A mixed picture

2019 will have been marked by political and economic uncertainties that have weighed down not only on trade, but also on corporate investment and world growth more generally. Protectionist tensions in the US, uncertainties as to the course of the Brexit *process and questions surrounding the drivers of the Chinese economy, along with difficulties in the automotive sector against the backdrop of the energy transition, have largely contributed to clouding growth prospects.*

As 2019 draws to a close, however, the picture is not entirely bleak. After blowing hot and cold in the trade negotiations with China, the US would seem to be keener to come to an agreement before the upcoming presidential election. And while the United Kingdom and its European partners have been toing and froing for months between unfulfilled hopes and lassitude, the prospect of a no-deal Brexit *does seem to be fading.*

Although fears of a downturn in the overall outlook are easing, it is difficult to detect any general trend that is likely to give fresh impetus to the world economy. We will therefore have to settle for a mixed picture with some monetary and fiscal support measures, but also some contrasts or even a lack of coordination.

The most recent outlook indicators suggest that the economy of the Eurozone (and more particularly the German economy) is unlikely to slow down any further and should even accelerate through to mid-2020. The major Eurozone countries have all introduced measures to boost household income, each in their own way. Admittedly, as in the recent past, they are likely to contribute in part to an increase in savings, but with domestic demand holding up, Eurozone growth should be 0.3% in Q2 2020 (after +0.2% in the previous quarters).

French growth is likely to remain close to this level, but with a few nuances. Household confidence has recovered significantly over the past year with the acceleration in purchasing power, and their consumption should continue to progress at a regular pace, including at the end of 2019, despite the fall in transport expenditure due to the social movements. It is only in Q4 2019 that foreign trade should contribute to supporting growth, as exports accelerate at the end of the year in the wake of big aeronautics and shipbuilding deliveries, but they are likely to slow down again by a backlash effect in Q1 2020. Corporate investment may also decelerate and trends are likely to be contrasted between sectors, as in the rest of the Eurozone: services are likely to hold up but industrial output is likely to be at a standstill or even slip back, while construction could suffer from the slowdown in public works in the lead-up to the municipal elections.

All in all, French growth should stand at +0.3% in Q4 2019 and then slip back slightly to +0.2% in Q1 2020, before rising again to +0.3% in the following quarter, for an overhang of +0.9% by mid-2020, after +1.3% over 2019 as a whole. Employment is likely to slow down (almost 90,000 net job creations expected in H1 2020, against more than 260,000 over 2019 as a whole), but the unemployment rate should remain on a downward trend, falling by about 0.1 points per quarter (for a forecast of 8.2% in the spring). ■

World trade prospects a little brighter, but economic growth slows

As tensions ease slightly, world trade set to regain a little momentum in early 2020

In September, the United States and China implemented a new series of customs tariff hikes. This escalation in protectionism contributed to slowing the dynamics of world trade in 2019, which is likely to rise by just 0.9%, after +4.6% in 2018. In October, the US authorities also increased customs duties on purchases of certain European products. However, the higher customs barriers to imports of French aircraft, wine and cheeses should only have a limited effect in the short term on deliveries and therefore on French activity (*Focus in the Foreign Trade sheet*). Protectionist tendencies would also appear to be declining, allowing hopes of an easing in this trade war. The US and China resumed their negotiations in the autumn and supporting economic activity is among their main objectives for 2020. World trade could therefore regain some impetus, with a growth overhang in mid-2020 of +1.1%.

Activity decelerates in the advanced economies

With the decline in the business climate, the gross domestic product (GDP) of the advanced economies is likely to slow down in 2019, like foreign trade, progressing by just 1.7% after +2.2% in 2018 (see *Key Figures*, below). This slowdown concerns both the United States and Europe.

German activity recovering progressively after stalling

German activity has picked up only moderately after falling back in the spring

The economic slowdown resulted in Eurozone GDP growth of +0.2% in Q3 (as in Q2, after +0.4% in Q1 2019). While French activity continued to grow at a regular pace of +0.3% per quarter, protectionist tensions hit German industrial output harder. German GDP fell back in Q2 (–0.2% after +0.5% in Q1) and then grew by just 0.1% in Q3, against a backdrop of a fall in equipment investment driven by that in industrial activity.

Spanish growth remained a little more sustained than that in France and much more than in Italy

Activity also slowed down in Spain (+0.4% in the spring and summer, after +0.5% in winter), while remaining a little more dynamic than in France. In Italy, growth remained almost flat (+0.1% per quarter since the beginning of the year), due in particular to consumption which is still sluggish. In France, household consumption and corporate investment remained relatively robust, offsetting the negative contributions to growth of foreign trade since the start of the year. Despite their different growth rates, all four countries have introduced fiscal policies to help boost purchasing power in 2019. For the moment, however, consumers have consumed only a part of these rises in real income and their savings have therefore increased (*Graph 1*).

Oil price stable at around $60 and interest rates still low

The Fed cut its base rates again in October

After two cuts already in 2019, the Fed reduced its US base rates again by one-quarter of a point in October. The European Central Bank (ECB) resumed its bond purchases in November, meanwhile, as core inflation remained well below 2% in the Eurozone (1.1% in October). After a low point over the summer, 10-year sovereign rates in the Eurozone showed a slight upturn, although still remaining negative for Germany and France. The exchange rate of the Euro has been at around $1.11 through the autumn (the rate taken for our forecasting assumption).

The slowdown in the world economy does not point to soaring oil prices

Despite the OPEC quotas, the US embargo on Iranian oil and Venezuela's production difficulties, the slowdown in the world economy should contribute to keeping Brent oil prices close to $60, the assumption taken for this forecast.

World growth to continue slowing

The economic slowdown likely to affect the United States...

In the United States, economic activity is likely to have slowed in 2019 (+2.3% after +2.9% in 2018) driven by the continued negative contribution of foreign trade (–0.3 points). In addition, the effects of the fiscal stimuli in 2018 are fading out, leading to a slowdown in household consumption (+2.6% in 2019 after +3.0%) and in private investment (+1.3% after +4.6%). In Q4 2019, US growth is likely to ease once again to +0.3%, after +0.5% in Q2 and in Q3 2019. Domestic demand is likely to slow down, while activity will still not be buoyed by foreign trade.

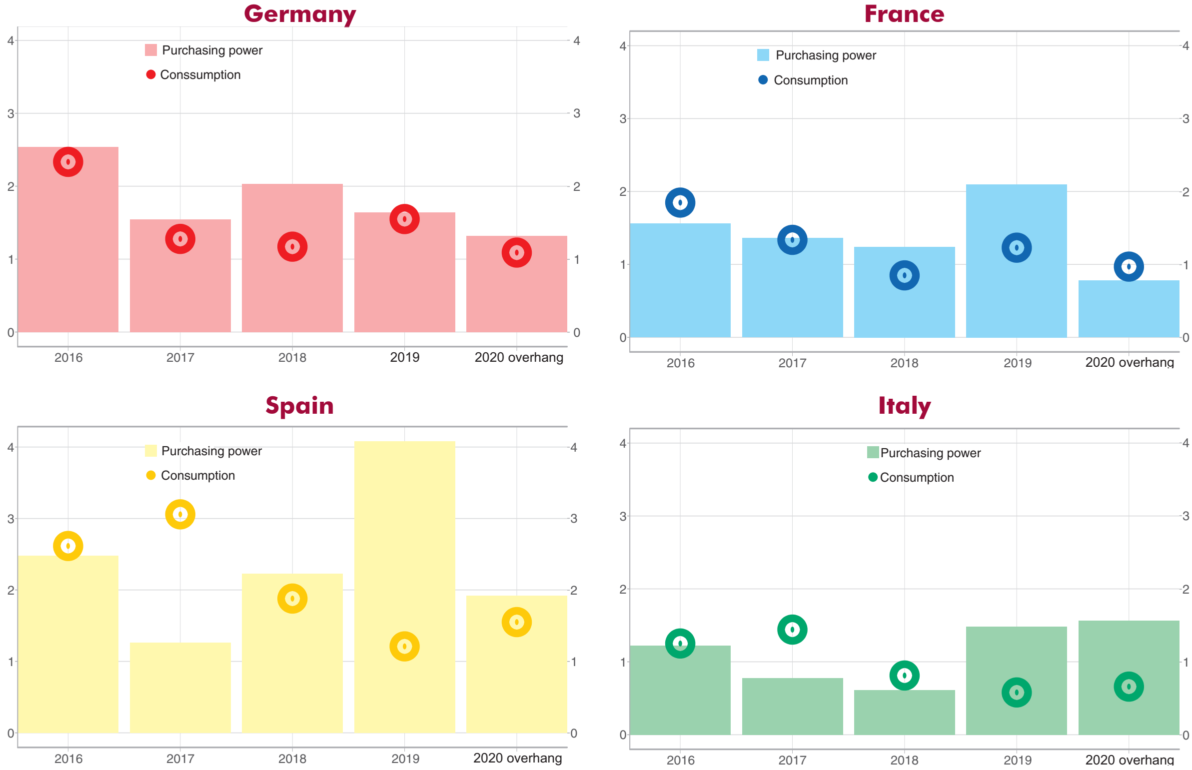
Japanese activity, meanwhile, is likely to suffer at the end of the year from a fall in consumption in the wake of October's two-point hike in consumption tax, before returning to moderate growth in H1.

... and the emerging economies

In China, the continuing slowdown in industrial production and weakening domestic demand are likely to weigh down once again on activity. Chinese exports should continue to slow significantly (overhang of +0.1% by mid-2020 after +2.2% in 2019 and +6.6% in 2018). The slowdown should also hit other large economies such as Russia, where growth is likely to fall to 1.4% in 2019 after 2.2%, and India, where it is likely to be more pronounced (+4.7% in 2019 after +7.4%). The slowdown in activity in Brazil in 2019 (+1.1% after +1.3% in 2018) should be more moderate, however. Profiting from a fall in inflation and a levelling out of its exchange rate, Turkey should confirm its economic upturn. In Argentina, the economic prospects are still looking bleak, due to rampant inflation and falling purchasing power. Finally, in the

1 - Gains in purchasing power should be more dynamic than consumption in 2019 in the main Eurozone countries

annual variations in %



Source: Eurostat, INSEE forecasts since 2019 countries of Central and Eastern Europe, the business climate is slipping in the wake of the slowdown in the Eurozone.

British growth set to be restrained once again by uncertainties around the terms of Brexit

Finally, activity in the United Kingdom is set to grow only barely (by around 0.0% to +0.1% per quarter) through to mid-2020 in a context of uncertainty over *Brexit* that is still preventing corporate investment from starting up again.

The progressive recovery in Germany should lead to moderate European growth

In Germany as elsewhere, industry is more fragile than services

In the main economies of the Eurozone, morale has deteriorated significantly among industrialists, falling much more than the business climate in services (*Graph 2*). According to the European Commission's business climate indicators, balances of opinion in industry have lost 20 points in the Eurozone since the start of 2018 and more than 30 points in Germany, against falls of just 7 and 8 points respectively in services. These difficulties in industry may have weighed down on household morale and therefore purchases (*Focus in the Germany sheet*). After this slump, hopes for an upturn in activity would appear to be being driven by domestic demand, notably household consumption which is likely to benefit from gains in purchasing power in 2019 and early 2020. This real income should also boost purchasing by households in Spain, France and Italy. Growth in GDP may start up again in Germany (rising from +0.0% at the end of 2019 to +0.3% in spring 2020), remain steady at +0.4% per quarter in Spain, but stand at just +0.1% per quarter in Italy.

French foreign trade set to continue weighing down on growth

Exports slowing

Since the start of 2019, French exports have been stagnating. Sluggish automobile deliveries and exports of services hit exports through to Q3, although they should accelerate in Q4, driven by aeronautics and shipbuilding deliveries (*Focus in the Foreign Trade sheet*). The pace of deliveries is likely to slow again with a backlash in H1, however, resulting in a growth overhang of +1.3% in mid-2020. The slowdown in exports should be quite pronounced when compared to 2019 (forecast of +2.1%) and 2018 (+3.5%).

The contribution of foreign trade to growth negative from 2019

Imports, meanwhile, have been much more dynamic than exports since the start of the year. They are set to continue growing by a little under 1% per quarter through to mid-2020, giving a mid-year growth overhang of 2.3% after a forecast figure of +2.5% for 2019.

The contribution of foreign trade to growth should therefore be negative in 2019 (–0.2 points of GDP) and the overhang for 2020 also negative (–0.3 points).

French growth likely to be hit by the fall in industrial production

The business climate remains at high levels in construction and services, but is falling in industry

As in the Eurozone, the rather positive overall business climate in France hides divergences between the main sectors of activity (*Graph 3*). In services and in the wholesale and retail trade, the climate indicator remains in positive territory, at around 105. In industry, however, its deterioration over the past two years brought it down to its long-term average (100) in November 2019, a figure that had not been seen since June 2015. The climate in building, meanwhile, has now spent one year at highs (above 110) not seen since 2008.

Production in services robust once again

Like the sectoral business climates, production is likely to be more sustained in market-sector services (around +0.5% per quarter in early 2020, *Graph 4*) than in industry where the fall in activity is set to continue through to the start of 2020. In construction, avowed optimism at the moment among entrepreneurs is likely to be tempered in coming quarters by the marked slowdown in public works activity. Municipal investments are likely to dry up at the approach of the elections next March (*Special Analysis on the Municipal Election Cycle*), bringing production and employment to a halt in part of the sector.

French growth between +0.2% and +0.3% per quarter through to mid-2020

All in all, French GDP is set to grow by 0.3% in Q4 2019, as is also suggested by the new "continuous" GDP forecasts established as we completed this edition (*Special Analysis on Continuous Forecasting of French Economic Growth*). It should then grow by 0.2% in Q1 and 0.3% in Q2 2020 (*Graph 5*). After annual growth of +1.3% in 2019, the GDP growth overhang should stand at +0.9% in mid-2020.

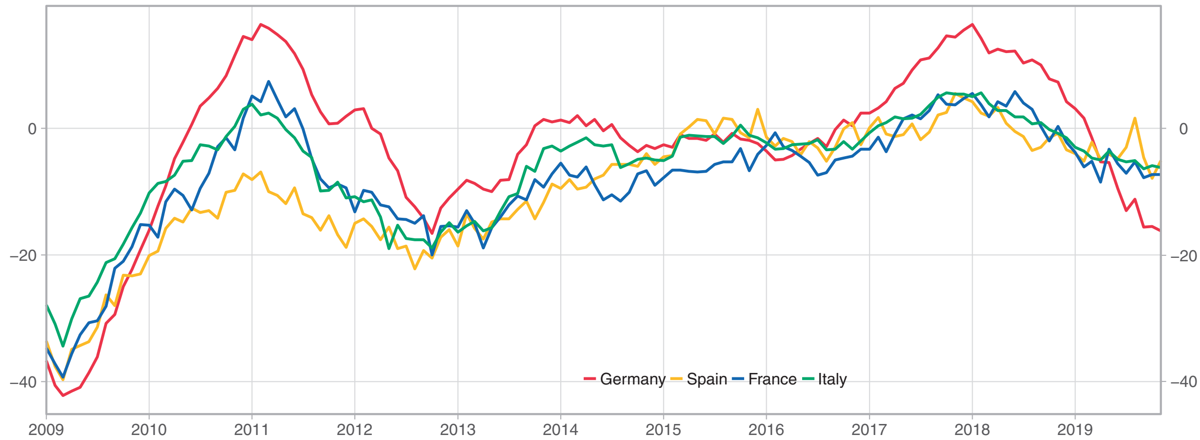
Employment set to slow down but unemployment to remain on its downward trend

About 88,000 jobs created in H1 2020

After being particularly dynamic in H1 2019 (+170,000), total employment is likely to slow down in H2 2019 (+94,000) and then in H1 2020 (+88,000). In the non-agricultural market sectors, services excluding temporary employment should once again make the main

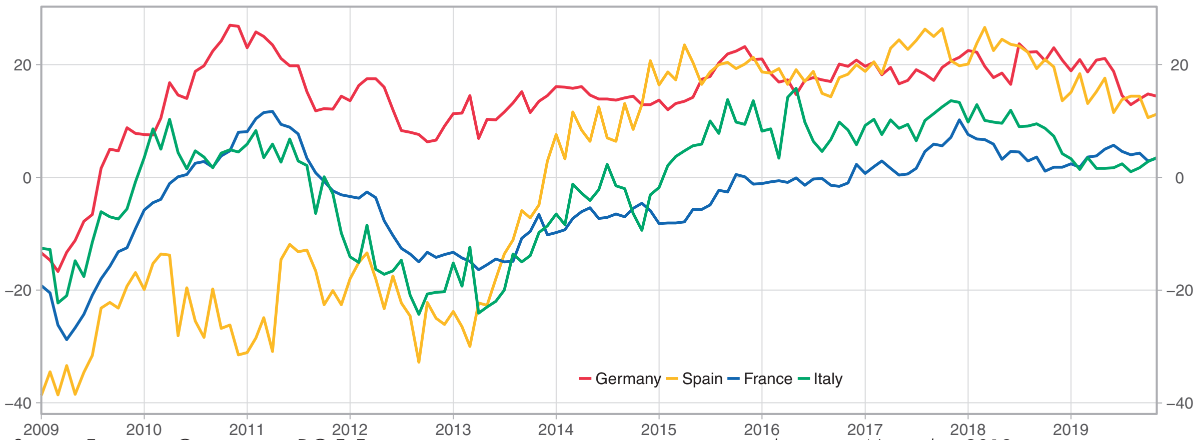
2 - In the main Eurozone countries, the business climate in industry deteriorated more than that in services

Confidence indicator in industry



Source: European Commission, DG EcFin *last point: Novembre 2019*

Confidence indicator in services



Source: European Commission, DG EcFin *last point: Novembre 2019* contribution to growth in employment (+61,000 then +68,000 in H1 2020), while temporary employment continues to fall back slightly through to mid-2020 and industrial employment increases slightly. In the non-market sector, subsidized employment is likely to start falling again after being almost stable in H1 2019. Non-market job creations should, however, offset the reductions in the number of subsidised contracts (*Focus in the Employment sheet*), driving a slight increase in employment in the sector as a whole.

The downward trend in the unemployment rate to continue

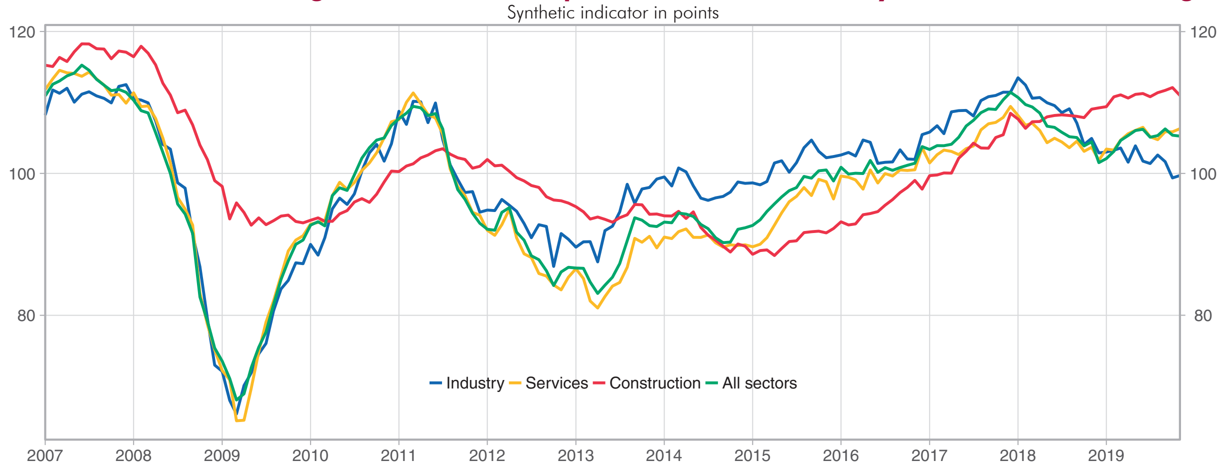
Employment is slowing but the upward trend in the active population continues to ease. Leaving aside the statistical uncertainties from one quarter to another, the unemployment rate is likely to fall again by around 0.1 points per quarter, reaching 8.2% in spring 2020 against 8.5% one year earlier.

Household consumption set to continue progressing steadily

Inflation to remain slightly above 1% in H1 2020

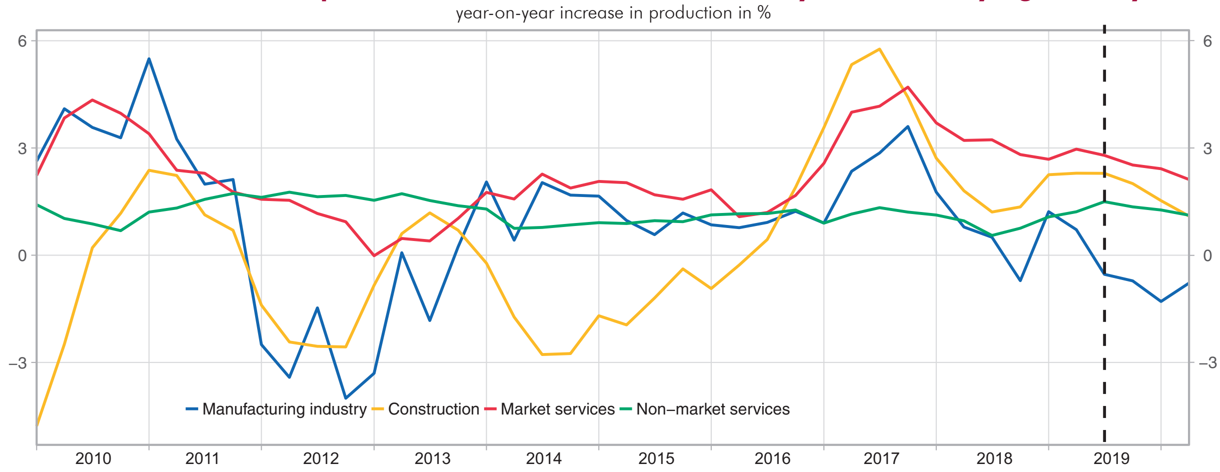
In June 2020, inflation is likely to return to a level (+1.1%) close to that in November 2019 (+1.0%), after rising to +1.4% in February 2020. The effects of price rises in certain sectors (indirect taxation on tobacco, tighter terms on the automobile bonus-penalty system, eco-tax on flights departing from France, reduction in the duration of the sales to four

3 - In France, the divergence between entrepreneur morale in industry and services is widening



Source: INSEE, business surveys

4 - Growth rates of production in the main sectors of activity in France vary significantly



Source: INSEE, national accounts

weeks) are likely to be offset by the weak trend in core inflation which should be close to 1% over the forecast period.

In H1 2020, wages to benefit from a repeat of the exceptional bonus

Wages should be buoyed in H1 2020 by a repeat of the exceptional bonus that boosted the average wage per capita at the start of 2019, although it is likely to be on the condition that a profit-sharing agreement has been implemented, which should reduce the scope of the companies concerned. Excluding the effect of bonuses, basic wages should continue to grow during the forecasting period by about 0.4% per quarter, as in Q3 2019.

After a dynamic 2019, household income is likely to progress less quickly in early 2020

In 2019, the purchasing power of the gross disposable income of households is likely to increase strongly (+2.1% after +1.2% in 2018, representing +1.6% after +0.7% per consumption unit). In addition to dynamic employment and wages, other contributions to this rise have come from reductions in housing tax, an increase in the activity bonus, exemptions from tax and social contributions on overtime for employees and reductions in the CSG social contribution for certain categories of households. After falling sharply at the end of 2018, household confidence indicators have shown a marked upturn in 2019 (*Focus in the Household Income sheet*). The second wave of housing tax reductions should boost household income in Q4, with reductions in income tax taking over from early 2020. The growth overhang in real household income should be +0.8% in mid-2020, or +0.4% per consumption unit.

Household consumption to keep up its pace

In Q4 2019, household consumption should be affected on a one-off basis by lower expenditure on energy and transport services, due to the social movements in October and November. Conversely, it is likely to be buoyed by an upturn in food consumption. At the start of 2020, it should keep up a growth rate of +0.3% per quarter. In parallel, the household savings ratio should reach 15.2% at the end of 2019, before falling back slightly to 14.7% in Q2 2020.

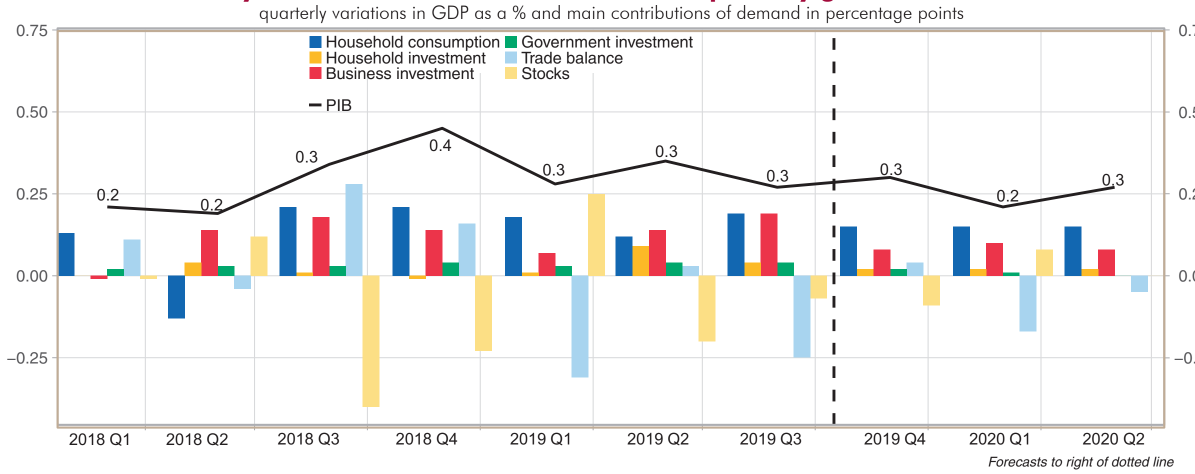
Corporate investment less dynamic in 2019

Entrepreneurs remain cautious on investment prospects

Corporate investment was buoyed temporarily in Q3 (+1.4%) in anticipation of a change to automobile standards which boosted expenditure on manufactured goods. The latter are then likely to stall in Q4, but corporate investment in services should remain dynamic at the end of 2019. In a slightly less buoyant macroeconomic environment, corporate investment is likely to slow down to +0.7% in Q1 then +0.6% in Q2 2020.

5 - Activity in France set to remain at the same quarterly growth rate as in 2019

quarterly variations in GDP as a % and main contributions of demand in percentage points



Source : INSEE

After the municipal elections, general government investment should slow

As the municipal electoral cycle modulates general government investment, this is likely to slow down significantly at the start of 2020 (growth overhang of +1.3% by mid-year) after growing briskly in 2019 (+4.0%). Finally, household investment is likely to pursue its growth in 2020 (growth overhang of +1.6%) maintaining its momentum from 2019 (+2.0%).

Political risks ease slightly but economic risks remain

The world economic slowdown could be more pronounced than expected

The extent of the slowdown in China remains difficult to assess, but it could be more considerable than expected and thus weigh down on world trade. In the United States, the fading out of the effects of the fiscal stimuli could contribute more than expected to the slowdown in activity.

The extreme scenarios are becoming less likely on Brexit *and protectionist tensions*

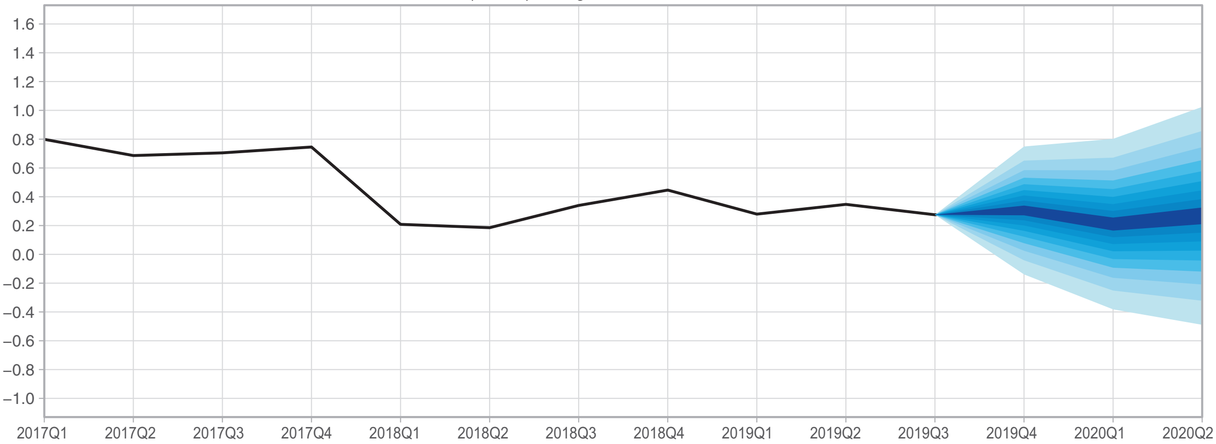
In Europe, despite lingering uncertainties surrounding *Brexit*, which has now been postponed once again, the likelihood of a brutal, no-deal separation from the European Union seems to be decreasing. In the rest of the world, despite recent rises in US customs barriers, the risks of new tariff hikes may not be excluded, but do seem to be easing all the same.

Questions as to European growth

Although a slight recovery in the German economy is expected by mid-2020, buoyed by consumption, the industrial outlook there does still seem bleak and may weigh down once again on the activity of the first economy in Europe and of its partners. In France, industrial production is also showing signs of fragility that might weaken the more robust dynamic observed in services. Conversely, European household consumption could prove to be stronger than forecast, driven by gains in purchasing power. ■

6 - Fan chart for *Conjoncture in France*

quarterly change in French GDP in %



How to read it: the fan chart plots 90% of the likely scenarios around the baseline forecast (black line). The first and darkest band covers the likeliest scenarios around the baseline, which have a combined probability of 10%. The second band, which is a shade lighter, comprises two sub-bands just above and just below the central band. It contains the next most likely scenarios, raising the total probability of the first two bands to 20%. We can repeat the process, moving from the centre outwards and from the darkest band to the lightest, up to a 90% probability (see INSEE *Conjoncture in France* for June 2008, pages 15 to 18). It can therefore be estimated that the first estimate that will be published in the quarterly accounts for Q2 2019 has a 50% chance of being between +0.1% and +0.4% ; for Q3 2019, up to a 90% probability the estimate will be between –0.3% and +0.9%.
Source: INSEE

Key figures: France and its international environment

	2018				2019				2020		2018	2019	2020 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
International environment													
Advanced economy GDP	0.4	0.6	0.4	0.3	0.5	0.4	0.4	0.2	0.3	0.3	2.2	1.7	1.0
Eurozone GDP	0.3	0.3	0.2	0.3	0.4	0.2	0.2	0.2	0.2	0.3	1.7	1.1	0.7
Barrel of Brent oil (in dollars)	67	75	75	69	63	69	62	60	60	60	71	63	60
Euro–dollar exchange rate	1.23	1.19	1.16	1.14	1.14	1.12	1.11	1.11	1.11	1.11	1.18	1.12	1.11
World demand for French products	0.3	1.0	0.6	0.5	0.9	–0.7	0.5	0.3	0.4	0.7	3.9	1.5	1.2
France - supply and uses													
GDP	**0.2**	**0.2**	**0.3**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.2**	**0.3**	**1.7**	**1.3**	**0.9**
Imports	–0.7	0.7	–0.1	1.3	1.1	–0.3	0.7	0.9	0.7	0.8	1.2	2.5	2.3
Household consumption	0.2	–0.2	0.4	0.4	0.3	0.2	0.4	0.3	0.3	0.3	0.9	1.2	1.0
GG and NPISHs consumption	–0.1	0.2	0.2	0.5	0.0	0.5	0.5	0.3	0.0	0.3	0.7	1.1	0.8
Total GFCF	–0.1	0.8	1.0	0.8	0.5	1.3	1.2	0.5	0.5	0.4	2.8	3.5	2.2
of which: NFEs	*–0.1*	*1.1*	*1.4*	*1.1*	*0.5*	*1.1*	*1.4*	*0.6*	*0.7*	*0.6*	*3.9*	*4.1*	*2.6*
Households	*0.1*	*0.7*	*0.3*	*–0.2*	*0.2*	*1.7*	*0.7*	*0.3*	*0.3*	*0.4*	*2.0*	*2.0*	*1.6*
Exports	–0.4	0.6	0.8	1.8	0.1	–0.2	–0.1	1.0	0.2	0.6	3.5	2.1	1.3
Contributions (in point)													
Domestic demand excluding changes in inventories [1]	0.1	0.1	0.5	0.5	0.3	0.5	0.6	0.4	0.3	0.3	1.3	1.8	1.2
Changes in inventories[1]	0.0	0.1	–0.4	–0.2	0.3	–0.2	–0.1	–0.1	0.1	0.0	–0.3	–0.3	–0.1
Net foreign trade	0.1	0.0	0.3	0.2	–0.3	0.0	–0.2	0.0	–0.2	–0.1	0.7	–0.2	–0.3
France situation of households													
Total employment (variation en fin de trimestre)	69	34	47	80	107	62	40	53	43	45	230	263	88
Non-farm market sector employment	45	34	33	52	98	43	33	41	35	33	164	215	68
ILO unemployment rate France[2] (excluding Mayotte)	9.2	9.1	9.1	8.8	8.7	8.5	8.6	8.4	8.3	8.2	8.8	8.4	8.2
Consumer price index[3]	1.6	2.0	2.2	1.6	1.1	1.2	0.9	1.2	1.1	1.1	1.8	1.1	1.2
Core inflation[3]	0.9	0.8	0.7	0.7	0.5	0.9	0.9	0.9	1.1	1.0	0.8	0.8	1.1
Household purchasing power	–0.6	0.8	0.2	1.1	0.6	–0.2	0.6	0.8	0.0	0.0	1.2	2.1	0.8

Forecast
1. Changes in inventories include acquisitions net of sales of valuable
2. For annual data, unemployment rate is that of the last quarter of the year
3. Year-o-year on the last month of the quarter and annual averages

How to read it: the volumes are calculated at the previous year's chain-linked prices, seasonally and working-day adjusted, quarterly and annual averages, as a %.
GDP: gross domestic product
GFCF: gross fixed capital formation
GC: general government
NFEs: non-financial enterprisest
NPISHs: non-profit institutions serving households
ILO unemployment: unempoyment as defined by the International Labour Organisation
Source: INSEE