Germany

Equilibrium restored to growth

In Q3 2013 activity slowed in Germany (+0.3% after +0.7%). Household consumption only grew slightly (+0.1%) after a very dynamic Q2. Furthermore, exports stagnated while imports held up, and trade contributed negatively to growth. On the other hand, investment sustained growth for the second consecutive quarter. Activity is likely to grow at the same rhythm in Q4 (+0.3%) and then pick up in H1 2014 (+0.4% in Q1, +0.5% in Q2). Therefore, household consumption should become stronger, in line with the dynamism of purchasing power, and investment should continue its recovery. Lastly, exports are expected to remain strong and foreign trade should return to a positive contribution to growth, albeit a small one.

Household consumption set to pick up

The labour market situation is still very favourable to German households: never have there been so many people in employment in Germany, and the unemployment rate was just 5.2% in October. Over the forecasting period employment should progress further and unemployment should stabilise. Similarly, wage rises are likely to contribute positively to household purchasing power; hence households are likely to increase their consumption expenditures (+0.3% in Q4 2013 and +0.4% per quarter in H1 2014). The savings ratio of households should also fall, against a backdrop of lesser uncertainty in the Eurozone.

Timid recovery of investment in capital goods

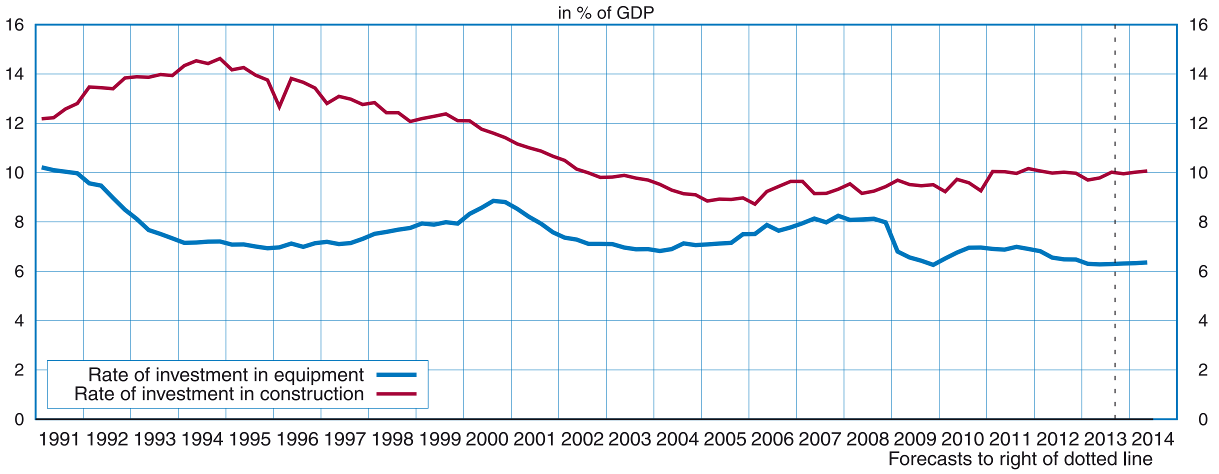
The rate of investment in capital goods is now very low in Germany, at the same level as its low point in 2009 (see Graph). After falling for six consecutive quarters, it recovered slightly in Q2 and Q3 2013 (+1.2% then +0.5%). Over the forecasting period it should continue to grow moderately (+0.6% in Q4 2013, +0.7% in Q1 and +0.9% in Q2 2014), in line with the pick-up in activity, assuming that the underinvestment observed since 2011 is not made up for.

In construction, investment should recover sustainably in H1 2014, thanks to new government investments and the dynamism of residential construction, in line with the increase in building permits since 2011.

Exports set to rebound

In Q3 2013 sluggish exports (+0.1%) resulted in a negative contribution by foreign trade to growth, for a value of 0.4 GDP points. However, due to the rebound in world demand for German products, exports should return to a higher growth rate in Q4 (+1.6%). Imports are also likely to gain in dynamism thanks to robust domestic demand, to the extent that trade should no longer be the main driver of German growth, as it had been until 2013. ■

The rate of investment in capital goods at the level of its low point of 2009



Source: Destatis

Italy

A soft recovery

In Q3 2013 Italian activity stabilised (0.0%) and should remain stable before picking up slowly over the forecasting period. Where foreign trade sustained activity over the last two years, domestic demand should now take over, sustained by the gradual recovery of investment in capital goods.

The clear improvement in the business tendency surveys...

The business tendency surveys have improved over the last few months and indicate a slow upturn in activity over the forecasting period (0.0% in Q4 2013 and Q1 2014, then +0.1% in Q2 2014). The business climate derived from the national surveys has been improving strongly in manufacturing for several months. The composite purchasing managers index (PMI) is also in the expansion zone. In construction, although the surveys show improvement, the indicators are still low.

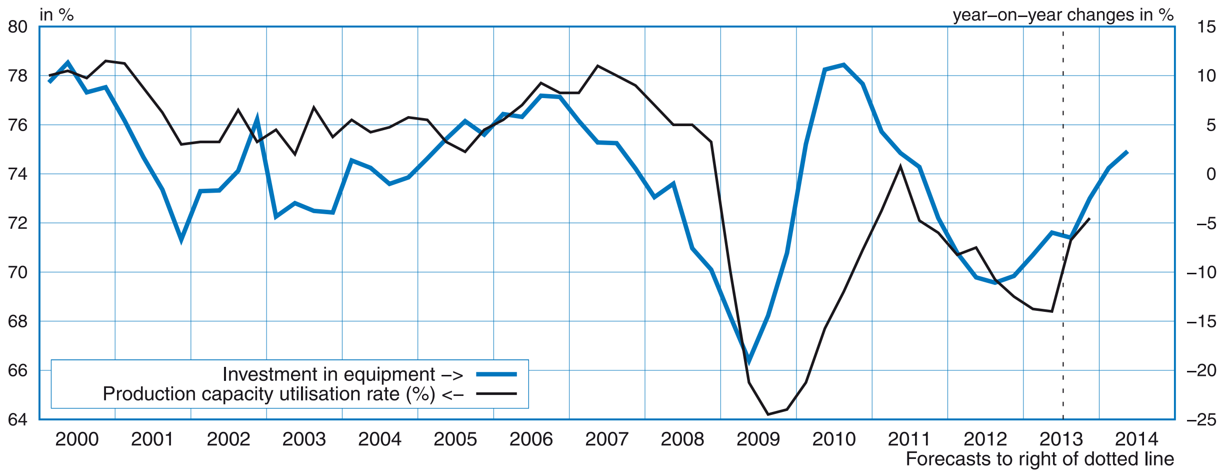
... points to an upturn in investment in capital goods

Business prospects and order books in manufacturing have clearly improved. In addition, the interest rates offered to large enterprises have returned to a low level since 2012 and the rates granted to small companies have continued to fall. Furthermore, the production capacity utilisation rate has picked up since the start of the summer and is now close to the level observed before the country went into recession (see Graph). In order to rebuild their production capacities, enterprises are therefore likely to develop their investments significantly (+0.8% in Q4 then +1.4% per quarter in H1 2014). However, exports are likely to be far less dynamic than world demand for Italian products, while imports should increase in the wake of the recovery of domestic demand.

Private consumption virtually stable

The labour market situation is still poor in Italy. The rate of unemployment stood at 12.3% in Q3 2013 and is still taking its toll on the bargaining power of employees. The drop in purchasing power has nonetheless eased (-2.5% year-on-year in Q2 2013 after -5.3% one year previously) under the effect of the drop in inflation. Over the forecasting period, due to weak activity and further productivity gains, employment should fall back once more. However, the fall in purchasing power should continue to ease (-0.8% year-on-year in Q2 2014), as fiscal tightening eases, while the VAT rise in Q4 2013 should only have a marginal impact on inflation, which should remain low. All in all, households are still likely to reduce their consumption expenditure but less markedly than previously. ■

Production capacity utilisation rate and productive investment



Sources: European Commisssion, ISTAT, INSEE calculations

Spain

Consolidation of the recovery

Spain came out of recession in Q3 2013. Spanish activity is likely to grow again over the forecasting period: +0.2% in Q4 2013 then +0.2% and +0.3% in H1 2014. Exports should continue to sustain activity. But the stabilisation of the labour market and of household purchasing power should also allow a recovery of household consumption over the forecasting period. Investment in capital goods should rise again, clearly sustained by the need to renew production capacities after a marked phase of adjustment. All in all, domestic demand should contribute positively to Spanish growth in 2014.

Consumption on the brink

Household purchasing power should stabilise over the forecasting period in a context of falling inflation. It should benefit from the smaller drop in employment and the slower pace of fiscal consolidation, with, among other things, the reinstatement of the fourteenth month of wages in the civil service. The gradual improvement in business and employment prospects should also encourage Spanish households to bring down their precautionary savings. The savings ratio should thus fall, although only slightly, over the forecasting period, and private consumption should rise slightly through to mid-2014 (*see Graph*).

Spanish exports holding firm

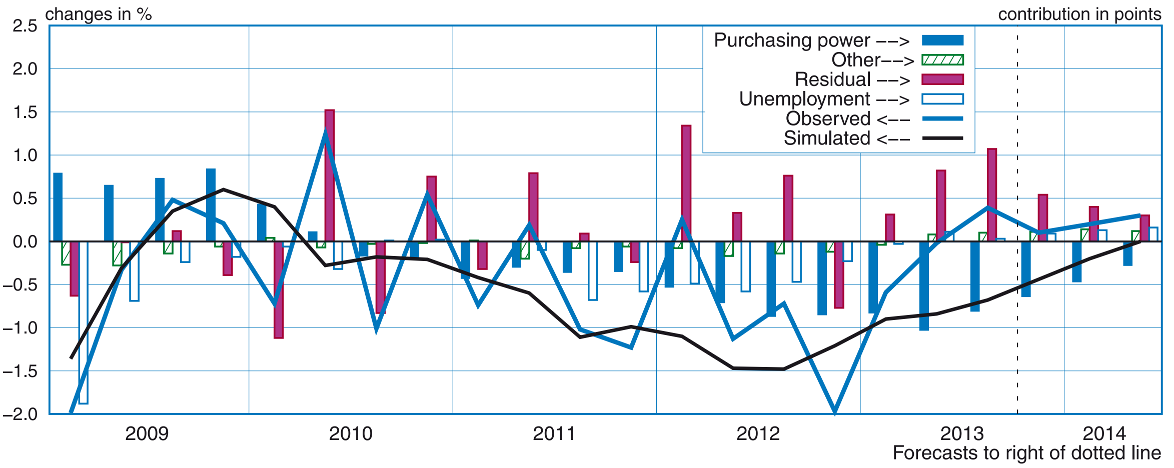
Spanish exports should continue to sustain activity with growth of 1.2% per quarter through to mid-2014, with Spain profiting from the renewed dynamism of world trade and the improved economic outlook in the Eurozone. Imports are also likely to rebound over the forecasting period, driven by the good performances of exports and the rebound in domestic demand. All in all, the contribution of foreign trade to growth should fall, although it will remain positive.

Investment in equipment picking up

The construction sector is likely to continue suffering due to the adjustment of the property market and the measures to bring down public investment. However, according to the short-term indicators, the drop in output in this sector should be smaller.

Investment in capital goods should grow sharply, sustained by a need to renew production capacities after a marked phase of adjustment since 2008. This investment effort should also be spurred on by the continuing recovery of the profit margins of Spanish entrepreneurs over the last few years and the easing of financial tensions in Spain. ■

Household consumption (observed and simulated)



Sources: INE, INSEE calculations

United Kingdom

The United Kingdom at full throttle

Activity in the United Kingdom has progressed strongly since the start of the year and growth should reach +1.4% in 2013. Through to mid-2014 activity is likely to remain solid, driven by all sectors, particularly construction. Investment is likely to be boosted by government programmes and encouraging business prospects. Wealth effects and the fall in unemployment should lead to a drop in the savings ratio, although the support for consumption is likely to slow in early 2014. All in all, growth should stand at +0.8% in Q4 2013 then +0.5% per quarter in H1 2014.

The improvement confirmed

In Q3 2013 British activity accelerated: +0.8% after +0.7% in Q2. It looks likely to remain very dynamic in Q4 2013 (+0.8%). The composite indicator of European surveys and the composite PMI took off in summer and were still very high in November (*see Graph*). Activity should remain dynamic in construction, helped by the upturn in credit, the «Help to Buy» governmental programme and the pick-up in government investment. Additionally, mortgage rates are likely to remain at a very low level. All in all, British GDP should grow by 1.4% over the year 2013 as a whole. In H1 2014 activity looks likely to slow slightly (+0.5% per quarter): purchasing power gains should remain modest and consumption is likely to weaken somewhat.

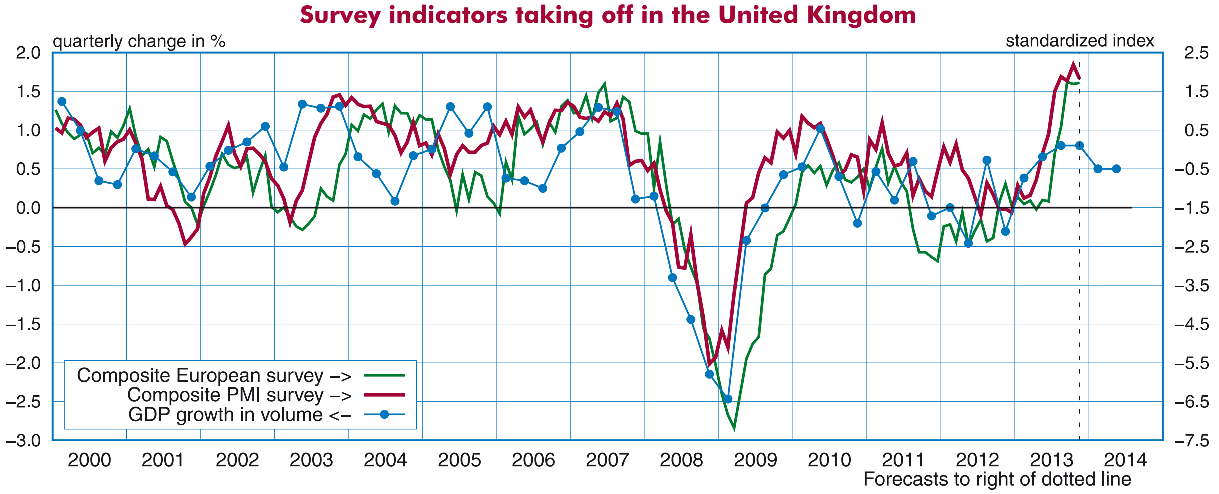
Stimulus for consumption set to slow in H1 2014

In Q3 household consumption accelerated, sustained by the sharp rise in employment (+0.6%) and the upswing in the property market generating wealth effects. In Q4 the drop in the rate of unemployment (7.3% after 7.6%) and the rise in house prices should continue, so much so that consumption should remain buoyant. However, social benefits are likely to be penalised by fiscal consolidation and, without actually falling, real wages should remain sluggish: in H1 2014, consumption should slow. All in all, the drop in the unemployment rate and the wealth effects should account for a drop in the savings ratio from 5.5% in Q3 2013 to 5.1% by mid-2014.

Rebound in exports, and dynamic corporate investment

After slipping back in summer, British exports are likely to rebound in Q4, driven by the acceleration in world demand, particularly from Europe. Company orders are currently at a high level and capacity constraints are starting to reappear, notably in industry; this should keep corporate investment expenditure buoyant. ■

Survey indicators taking off in the United Kingdom



Sources: ONS, Markit, European Commission

United States

Activity holding firm against a backdrop of fiscal and monetary uncertainties

In the United States activity was very buoyant in Q3 (+0.9% including a 0.4-points contribution from inventory). It is expected to slow in Q4 2013: the property market looks set to run out of steam and government spending is likely to contract due to the government shutdown in October. In H1 2014, activity should get back on track: as long as the December deal is validated, fiscal stimulus should be far less unfavourable in 2014.

Activity holding firm despite budget cuts

2013 has been marked by very restrictive fiscal policy: the increases in the tax burden have represented around 1.6 points of gross disposable income, automatic cuts came into force on 1st March, and in October the Federal government went through a 16-day shutdown. However, provided that the December bipartisan deal is validated, fiscal policy should be far less restrictive in 2014 than in 2013.

The October business tendency surveys were still very positive, suggesting that private-sector activity should remain robust. Federal spending is set to decline in Q4 2013 due to the shutdown and should rebound in reaction in early 2014. Activity is likely to grow by 0.4% in Q4 then 0.6% per quarter in H1 2014.

Employment still buoyant

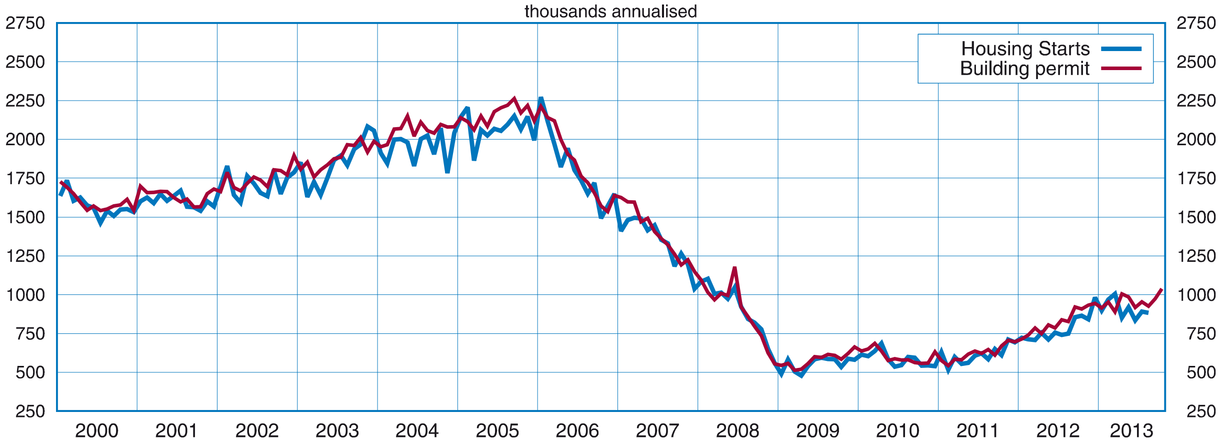
The dynamic job-creation trend is likely to continue over the forecasting period and the unemployment rate (7.0% in November) should once again fall back slightly through to mid-2014. Wages should pick up somewhat, although the level of unemployment is likely to continue to negatively affect the bargaining power of employees. Lastly, inflation should stay low, at 1.4% year-on-year in Q2 2014. All in all, household purchasing power should rise sharply. Household consumption is unlikely to increase quite as strongly because it will continue to adjust to the effect of the fiscal shock at the start of the year: the savings ratio should thus pick up and reach 5.2% by mid-2014.

Hiatus in the recovery of the residential property market

Since summer 2011, the construction sector has experienced a sharp upswing. Unsold housing stocks have diminished sharply and building permits have recovered. However, over the last few months housing starts and building permits have stagnated (*see Graph*). The sharp rise in interest rates due to the announced reduction in monetary stimulus by the Fed is likely to slow the ongoing recovery somewhat.

American exports remained dynamic in Q3 2013 and should progress at the same pace as world trade through to mid-2014. Lastly, against a backdrop of good business prospects, enterprises should be making the most of their high margins and the favourable financing conditions to develop their production capacities. ■

Residential investment at a standstill
Last point: October 2013



Source: US Census Bureau

Japan

Advance consumption

Activity in Japan slowed in Q3 2013 (+0.3% after +0.9%), affected by the stagnation of consumption and the decline in exports. Activity was nonetheless sustained by the dynamism of public investment. Over the forecasting period, fiscal policy is likely to become more restrictive: the stimulus plans should lose intensity and VAT is set to rise from 5% to 8% on 1st April 2014, leading to advance purchases of durables. Activity should therefore accelerate in Q4 2013 (+0.7%) and Q1 2014 (+0.8%), before contracting sharply in Q2 (-0.8%).

The business climate still very positive in Q4 2013

In power since the end of 2012, the Shinzo Abe government has engaged in a macroeconomic stimulus policy combining three levers: a very expansionist monetary policy in order to put an end to deflation, a new stimulus plan, and a programme of structural reforms aiming to improve growth potential. The announcement of these measures led to a sharp improvement in the business climate and activity has rebounded strongly for the last three quarters. Additionally, the depreciation of the yen has led to a rise in prices and Japanese inflation reached +1.1% in October, its highest level for four years (see Graph). For Q4 2013, the business tendency surveys available up to November are still positively oriented and activity is likely to keep up its sustained pace (+0.7%).

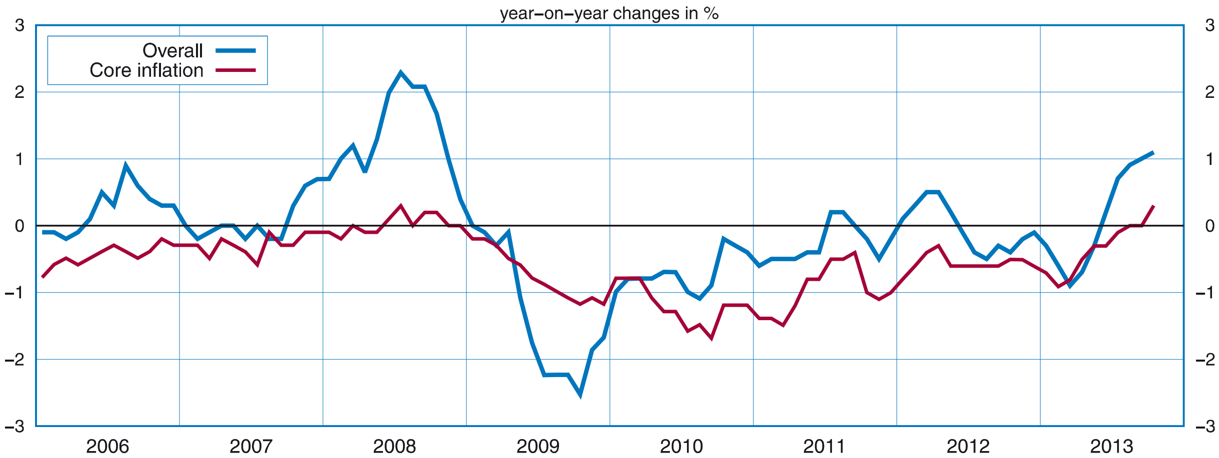
VAT rise in 2014

Over the forecasting period, fiscal policy is however likely to become more restrictive. On the one hand, the stimulus plans should lose intensity and public investment is likely to slow. On the other hand, VAT is set to increase from 5% to 8% on 1st April 2014, leading certain households to bring forward their purchases of durables and their property investments. Activity should therefore have a volatile profile in H1. The effect of the VAT rise on consumption should be less marked than in the previous rise in 1997 (from 2% to 5%), as the government has voted in measures to support the more modest households (0.2 points of gross disposable income) and above all, the share in consumption of durables, which are more likely to be purchased early, has fallen significantly since 1997.

Corporate investment and exports set to rebound

Despite the upturn in activity, corporate investment has grown weakly since the start of the year. Through to mid-2014, investment is likely to rebound sharply, driven both by improved business prospects and by the increase in tax credits, as suggested by the improvement in private orders for capital goods over the last six months (+4.9% in Q3 after +5.0% in Q2). Japanese exports are likely to increase through to mid-2014, again sustained by the sharp depreciation of the yen in early 2013 and driven by demand from Asia. ■

Inflation positive once again



Source: Statistics Bureau of Japan

Emerging economies

Disparities

After a very disappointing H1, activity seems to have picked up in the emerging countries in Q3 2013. This overall situation masks some sharp divergences: activity accelerated in China and the CEE countries but remains globally sluggish in the other emerging economies.This divergence is likely to continue over the forecasting period. The currencies of countries with a high current deficit (India, Brazil, Indonesia, Turkey) depreciated sharply this summer due to the anticipated end to American Quantitative Easing, and their central banks have tightened monetary policy. China, boosted by the increase in credit, and Eastern Europe, driven by the European recovery, should remain fairly dynamic over the forecasting period. Globally, imports should return to their usual behaviour in respect of activity, contributing 0.4 points per quarter to growth in world demand for French products.

Activity picks up in China

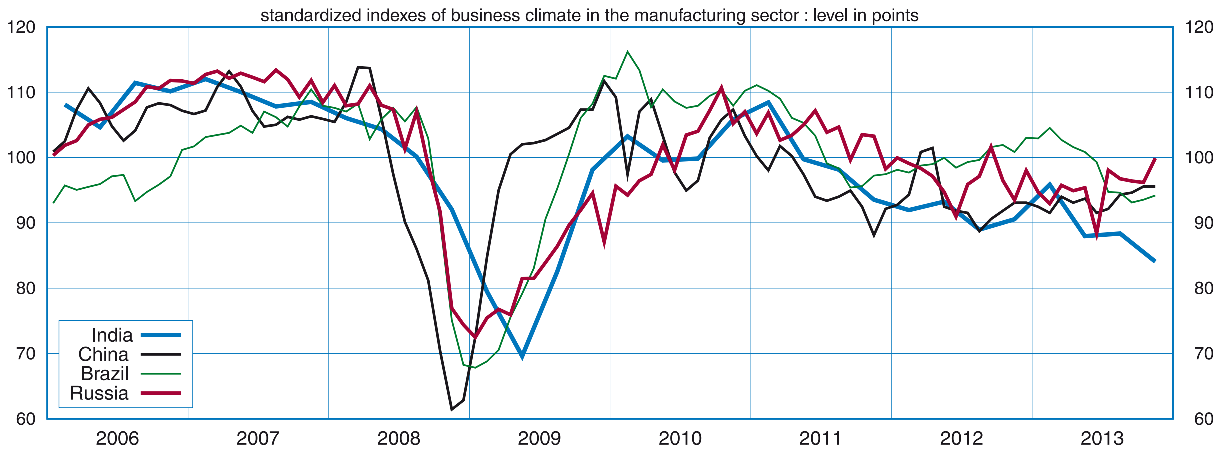
In Q3 2013 activity accelerated in China (+2.2% after +1.9%). According to the business tendency surveys (*see Graph 1*) and the industrial output data in October (+10.3% over one year), activity is set to remain quite dynamic in Q4 2013. Outstanding loans have continued to climb and in the short term this has favoured the recovery of the property market (*see Graph 2*) with a rise in house prices in particular: in October the prices of old homes grew by 19.0% over one year in Beijing and 13.2% in Shanghai (respectively 16.4% and 17.8% for new housing). Additionally, the new stimulus measures announced in late July (tax cuts for SMEs and subsidies for exporting businesses) should generate favourable effects on investment. Over the forecasting period, the contribution of foreign trade is likely to remain negative in China as suggested by the customs data available up to October as well as the sourcing surveys, which indicate that imports are likely to experience strong growth.

Weak growth for the other main emerging economies

The prospect of a reduction in money creation in the United States led to the repatriation of capital by private investors, a stock market dip in most emerging countries and a sharp depreciation of currencies in summer, particularly in the countries with a high current deficit (India, Brazil, Indonesia, Turkey). The Brazilian real and the Indian rupee respectively lost 17% and 22% against the dollar between April and September. To halt this slide, the central banks have sometimes intervened on the foreign exchange market (most notably in India and Brazil) and tightened their monetary policies (Turkey, Indonesia, Russia, Brazil, India), against a backdrop of inflationary tensions.

So after improving significantly through to the start of 2013, the business climate deteriorated in these economies in summer, particularly in the manufacturing sector, and is now at a very low level compared with the average level of the 2000s (*see Graph 1*). In India and Brazil, the slowdown in activity is likely to be particularly sharp, with

1 - Activity at a standstill in the emerging economies except China
Last point: November 2013, India Q4 2013



Sources: National surveys

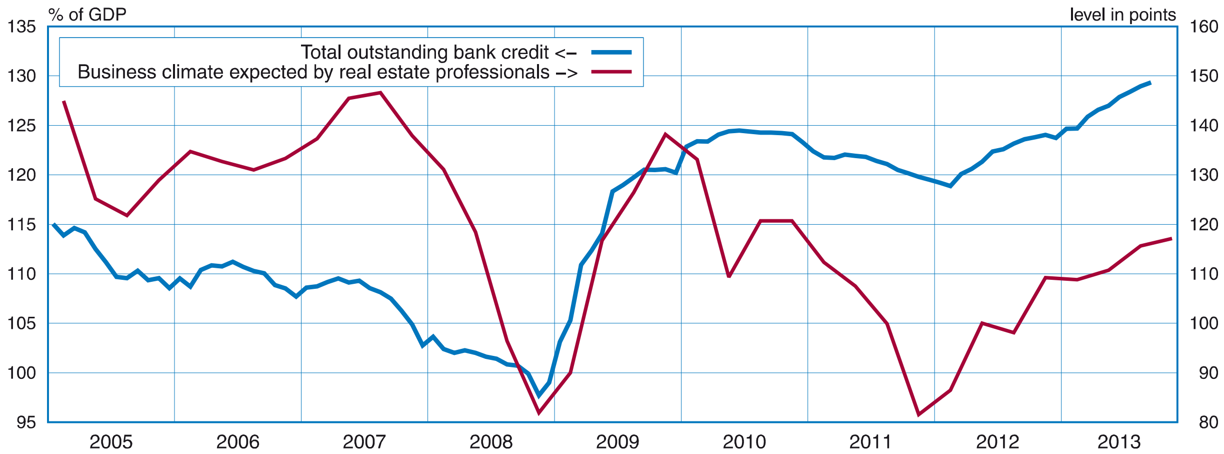
monetary tightening coupled with the sharp depreciation of currencies taking their toll on borrowers heavily indebted in dollars.

Eastern Europe driven by the recovery of the Eurozone

In Russia, year-on-year GDP is at its lowest point for three years, at +1.2% in Q3 2013, and industrial output has stagnated. Activity has been generally sluggish for a year now and the surveys are showing no signs of a notable acceleration. Despite the budget support measures announced, growth through to the end of the year in the Russian economy is likely to remain well below its pre-crisis level (+1.5% per quarter), although the improvement in the Chinese economy, particularly its imports of commodities, should sustain activity somewhat.

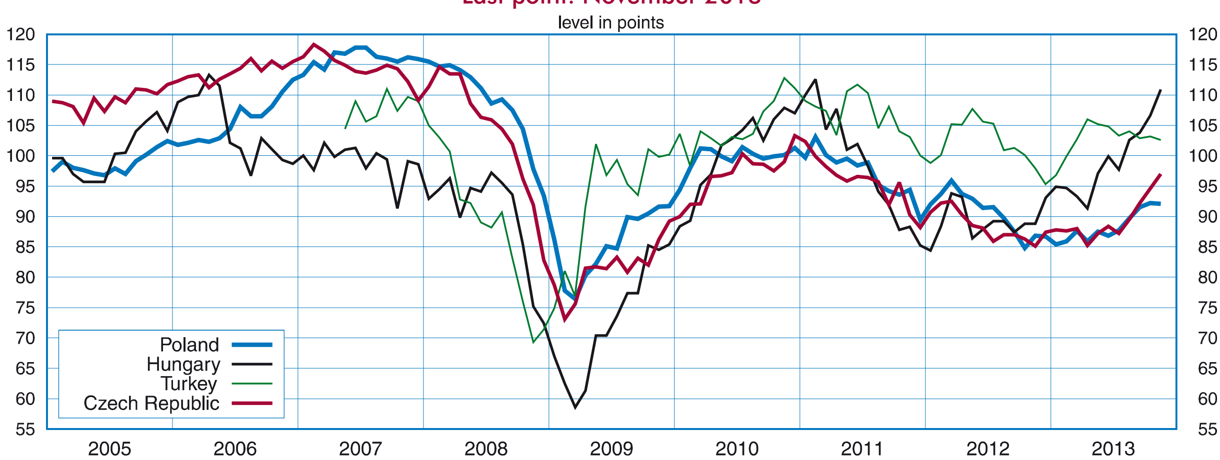
Eastern Europe should experience an upswing, driven by the recovery of activity in the Eurozone. According to the European Commission surveys the business climate is favourable once again, above its long-term average in Hungary and improving sharply in Poland and the Czech Republic (*see Graph 3*). In Turkey, after the downturn in mid-2012, activity has picked up strongly since Q4 2012. Despite a dip since the start of the year due to monetary tightening and the demonstrations in summer, the business climate is still above its long-term average. The depreciation of the Turkish lira and improved European demand should stimulate exports and, all in all, activity should hold firm in Turkey through to mid-2014. ■

2 - The Chinese real estate market boosted by the increase in credit



Source: National Bureau of Statistics of China

3 - Eastern Europe and Turkey driven by the recovery in the Eurozone
Last point: November 2013



Source: European Commission