

Eurozone

Foreign trade is expected to slow down activity

In Q1 2019, activity regained momentum in the Eurozone (+0.4%) after a slowdown in H2 2018 (+0.1% in Q3 and +0.2% in Q4 2018). Inventory hampered growth less than in Q4 2018. Italy recovered from a technical recession and German growth returned to a rate similar to its early 2018 level, after the industrial difficulties which marred H2 2018. In the spring of 2019, the majority of surveys reflected another downward trend. Activity, driven by fiscal stimuli, looks set to grow by 0.3% in the spring and maintain this rate through to the end of the year. After 2017 – a year of record growth since 2007 (+2.5%) – Eurozone GDP increased by +1.9% in 2018. This rate is expected to slow down again in 2019, to +1.2%, despite an upturn in the purchasing power of income (+2.2% after +1.8% in 2018). However, the relatively modest increase in the labour force should see unemployment continue to fall, reaching 7.4% by mid-2019.

In early 2019, improvements in Italy and Germany

In Q1 2019, activity gathered pace in the Eurozone with +0.4% (Table), against +0.3% forecast in the March edition of Conjoncture in France. German industrial difficulties, which hampered activity considerably in H2 2018, seem to be improving. Consequently, Germany has seen a return to growth (+0.4% after +0.0%). Thanks to foreign trade, and the decline in imports in particular, Italy has recovered from a technical recession (+0.1% after -0.1%). At the same time, French growth stood at +0.3%, continuing at the average rate observed since early 2018. Finally, Spanish output picked up slightly (+0.7% after +0.6%). In the spring of 2019, the majority

of surveys reflected another downward trend. Growth is expected to stand at +0.3% in Q2, benefiting from the fiscal stimuli introduced since the beginning of the year. It looks set to maintain this rate in H2 2019 (Graph 1).

Employment prospects are also generally down in the surveys. Employment is likely to grow at a slightly slower pace than activity. Unemployment should continue to fall slowly – to 7.4% in the Eurozone by the end of 2019 – despite an increase in the number of unemployed Italians.

Private consumption should benefit from an acceleration in purchasing power

Nominal wages are expected to maintain their dynamic pace (+0.5% per quarter from Q2 onwards), in line with German wages, in particular. In addition, the implementation of the “citizens’ income” began in Italy in Q2, and significant fiscal stimuli are in place in Germany, whilst French households are benefiting from the emergency measures announced in December 2018: household income in the Eurozone should therefore be dynamic. Based on the assumption of a barrel of Brent priced at \$65 through to the end of 2019, headline inflation is likely to edge down to 1.3% at the end of 2019. Core inflation should rise to +1.3%. All in all, purchasing power is expected to accelerate again in 2019 as an annual average (+2.2% after +1.8% in 2018 and +1.5% in 2017, Graph 2).

However, private consumption looks set to be slightly less buoyant than purchasing power (between +0.3% and +0.4% per quarter): the household savings ratio in the Eurozone is expected to gain 0.54 points to reach 12.5% at the end of the year. On an annual average basis,

Gross domestic product and main aggregates of Eurozone economies

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

	2017		2018				2019				2017	2018	2019
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Zone euro	0.7	0.7	0.4	0.4	0.1	0.2	0.4	0.3	0.3	0.3	2.5	1.9	1.2
France	0.6	0.7	0.3	0.2	0.3	0.4	0.3	0.3	0.3	0.3	2.4	1.7	1.3
Germany	0.6	0.5	0.4	0.5	-0.2	0.0	0.4	0.2	0.2	0.2	2.5	1.5	0.8
Spain	0.6	0.7	0.6	0.6	0.5	0.6	0.7	0.6	0.6	0.6	3.0	2.6	2.5
Italy	0.4	0.4	0.2	0.0	-0.1	-0.1	0.1	0.2	0.1	0.1	1.8	0.7	0.2
Household purchasing power in the Eurozone (year-on-year changes)	1.4	1.4	1.3	1.7	2.1	1.9	1.4	1.5	1.3	1.3	1.5	1.8	1.4
ILO unemployment rate in the Eurozone	9.0	8.7	8.5	8.3	8.0	7.9	7.8	7.6	7.5	7.4	9.1	8.2	7.5

■ forecast

Source: Eurostat, National statistical institutes statistiques, INSEE forecast

International developments

private consumption should barely accelerate in 2019 (+1.4% after +1.3% in 2018).

Brisk investment in equipment and construction

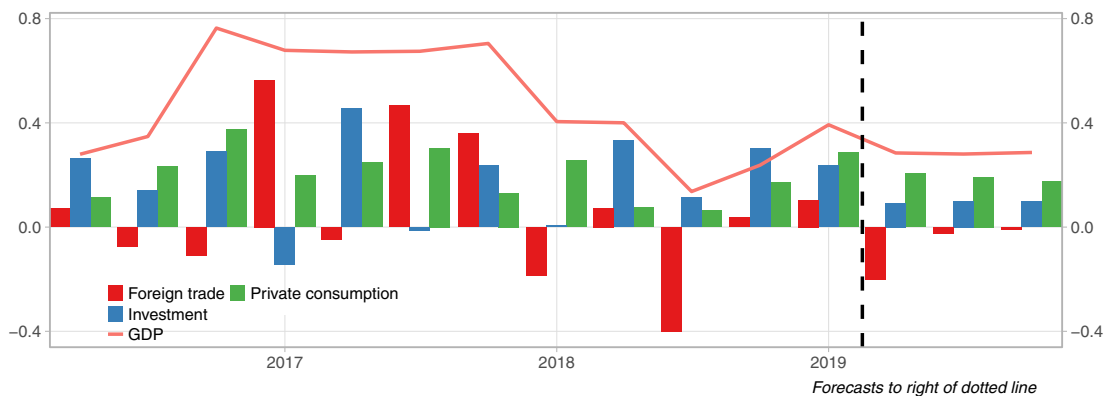
In Q1 2019, investment in the construction sector picked up again (+1.5% after +0.9%). Overall, it looks set to remain dynamic in the Eurozone (around +0.5% per quarter): the construction sector stands out for the buoyancy of its business tendency surveys and the generally vigorous building permit trend in the Eurozone.

As an annual average, investment in construction should accelerate slightly in 2019 (+3.5% after +3.1% in 2018).

Equipment investment is expected to maintain an average rate of +0.4% per quarter, after +1.2% in Q1 2019. In particular, it is being driven by the momentum built up in France, as expressed by business leaders in the business tendency surveys. However, surveys in the manufacturing sector paint a gloomy picture in Germany. All in all, throughout the year, it looks likely to slow down to +3.2%, after +4.4% in 2018.

1 - Foreign trade is expected to slow down activity

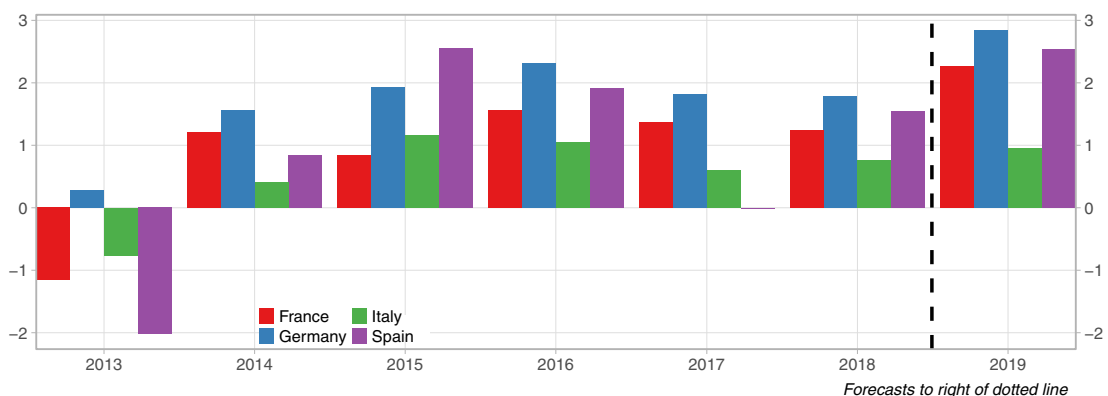
quarterly change in GDP in % and contributions in points



Source: Eurostat, INSEE forecast

2 - Imports, being more dynamic than exports, should hamper growth

annual variation in %



Source: Destatis, INE, INSEE, Istat

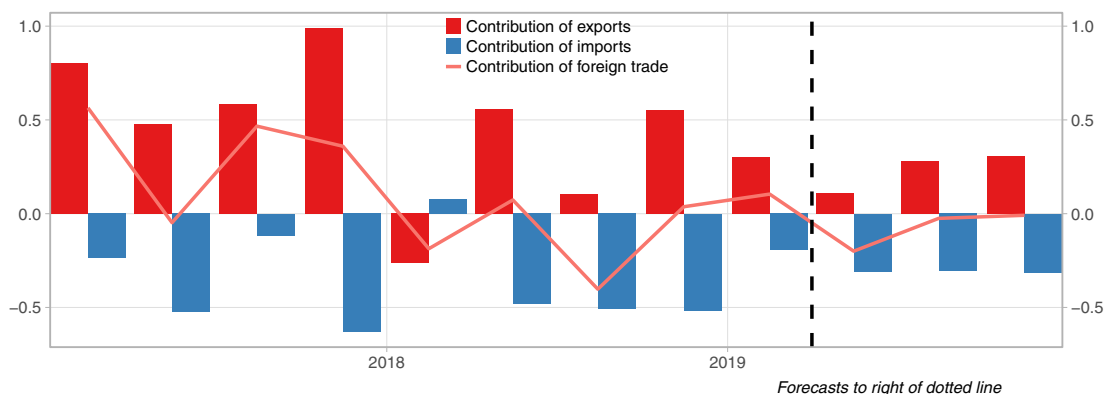
In 2019, foreign trade is expected to hamper growth

In Q1 2019, exports slackened (+0.6% after +1.2%) after a very vigorous end to 2018 in France, in view of the transport equipment sales. Exports are likely to accelerate a little during H2 2019 (+0.6% per quarter). The less dynamic world trade situation is not expected to interrupt the vigorous growth of Dutch exports, for example. All in all, Eurozone exports should lose momentum (+2.5% in 2019 after +3.2% in 2018).

Imports also weakened in Q1 2019 (+0.4% after +1.2%). Over the coming quarters, they are likely to be more dynamic than exports (+0.7% per quarter) in response to domestic demand, in a context of consumption sustained by rising purchasing power. On an annual basis, imports are expected to increase slightly more quickly in 2019 (+3.3%) than in 2018 (+3.2%). All in all, foreign trade is likely to make a negative contribution in 2019 (*Graph 3*, -0.2 points after +0.1 point in 2018). ■

3 -Imports, being more dynamic than exports, should hamper growth

breakdown of the contribution of foreign trade (in points) to the quarterly growth of Eurozone GDP (as a %)



Source: Destatis, INE, INSEE, Istat