

# Eurozone

## The business climate at a 17-year high

In Q3 2017, Eurozone GDP increased by 0.6%. It was once again buoyed by domestic demand, and by household consumption and investment in particular. Activity was vigorous in all major European countries: Germany (+0.8%), Spain (+0.8%), France (+0.5%) and Italy (+0.4%). The business climate in the autumn is at its highest level in 17 years. Consequently, growth is set to remain very strong, at 0.6% in Q4. In H1 2018, activity is expected to slow a little, with construction faltering somewhat and a slightly negative contribution from foreign trade. On an annual average basis in 2017, activity should pick up to +2.4% in 2017 after +1.7% in 2016, and the growth overhang for 2018 is expected to be 1.8% by mid-year. The pronounced drop in unemployment that began at the start of 2013 is likely to continue, with unemployment standing at 8.4% in June 2018, against 9.2% one year earlier.

### Activity is growing at full speed in the Eurozone

In Q3 2017, activity once again grew at a sustained pace (+0.6% after +0.7%, *table*), as in the previous quarter, and slightly above the rate forecast at the start of October (+0.5%). It was vigorous in all major European countries: Germany (+0.8%), Spain (+0.8%), France (+0.5%) and Italy (+0.4%). In the autumn, confidence surveys remain very positive (*Graph 1*) – at the highest level since 2001 – and this despite the political crisis in Catalonia and the uncertainty surrounding the outcome of the elections

scheduled for March in Italy. Growth is therefore expected to remain very strong in Q4 2017 (+0.6%) and should barely slacken at the start of 2018 (+0.5% per quarter). Consequently, job creations are likely to continue at a strong pace and unemployment should continue to fall, at a slightly slower rate than at the start of 2015 (–0.1 to –0.2 points per quarter), to 8.4% in June 2018 (against 9.7% at the end of 2016 and 10.7% at the end of 2015).

As an annual average, activity should gather pace strongly in the Eurozone in 2017 (+2.4% after +1.7% in 2016 and +1.5% in 2015). This acceleration should be common to the three main Eurozone countries: Germany (+2.6% after +1.9%), France (+1.9% after +1.1%) and Italy (+1.5% after +1.1%), while growth is likely to remain very strong in Spain (+3.1% after +3.3%).

### Households should continue to adjust to the decline in their precautionary savings

Private consumption is expected to remain vigorous through to mid-2018 (around +0.5% per quarter), as suggested by the high level of household confidence. Nominal wages are likely to be strengthened in all countries thanks to the improvement in the labour market and the past rise in inflation. Indeed, driven by energy prices, inflation rose to +1.4% year-on-year in Q3 2017, against +0.7% in late 2016. It is likely to increase slightly through to mid-2018 (+1.6%). Core inflation, which is expected to have risen tentatively from +0.8% at the end of 2016 to +1.1% in late 2017, should also remain stable at this level.

### Gross domestic product and main aggregates of Eurozone economies

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

	2016				2017				2018		2016	2017	2018 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
<b>Eurozone*</b>	<b>0.5</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>1.7</b>	<b>2.4</b>	<b>1.8</b>
France	0.6	–0.1	0.1	0.6	0.5	0.6	0.5	0.6	0.5	0.4	1.1	1.9	1.7
Germany	0.6	0.5	0.3	0.4	0.9	0.6	0.8	0.7	0.6	0.5	1.9	2.6	2.0
Spain	0.7	0.8	0.7	0.7	0.8	0.9	0.8	0.8	0.8	0.7	3.3	3.1	2.5
Italy	0.3	0.1	0.2	0.4	0.5	0.3	0.4	0.4	0.4	0.4	1.1	1.5	1.2
Household purchasing power in the Eurozone (year-on-year changes)	0.1	–0.1	0.3	0.7	1.8	1.5	1.4	1.5	1.3	1.6	0.2	1.6	1.3
ILO unemployment rate in the Eurozone	10.3	10.1	9.9	9.7	9.5	9.2	9.0	8.7	8.5	8.4	10.0	9.1	8.4

Forecast

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

This rise in prices is undermining purchasing power gains: after +1.9% in 2016, it is likely to slip back again to +1.6% in 2017. Purchasing power is expected to maintain a moderate rate at the start of 2018 and its growth overhang should reach +1.3% by mid-2018. European households are likely to increase their consumption at a slightly faster pace because their precautionary savings should continue to be adjusted downwards.

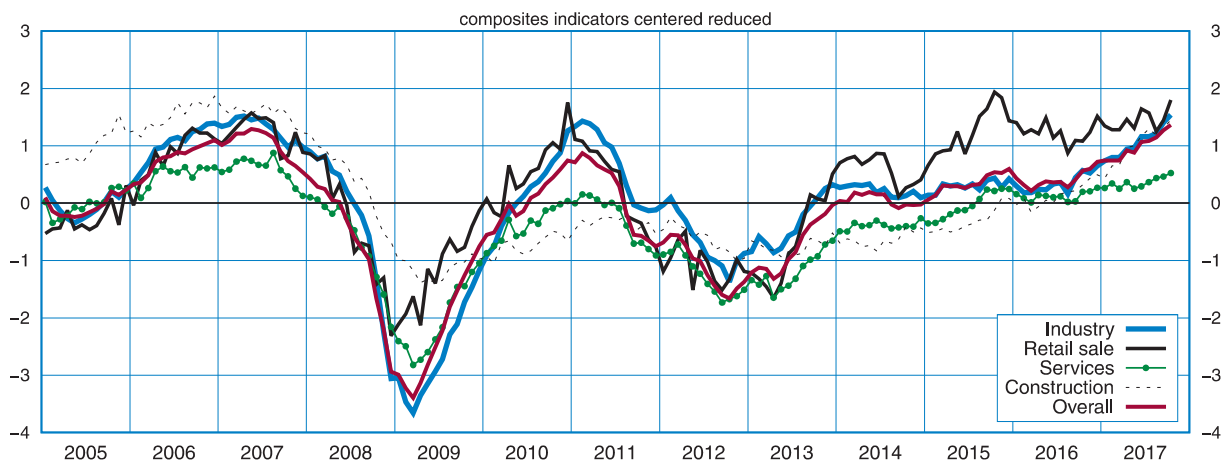
### Faced with supply constraints, enterprises should continue to increase their production capacities

Equipment investment accelerated in Q3 2017 (+2.9% after +1.2%). It is expected to remain very buoyant, driven by demand prospects, the

flourishing situation of European enterprises and a context of growing tensions on production capacity (Graph 2).

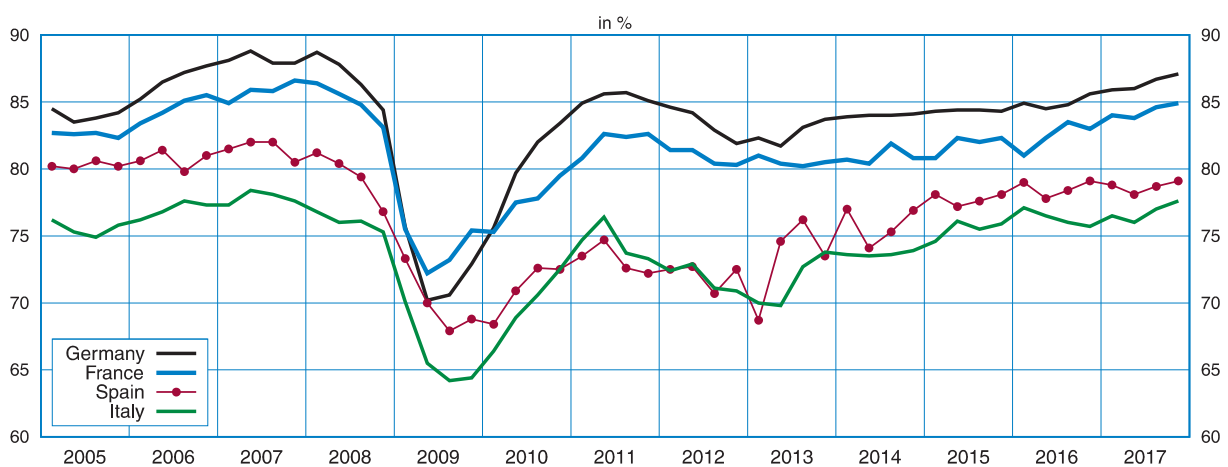
In Q3, construction investment slowed (+0.1%) after an already-weak Q2 (+0.3%). It should pick up in Q4 2017 before slowing again through to mid-2018: building permits remain on an upward trend but are tailing off slightly, which is likely to be reflected in construction investment over the forecasting period. As an annual average, construction expenditure should continue to sustain activity (+1.9% mid-year growth overhang for 2018 after +3.5% in 2017).

### 1 - Business climate in Eurozone



Source: European Commission (DG Ecfm)

### 2 - Production capacity utilisation rates in Europe



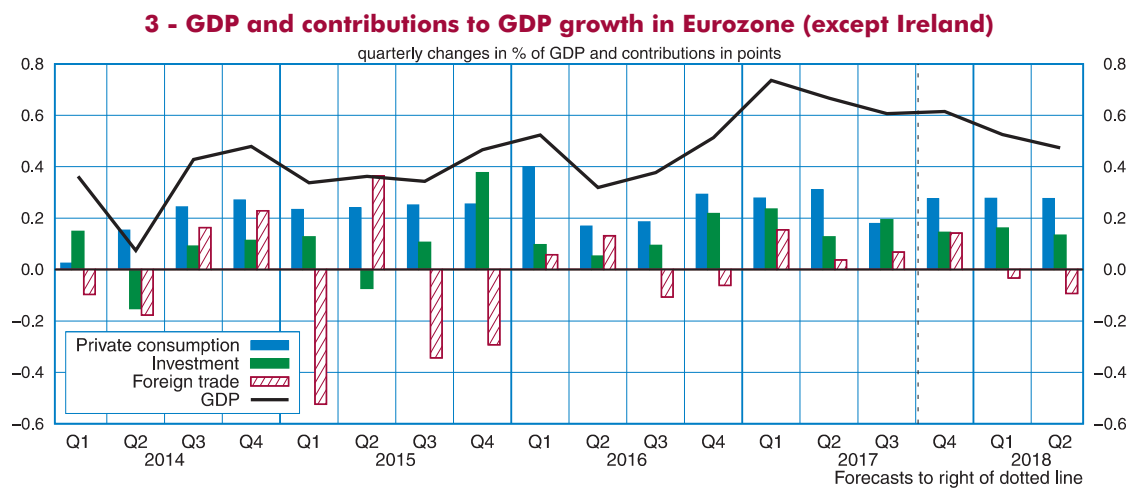
Sources: IFO, Istat, European Commission (DG Ecfm), INSEE

## International developments

### Foreign trade is set to hamper growth slightly at the start of 2018

In Q3 2017, exports picked up slightly (+1.2% after +1.1%). They should maintain this pace in Q4, driven by sustained demand from the rest of the world. They are then likely to slacken progressively in early 2018 (+0.8% in Q2) due to the appreciation of the euro in the summer of

2017. Imports remained vigorous in Q3 2017 (+1.1%). Through to mid-2018, they are expected to remain steady in response to domestic demand, particularly in Germany (+0.9% in Q4 and then +1.1% per quarter). All in all, the contribution of foreign trade should again be positive at the end of 2017 and then slightly negative at the start of 2018 (*Graph 3*). ■



Sources: Eurostat, INSEE forecast