

Eurozone

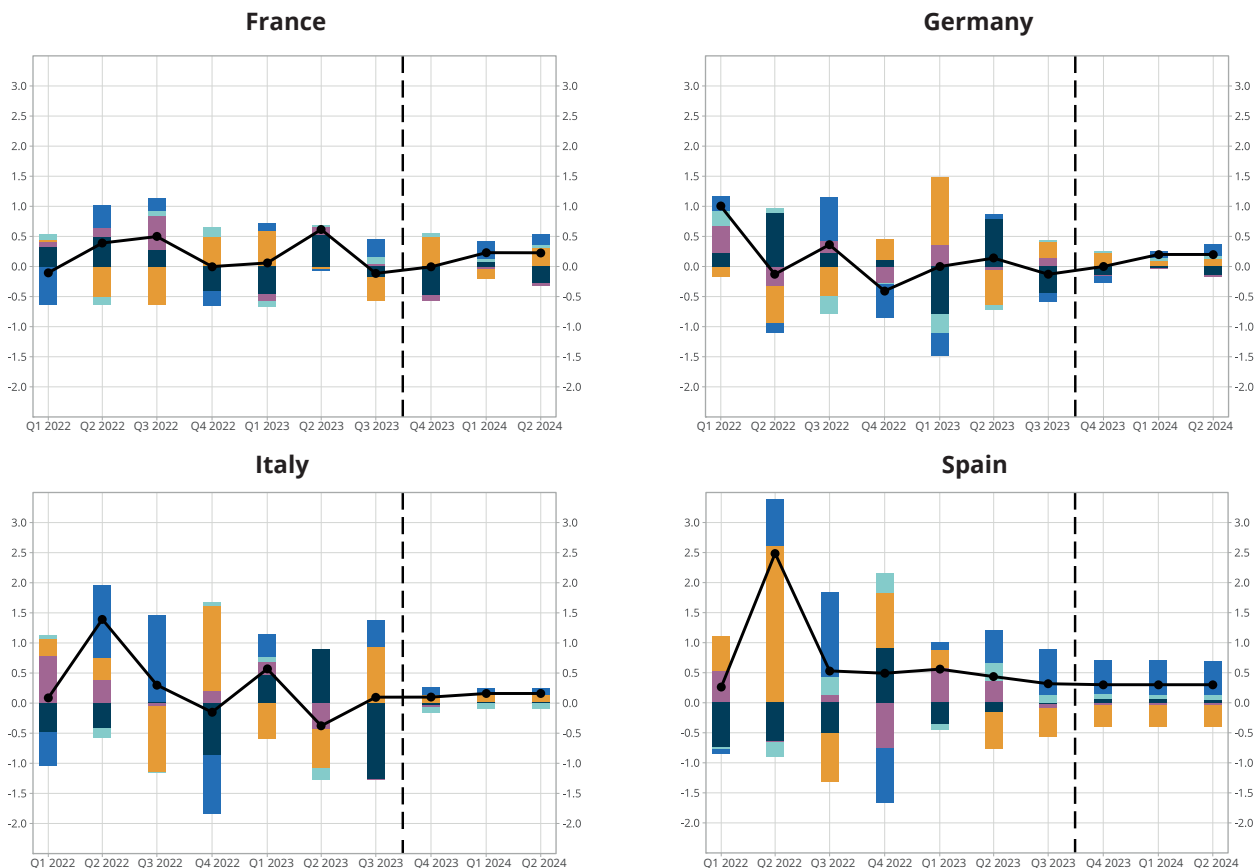
In Q3 2023, activity generally declined in the Eurozone

In Q3 2023, activity declined slightly in the Eurozone (-0.1% after +0.1%), with inflation edging down, although still buoyant, and high interest rates curbing investment. Activity fell back in Germany (-0.1%), after two quarters of virtual stability, as it did in France (-0.1%), after a dynamic Q2 (+0.6%). The Spanish economy slowed only a little (+0.3% after +0.4%), with the country still apparently experiencing some catch-up effects. Finally, activity remained sluggish in Italy (+0.1%), after a sharp decline in Q2 (-0.4%), ► **Figure 1**).

Domestic demand bolstered growth in Spain, France and Italy. Private consumption in all three countries was buoyant in Q3 2023. The continuing dynamism of private consumption in Spain (+1.4% after +1.0%) was matched by increasing purchasing power, sustained from the start of the year. In France, consumption bounced back after a sluggish quarter (+0.6% after -0.1%), boosted by a rebound in purchases of goods, especially food –with food inflation falling sharply (► **Focus International inflation**). Consumption rebounded in Italy too, after a sluggish quarter (+0.7% after 0.0%), as a result of the dynamism of wages this summer and despite inflation remaining high. Meanwhile, private consumption in Germany fell back, probably due to inflation weighing on household purchasing power.

Investment in the Eurozone countries was penalised everywhere by high interest rates, but was nevertheless able to hold out in some countries (► **Focus Lending conditions for businesses are tightening in all the Eurozone countries**). In Spain it fell back in Q3 2023 after two very dynamic quarters, while in Italy it was fairly stable after a poor Q2. In both these countries the schedule for implementing the Europe recovery and resilience plan (*NextGenerationEU*) may be a

► 1. Quarterly variations in GDP and contributions of demand items (quarterly variations in % and contributions in points)



Note: forecasts beyond the dotted line

How to read it: in France, in Q3 2023, GDP fell compared with Q2 2023 (-0.1%), and the foreign trade contributed -0.4 points to this decrease.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

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key factor to account for fluctuations in investment. Investment slowed in France (+0.2% after +0.5%), as a result of the further decline in the GFCF in construction. It improved in Germany, driven by investment in machinery and equipment.

In Q3, foreign trade in France and Spain made a negative contribution to growth, due especially to the decline in exports. In Germany and Italy foreign trade had a positive effect, with exports up slightly. Imports fell back in all four of these countries, reflecting a relatively sluggish domestic demand. All in all in 2023, foreign trade is expected to have a positive effect on growth in France, but less so than domestic demand (► [International synthesis sheet](#)). This is also the case for Spain. In Germany, foreign trade should boost growth while conversely, domestic demand is likely to hamper it. Finally, foreign trade is not expected to contribute to Italian growth in 2023.

The easing of inflation combined with wage increases are giving households a little purchasing power

Since spring, inflation has fallen back in the main Eurozone countries: a significant decline in Italy, after very high energy inflation last year, a smaller decline in France, where energy prices had increased less, as was also the case in Germany. It is only in Spain that inflation has risen since June (► [Focus International inflation](#)).

Wages are expected to follow different trends, given the disparities in inflation (► [Box wages in international inflation Focus](#)). In Germany, where wages have risen substantially since the beginning of the year (+6.0% year-on-year in Q3), they should continue to increase in H1 2024: wage negotiations linked to the high inflation rate resulted in major pay reviews and one-off bonuses, in both the private and public sectors. In France and Spain, the year-on-year variation in wages is gradually catching up to that in prices, but with some delay. In Italy, on the other hand, where there is no minimum wage and limited indexing mechanisms, wages do not seem to be following the same trend as inflation.

The active population should continue to increase in France, although employment is expected to be at a standstill, whereas in Spain, employment should continue to increase, in the wake of government measures to combat unemployment, especially among young people. In Germany, the recent immigration laws should result in a rise in the active population and boost incomes. In Italy, previous government measures bolstered household income (end-of-year bonus for low-income households) but this trend seems to have been reversed in recent months with reductions in aid payments.

Bearing these facts in mind, purchasing power is expected to be dynamic in Germany in Q4 2023, stimulated by wage increases and a slowdown in prices. In Spain too it is expected to be well supported, despite the rise in inflation. In France, purchasing power should benefit from payouts under the value sharing bonus scheme (PPV) at the end of the year. However, in Italy it is expected to be less dynamic, driven only by the substantial decline in inflation.

The manufacturing industry is awaiting an upswing, after the easing of constraints over supply chains and energy prices

Regarding businesses, industrial activity is still not doing particularly well. In the four main Eurozone countries, PMI levels are low and still dropping. In Germany, however, it would seem that the trough of the wave, which was more pronounced here, has already been reached, in July 2023 (► [Figure 2a](#)).

In terms of "hard data", industrial activity is still fairly sluggish overall. Despite the slowdown in energy prices, production in the energy-intensive branches has remained depressed and is still hampering activity generally, especially in Germany. The catch-up in automobile production activity measured in H1 2023 continued into Q3 in Spain and Italy (► [Figure 3](#)). In France and Germany, dwindling order books have penalised activity and production fell back in Q3. The chemical industry, paper and cardboard industry and metallurgy are also struggling to get back to the production levels of before the energy crisis. Only the production of "other transport equipment" has been dynamic in Italy, Germany and, to a lesser extent, Spain. In France, activity in this branch remains well below its pre-crisis level.

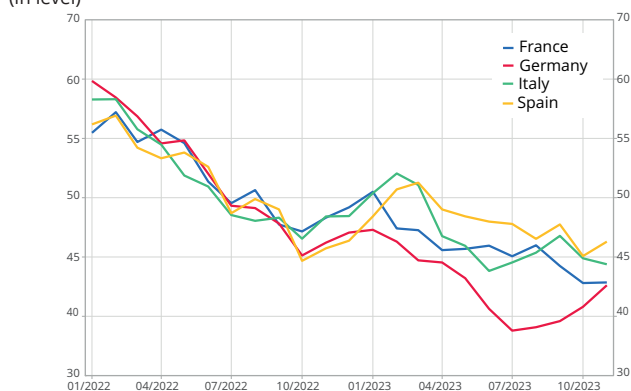
Supply chain difficulties, which peaked in H1 2022, and were especially serious in Germany, continued to diminish (► [Figure 2b](#)). However, with the PMI well below its level at the beginning of 2022, the shortage of new orders could hold back production in the coming months and affect the industrial sector.

In Q4 2023, economic activity is expected to be sluggish in the main Eurozone economies and should get going again gently at the start of 2024

In Q4 2023, activity is expected to be stable in Germany and France, with the dynamism of household purchasing power not enough to revive domestic demand. Activity should improve modestly in Italy, spurred on by private consumption, which is itself boosted by low inflation and support measures (such as the solidarity card for purchasing basic necessities). It should increase a little more sustainably in Spain.

In H1 2024, activity is expected to improve moderately in France and Germany, driven by private consumption in a context of declining inflation and dynamic wages. In Germany, on the other hand, investment is likely to remain sluggish, weakened by costly financing, high prices and a lack of new orders, especially in construction. In Italy and Spain, activity looks set to improve a little more, as a result of recovery and resilience plans, whose effects are beginning to be felt. ●

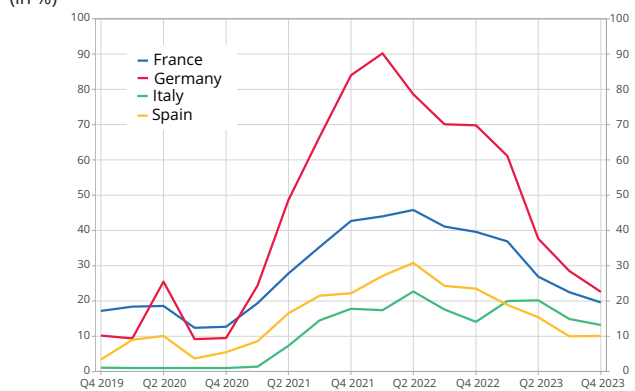
► 2a. PMI production indices in the manufacturing industry (in level)



Last point: November 2023.

Source: Purchasing Manager's Index, S&P Global.

► 2b. Proportion of companies reporting that production is hampered by supply chain difficulties (in %)



Last point: Q4 2023.

How to read it: in Germany, in Q3 2023, 22.6% of industrial companies questioned said they were hampered in their production activity because of supply chain difficulties

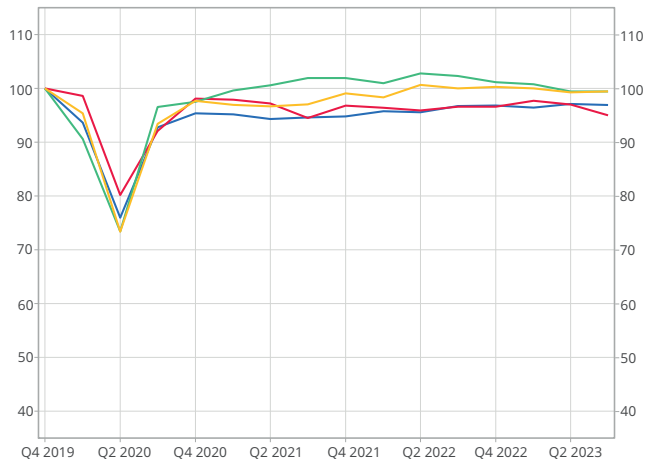
Source: DGEFIN surveys, Eurostat.

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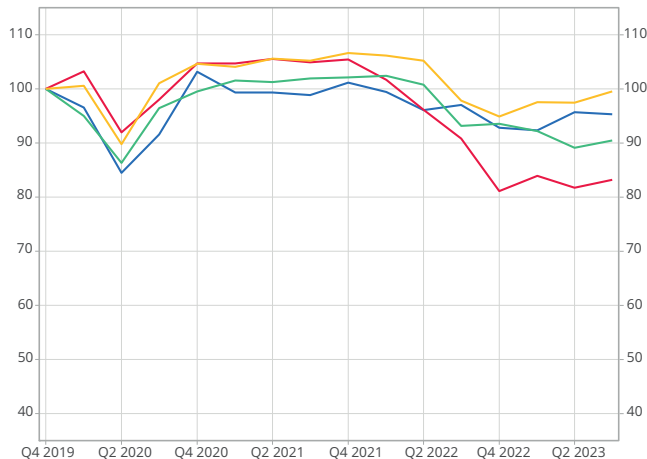
► 3. Production in the manufacturing industry and in some energy-intensive industrial branches

(Industrial production index as a quarterly average, deviation from Q4 2019 level, seasonally and working-day adjusted data)

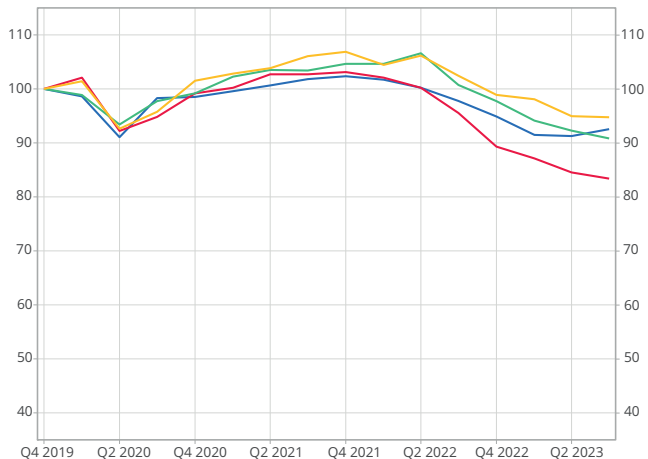
Manufacturing industry



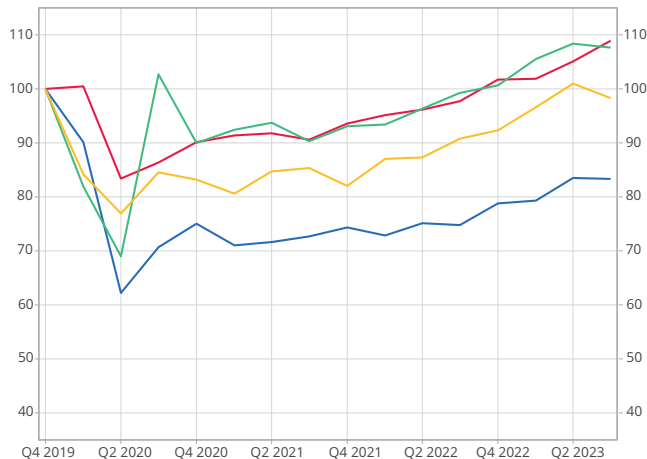
Chemical industry



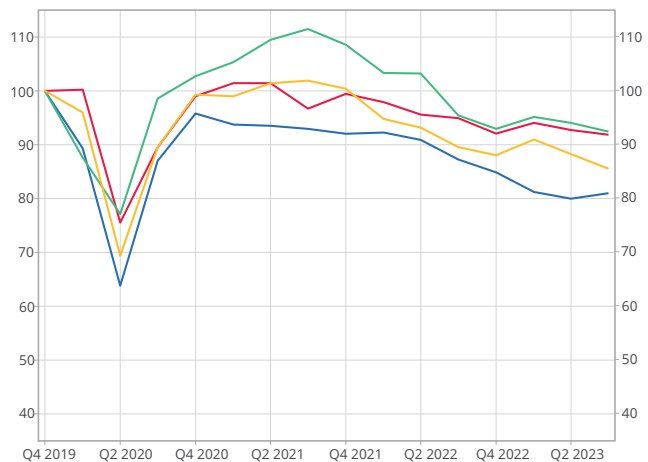
Manufacture of paper and paper products



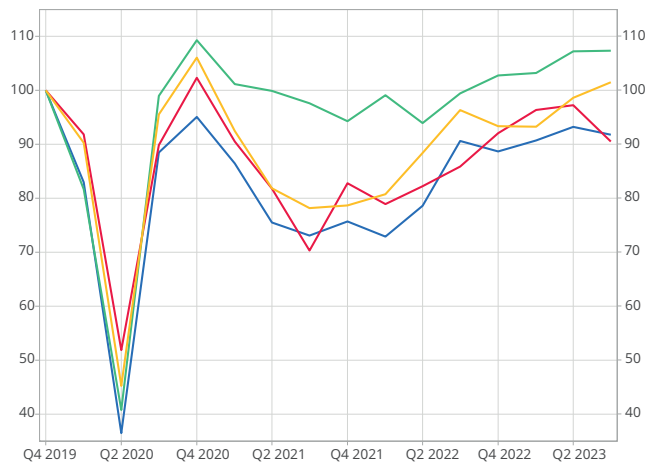
Manufacture of "other transport equipment"



Metallurgy



Automotive industry



Last point: Q3 2023.

How to read it: in Germany, in Q3 2023, production in the manufacturing industry was 5% below its Q4 2019 level.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.