

Eurozone

Growth remains buoyant

In Q4 2017, Eurozone GDP increased by +0.6%, as forecast in the December issue of *Conjoncture in France*. Once again it was buoyed by foreign trade (contribution of +0.4 points), as in Q3. Activity was vigorous in the main European countries. With a business climate at a very high level, growth should continue to be sustained (+0.5% per quarter) in H1 2018, in spite of a slight slowdown in the construction sector. The carry-over effect in activity is expected to reach +1.8% by mid-2018, after +2.5% on average over 2017. This buoyancy should pave the way for a fall in unemployment from 8.7% at the end of 2017 to 8.5% by June 2018 (after 9.8% at the end of 2016).

Activity remains solid in the Eurozone

In Q4 2017, activity grew at a sustained pace once again (+0.6% after +0.7%, *Table*), as forecast in the December issue of *Conjoncture in France*. It was vigorous in the four large European countries, Germany (+0.6%), Spain (+0.7%) and France (+0.6%), and to a lesser degree in Italy (+0.3%). In February 2018, the business climate remained very favourable even though the progress underway since mid-2016 has come to an end (*Graph 1*). Growth is therefore expected to remain solid in H1 2018 (+0.5% per quarter), in spite of the

political uncertainty in Germany and Italy. The growth overhang of activity is set to reach +1.8% by mid-2018 after +2.5% in 2017.

Employment prospects are high in the surveys, in particular in services where they are at their highest level since 2001. Employment is therefore expected to remain buoyant, so unemployment should continue to fall and reach 8.5% by June 2018.

Consumption is expected to remain robust, driven by buoyant wages

Private consumption should remain vigorous until mid-2018 (+0.5% per quarter), in line with the high level of household confidence in February. Wage growth should pick up, driven in particular by Germany and Spain (*Graph 2*) while inflation is expected to reach +1.5% year-on-year by mid-2018. Core inflation, which rose timidly to +0.9% at the end of 2017, is expected to stay close to this level.

This increase in prices is likely to have eroded the purchasing power gains made in 2017 (+1.5% after +1.8% in 2016). At the start of 2018, thanks to dynamic wages, purchasing power should keep up the same pace of growth, leading to a carry-over effect of +1.2% by mid-2018.

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			
Eurozone	0.5	0.4	0.4	0.6	0.6	0.7	0.7	0.6	0.5	0.5	1.8	2.5	1.8
France	0.6	-0.1	0.2	0.5	0.7	0.6	0.5	0.6	0.4	0.4	1.1	2.0	1.6
Germany	0.6	0.5	0.3	0.4	0.9	0.6	0.7	0.6	0.6	0.5	1.9	2.5	1.9
Spain	0.7	0.8	0.7	0.7	0.8	0.9	0.7	0.7	0.7	0.6	3.3	3.1	2.3
Italy	0.3	0.1	0.2	0.4	0.5	0.4	0.4	0.3	0.4	0.4	1.0	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	1.4	1.3	1.5	0.2	1.5	1.3
ILO unemployment rate in the Eurozone	10.3	10.1	9.9	9.8	9.5	9.1	9.0	8.7	8.6	8.5	10.0	9.1	8.5

Forecast

Sources: Eurostat, National statistical institutes, INSEE forecast

Equipment investments are not expected to weaken

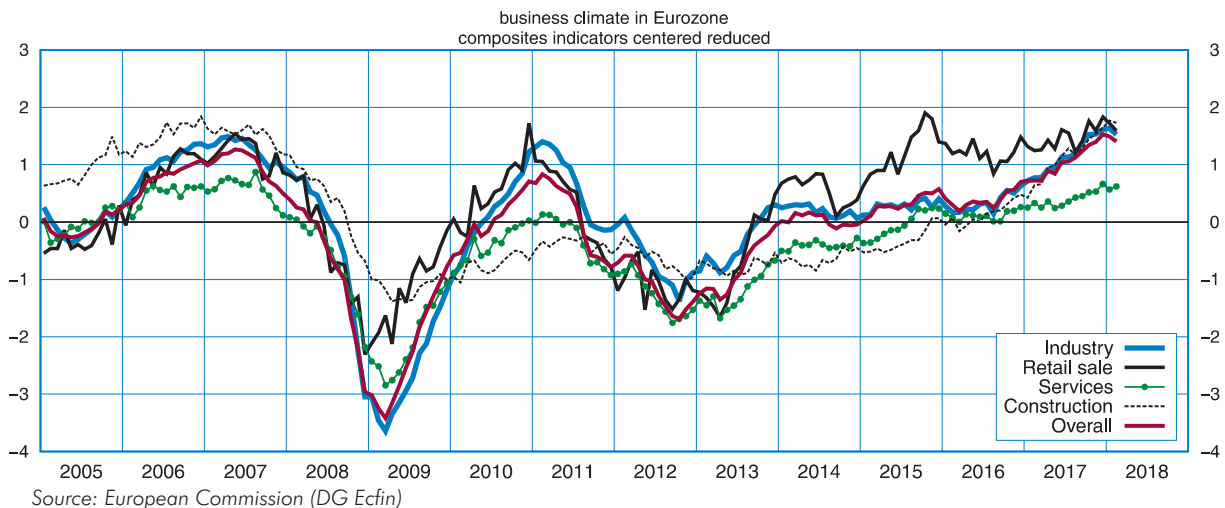
In Q4 2017, investment in the construction sector slowed slightly (+0.7% after +0.9%). It is expected to increase on average by +0.7% per quarter from now to mid-2018. Building permits have lost some of their momentum in France and Germany (*Graph 3*). However, investment in the construction sector should continue to sustain activity (carry-over effect of +2.4% by mid-2018 after +3.5% on average over 2017). Equipment investment also slowed in Q4 2017 (+1.3% after +2.4%). It should keep up a high pace until mid-2018, driven by demand prospects and the flourishing financial situation of European businesses, in a context of growing

production capacity tensions. Its annual growth overhang should reach +5.1% by mid-2018 after +4.9% on average in 2017.

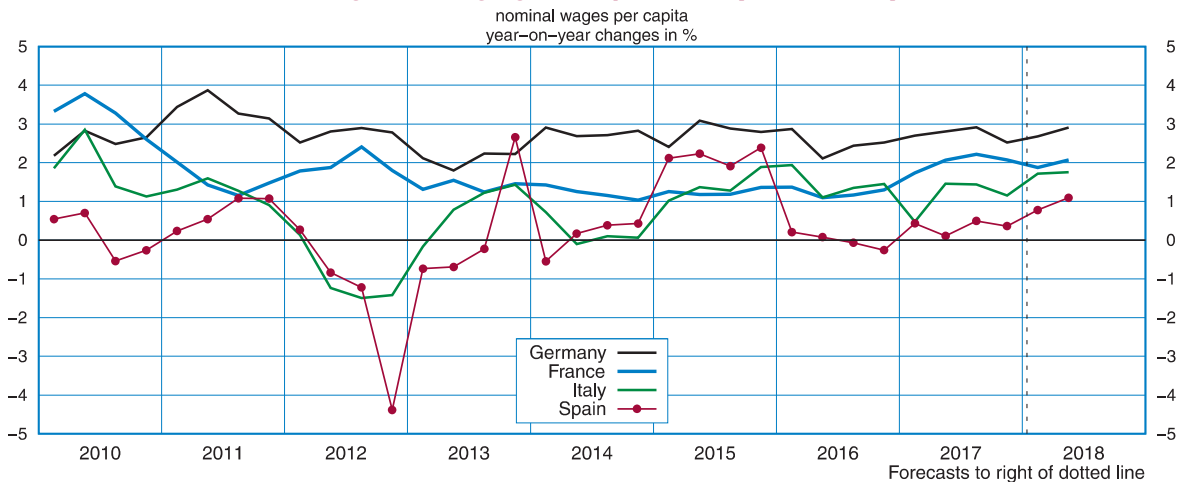
The appreciation of the euro is expected to hold back exports slightly

In Q4 2017, exports are expected to have maintained a high rate of growth (+1.9% after +1.6%), driven by French aviation sales in December and a record level of buoyancy in Germany. They are likely to slow at the beginning of 2018 (+0.9% per quarter), due to the appreciation of the euro in January 2018 and slightly less vigorous world demand.

1 - Entrepreneurs' confidence has reached peak levels



2 - Vigorous wage growth, particularly in Germany



International developments

Imports gathered pace in Q4 2017 (+1.1% after +0.6%). Through to mid-2018, they should remain solid to serve domestic demand in a tight supply context (+1.1% in Q1 then +1.2% in Q2).

All in all, the contribution of foreign trade to the economic growth overhang in mid-2018 should be positive (0.4 points after 0.6 points in 2017 and -0.5 points in 2016). ■

