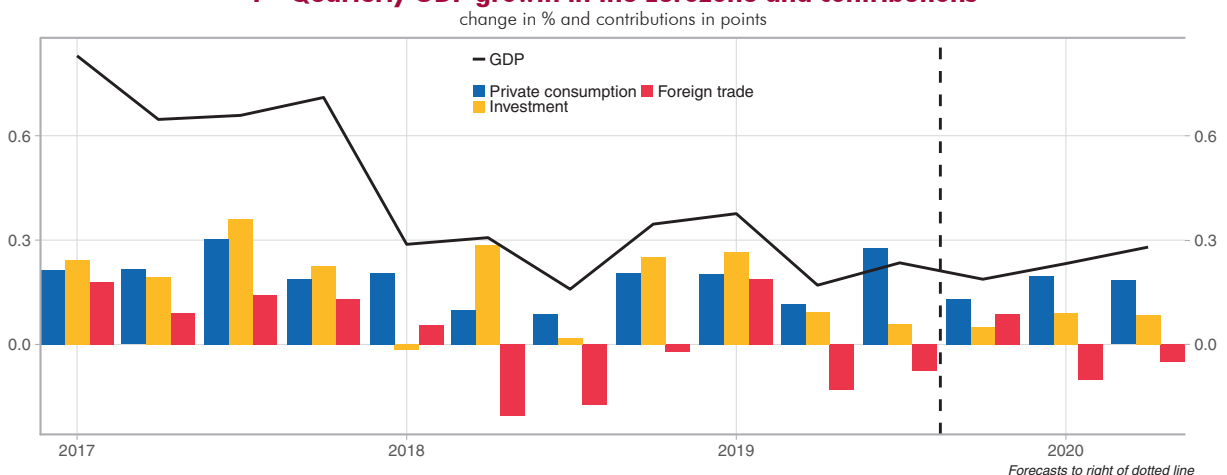
Foreign trade should continue to hamper growth in early 2020

In Q3 2019, exports increased again (+0.4% after 0.0%), in line with the increase in Germany and despite the decline in Spanish sales (-0.8%), particularly in the automotive sector. In Q4, exports are expected to accelerate to +0.3%, driven by the buoyancy of French exports. They should then maintain moderate growth in Q1 2020 (+0.3%) and accelerate in Q2 (+0.4%), in line with the upswing in German activity.

Imports would appear to have grown faster than exports in Q3 2019 (+0.6% after +0.3%). Indeed, Spanish imports are rising sharply due to an upturn in private consumption, as are French imports, particularly in transport equipment. In a context of relatively strong domestic demand, imports are expected to grow faster than exports until spring 2020 (+0.6% in Q4 2019, followed by +0.5% and +0.6% in 2020).

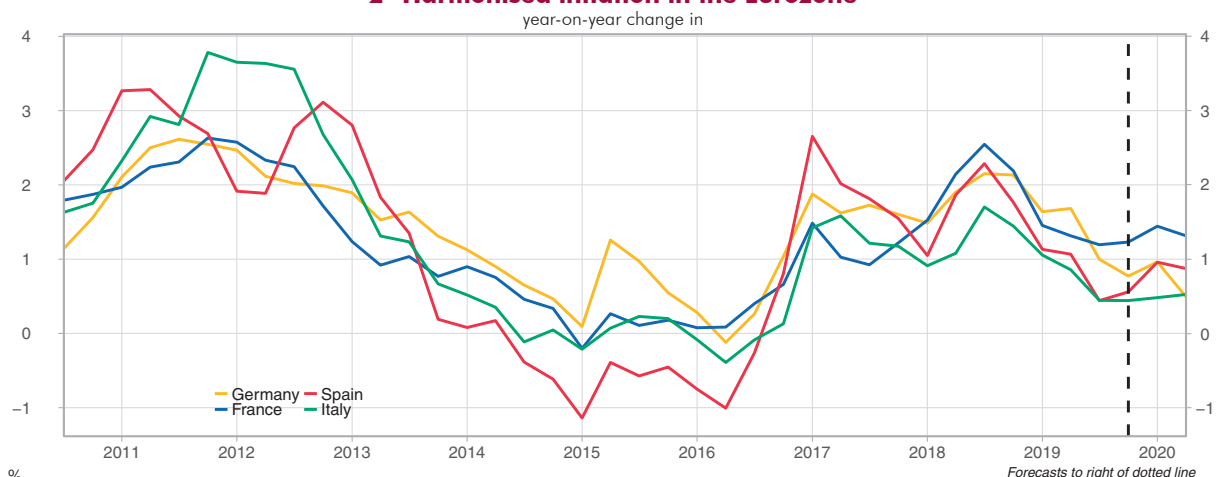
All in all, Spanish and French foreign trade would appear to have held back growth in the Eurozone

1 - Quarterly GDP growth in the Eurozone and contributions



Source: Eurostat, INSEE forecast

2 - Harmonised inflation in the Eurozone

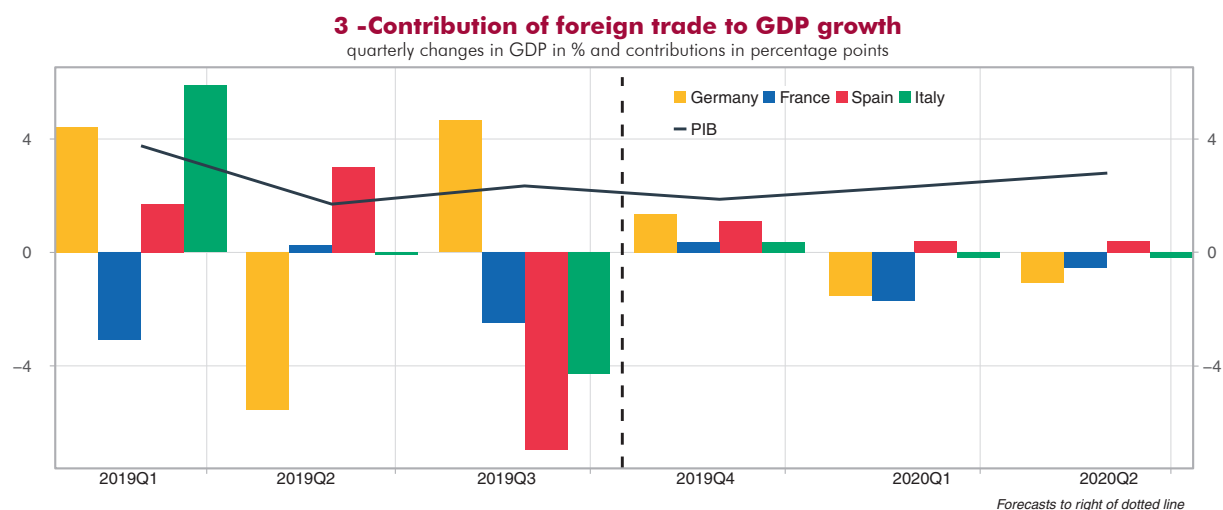


Source: Eurostat, INSEE forecast

International developments

in Q3 2019, due to imports being more dynamic than exports (*Graph 3*). In Q4, the slowdown in German exports in the context of *Brexit* should cause German foreign trade to make a negative

contribution to Eurozone growth. In Q1 2020, foreign trade is likely to contribute negatively to activity (-0.1 points), with a neutral contribution expected in Q2. ■



Source: Eurostat, INSEE forecast