

Eurozone

Growth rises tentatively

In Q1 2017, Eurozone gross domestic product (GDP) increased by 0.6% (after +0.5%). Growth was slightly stronger than expected in Germany (+0.6%), Spain (+0.8%), Italy (+0.4%) and France (+0.4%). Activity should rise almost as strongly throughout the remainder of 2017 (+0.5% per quarter), despite the effects of the upturn in inflation. All in all over the year, Eurozone GDP is expected to rise slightly more than in 2016 (+1.8% after +1.6%). Investment in construction should sustain activity, gathering pace in France and Spain particularly. Private consumption is set to hold firm despite the acceleration in prices at the start of the year, with households slightly reducing their precautionary savings, especially in Spain and Italy thanks to a new drop in unemployment. Foreign trade should no longer hamper growth in the Zone (after -0.2 points in 2016).

The economic situation in the Eurozone continues to improve

In Q1 2017, activity in the Eurozone grew by 0.6% (Table). It was buoyant in Germany (+0.6% after +0.4%) and in Spain (+0.8% after +0.7%) while increasing more moderately in France (+0.4% after +0.5%) and Italy (+0.4% after +0.2%). In the spring of 2017, in spite of the ongoing political uncertainties, the business climate remains positive with a significant improvement observed in industry (Graph 1). Throughout 2017, the fiscal stimulus is likely to be neutral on the whole for the third consecutive year. Growth should remain steady

until the end of the year (+0.5% per quarter), accompanied by a greater number of job creations. As a result, the unemployment rate is expected to drop by 0.2 points per quarter, maintaining the same rate observed since the end of 2015. It should stand at 8.8% by the end of the year, against 9.7% at end 2016 and 10.5% at end 2015.

Consumption is expected to withstand the rise in inflation with more buoyant wages and a drop in precautionary savings

In 2017, private consumption is set to increase at a virtually stable pace, as in H2 2016: +0.4% per quarter, Graph 2). Nominal income remains boosted by the rise in employment and buoyant wages, especially in Germany and Spain. However, driven by energy prices, inflation rose sharply in early 2017, to +1.8% over one year in Q1 2017 against +0.7% in late 2016. It should barely weaken through to the end of 2017 (+1.4%; Graph 3), particularly as core inflation is expected to rise slightly. Confronted with this rise in prices which is undermining their purchasing power, and reassured by the drop in unemployment, households are expected to save a little less in order to maintain their consumption, especially in Spain and Italy. In this way, on average over the year, household consumption is set to slow down (+1.6% after +2.0%) but far less sharply than household purchasing power (+1.2% after +1.9%).

Gross domestic product and main aggregates of Eurozone economies

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

	2015				2016				2017				2015	2016	2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Eurozone*	0.4	0.4	0.3	0.4	0.6	0.3	0.4	0.5	0.6	0.5	0.5	0.5	1.5	1.6	1.8
Germany	0.2	0.5	0.2	0.4	0.7	0.5	0.2	0.4	0.6	0.5	0.5	0.5	1.5	1.8	1.9
France	0.4	0.0	0.4	0.2	0.6	-0.1	0.2	0.5	0.4	0.5	0.5	0.4	1.0	1.1	1.6
Spain	1.0	0.8	0.9	0.8	0.8	0.8	0.7	0.7	0.8	0.8	0.7	0.6	3.2	3.2	3.0
Italy	0.3	0.4	0.1	0.2	0.4	0.1	0.3	0.3	0.4	0.3	0.3	0.3	0.7	1.0	1.3
Household purchasing power in the Eurozone (year-on-year changes)	-0.3	0.2	0.1	0.2	0.1	-0.1	0.3	0.7	1.8	1.5	1.5	1.4	0.0	0.2	1.6
ILO unemployment rate in the Eurozone	11.2	11.1	10.7	10.5	10.3	10.2	9.9	9.7	9.4	9.2	9.0	8.8	10.9	10.0	9.1

Forecast

* Eurozone excluding Ireland, as this country's accounts present a break in series in Q1 2015
Sources: Eurostat, national statistical institutes, INSEE forecast

International developments

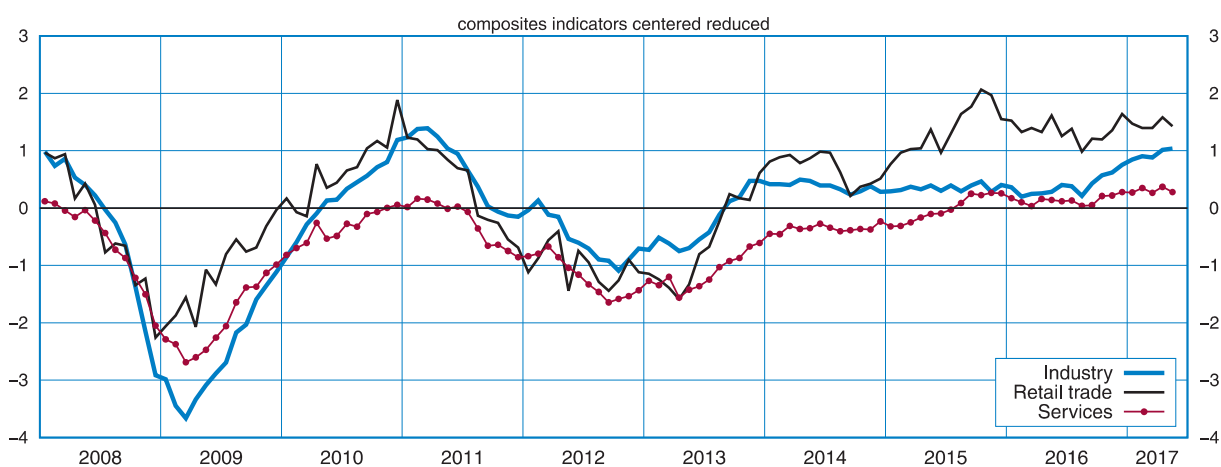
Construction investment is likely to bounce back after an expected backlash in Q2

Construction investment rose strongly in Q1 2017, benefiting from the mild weather in February and March. In reaction, it is likely to slow in Q2 (+0.1%), particularly in Germany, before bouncing back in H2 (+0.7% and then +0.8% per quarter). On average over the year, it should

gather pace again in 2017 (+2.9% after +1.9%), particularly in France (+1.9% after +0.2%) and Spain (+4.2% after +1.9%).

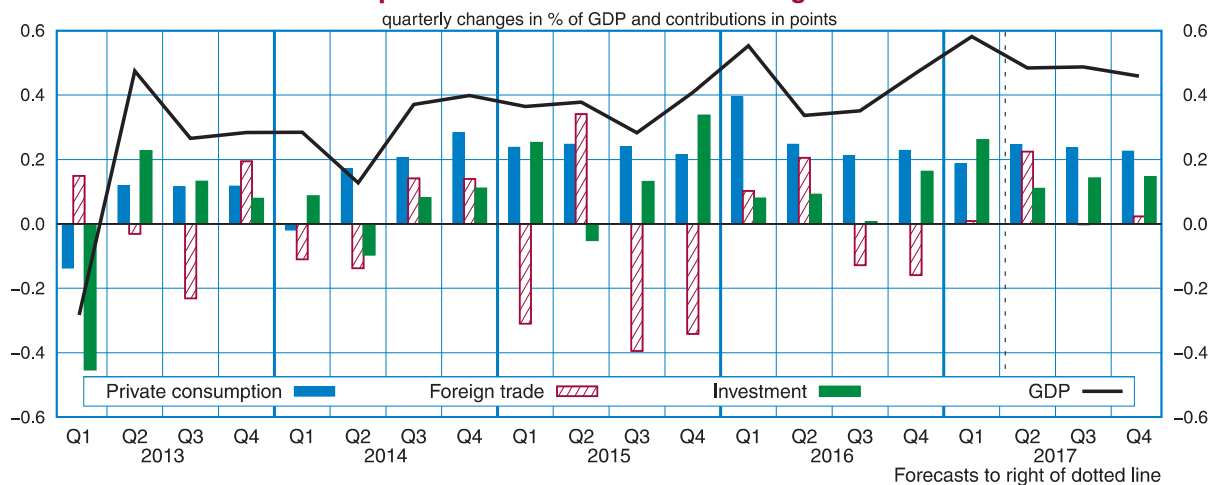
Equipment investment rebounded moderately in Q1 2017 (+0.4% after -0.4%). It should then increase at a brisk pace (+0.8% per quarter), as suggested by the healthy state of order books in industry and buoyed by the still very favourable financing terms.

1 - Business climate in the Eurozone, by sector



Source: European Commission (DG ECFIN)

2 - Gross domestic product and contributions to GDP growth in the Eurozone



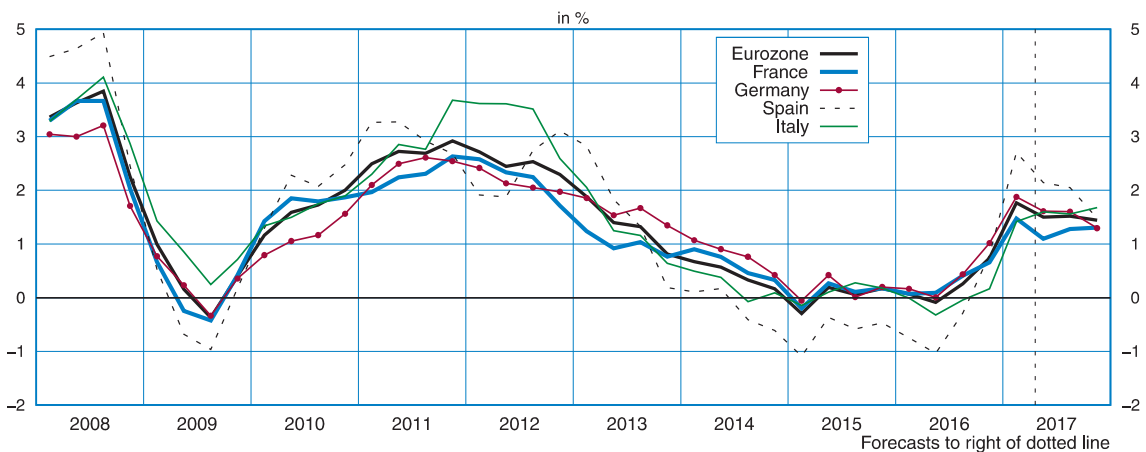
Sources: Eurostat, INSEE calculations

Foreign trade should no longer hamper growth in 2017

In Q1 2017, exports from the Eurozone remained buoyant (+1.2% after +1.4%). Vigorous demand from the USA and the emerging countries should continue to boost sales abroad through to the end of 2017. As imports had risen at almost the same rate as exports in Q1 (+1.3% after +1.9%), foreign trade made a neutral contribution to growth at the start of 2017 and this is expected to continue throughout the year on average (after -0.2 points in 2016).

All in all, growth in the Eurozone should continue to rise tentatively in 2017 (+1.8% after +1.6% in 2016 and +1.4% in 2015), withstanding the rise in inflation (+1.5% as an annual average after +0.2%). It should remain stronger in Spain (+3.0%) than in Germany (+1.9%), France (+1.6%) and Italy (+1.3%). ■

3 - Inflation in the Eurozone



Sources: Eurostat, INSEE forecast