Germany

Tentative rebound incoming after avoiding recession

In Germany, activity rebounded slightly in Q3 2019 (+0.1%), avoiding a technical recession after a downturn in Q2 (–0.2%). Domestic demand picked up (+0.4 points after +0.1 point) and foreign trade buoyed up activity, as exports recovered (+1.0% after –1.3%). However, corporate destocking adversely affected growth (–0.7 points). Activity is expected to stagnate at the end of the year before rebounding in 2020: fiscal measures and moderate inflation look set to boost consumption, while exports are likely to grow. The mid-year growth overhang for 2020 should stand at 0.4%, after an annual average of +0.5% in 2019.

Income set to boost private consumption

After a lacklustre Q3, German activity is expected to stagnate in Q4 before ramping up in early 2020 (+0.2% in Q1, followed by +0.3%). Domestic demand should bolster activity once again: private consumption is likely to hold firm (+0.2% in Q4, then +0.4% per quarter until mid-2020) and the savings ratio is expected to reach 18.8% by mid-year, against 18.5% one year earlier. The increase in the minimum hourly wage to €9.35, moderate inflation and fiscal measures (lower taxes, higher family allowances and old-age insurance) should indeed boost consumption. However, the labour market looks likely to be sluggish after years of strong growth. With the slowdown in activity in partner countries leading to a relative dearth of orders, demand-side difficulties are gradually overshadowing supply-side problems, especially in the manufacturing sector. However, job creations are expected to continue at a moderate pace (+0.1% per quarter) and the unemployment rate should barely rise, reaching 3.2% in mid-2020.

Investment – steady in construction but flagging in equipment

Investment in construction is set to remain dynamic until mid-2020. Orders, after rising again in September, point towards relatively steady growth, at +0.4% per quarter through to June 2020. However, investment in capital goods is likely to suffer from low investor morale, a drop in production capacity utilisation rates and a previous nosedive in orders for manufactured goods. As a result, it is expected to slip back by 0.3% at the end of 2019, but thanks to the slight recovery in activity, it should return to modest growth in early 2020 (+0.1% per quarter).

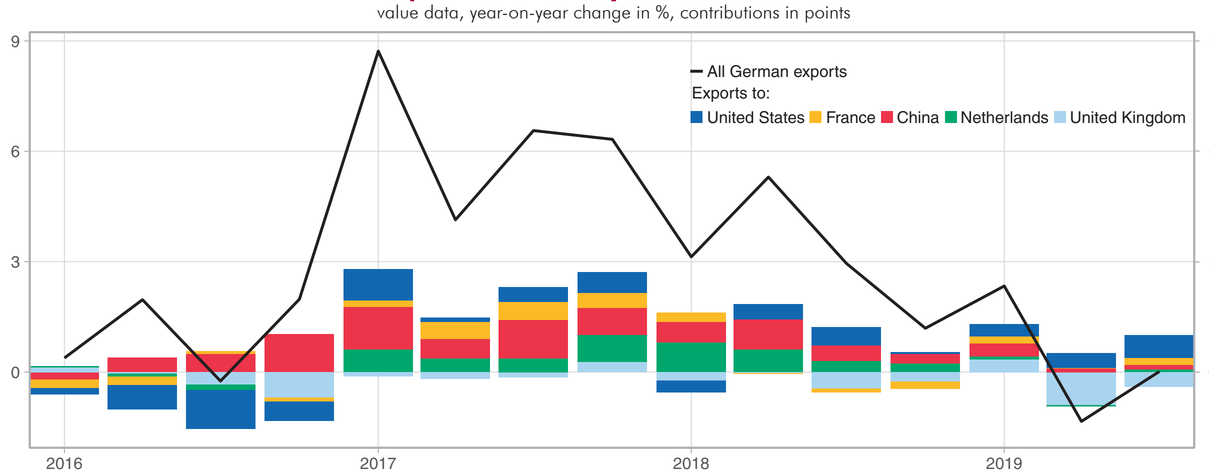
Foreign trade perks up

Anticipations of a possible Brexit at the end of October are unlikely to have adversely affected German exports in Q4 (+0.9%, *Graph*), which should subsequently slow down in early 2020 (+0.2% in Q1, +0.3% in Q2), with world trade picking up slightly and no further deterioration in international uncertainties. However, imports – boosted by domestic demand – are expected to remain more buoyant than exports. Foreign trade should therefore make a slightly negative contribution to activity at the beginning of 2020 (–0.1 to –0.2 points per quarter).

Overall in 2020, activity is expected to slow down significantly (+0.5% after +1.5%). For 2020, the mid-year growth overhang should stand at 0.4%. ■

German exports, buffeted by international uncertainties

value data, year-on-year change in %, contributions in points



Source: Eurostat, INSEE calculations

Italy

Growth remains weak

After a technical recession in mid-2018, Italian activity has been growing at +0.1% per quarter over the past year. Handicapped by slack private consumption and sluggish investment, growth is expected to continue at this slow pace until spring 2020. On average in 2019, GDP is likely to slow down again (+0.2% after +0.7% in 2018), and the annual mid-year growth overhang for 2020 is expected to stand at +0.4%.

Private consumption looks set to regain a little momentum in early 2020

The downturn in employment prospects points towards sluggish growth in employment through to spring 2020 (+0.1% per quarter), in line with the labour force. Therefore, the unemployment rate should gradually stabilise at 9.8% over the forecasting period. Nominal wages would appear to have regained momentum in H2 2019 (+0.4% per quarter) before decelerating slightly in H1 2020 (+0.3% per quarter).

Household consumption grew by 0.4% in Q3, but should slow down at the end of the year (+0.1%), before picking up very slightly in 2020 (+0.2% per quarter), thanks to the stabilisation of the unemployment rate and the easing of political uncertainties. On average in 2019, purchasing power is likely to be sustained by the stimulus measures introduced during the year (+1.5% after +0.6%, Graph) while household consumption is expected to slow again (+0.6% after +0.8%).

The savings ratio looks set to increase from 9.4% in 2018 to 10.2% in 2019.

Investment should pick up again for equipment and remain buoyant in construction

With the confidence of business managers in industry declining over the past year, equipment investment fell back in the summer of 2019 (–0.5% after +2.0%). It is expected to stagnate at the end of the year (–0.1%) before perking up a little in H1 2020 (+0.3% per quarter) as a result of incentives provided by the 2020 budget, especially tax credits in industry.

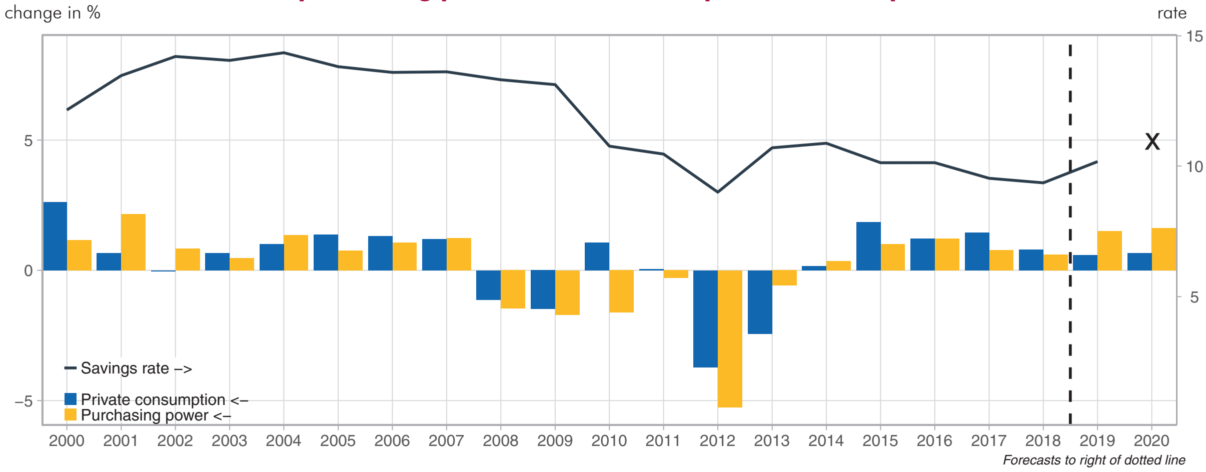
Investment in construction bounced back in Q3 (+0.2% after –1.3%). The reconstruction of the bridge in Genoa and public investment stimulus plans should help to boost investment in construction through to spring 2020 (+0.5% in late 2019 and then +0.4% per quarter in H1 2020).

Foreign trade is unlikely to contribute to growth in early 2020

Exports slipped back slightly in the summer (–0.1% after +0.9%), whereas imports gathered pace (+1.3% after +1.1%). With the slowdown in domestic demand, imports look set to decelerate at the end of the year (+0.2%), before rising again in H1 2020 (+0.4% per quarter). Exports are expected to rebound in Q4 (+0.3%) and to maintain this moderate pace in H1 2020.

Overall in 2019, exports (+1.7%) are expected to be much more buoyant than imports (+0.9%), and foreign trade should contribute positively to growth again (amounting to +0.3 points of GDP). However, it is likely to hold back growth in early 2020. ■

The savings ratio should increase in 2019 as a result of an uptum in purchasing power and moderate private consumption



Note: for 2020, the values represented are the mid-year growth gains
Source: Istat, INSEE forecast

Spain

Growth is holding up well, despite political uncertainties

In Q3 2019, Spanish activity grew at the same pace as in the spring (+0.4%), driven by strong domestic demand but penalised by foreign trade. The favourable business climate and buoyant consumer spending are expected to drive activity until spring 2020 (+0.4% per quarter), despite the political uncertainty generated by the fourth general election in four years. On average in 2019, activity is likely to slow again (+2.0% after +2.4%), and the mid-year growth overhang for 2020 is expected to stand at +1.3%.

Vigorous wages should sustain private consumption

In Q3 2019, private consumption surged (+1.1% after 0.0%) after two very dynamic quarters for wages, which should continue to be buoyant in Q1 2020 (+0.5% per quarter), driven by civil servants' wages. After slowing down again in the summer, employment is likely to grow very moderately in late 2019 and mid-2020, as suggested by the recruitment prospects reported by business leaders. With a stable labour force, the unemployment rate is likely to decline gradually to 14.0% in the spring.

All in all, relatively dynamic purchasing power should enable Spanish households to increase their consumption at the end of the year and in H1 2020 (+0.4% per quarter). The savings ratio is expected to stabilise at 9.1% at the start of 2020.

Investment in construction and equipment is set to regain momentum

Investment in construction plummeted in Q3 (–2.6% after +0.5%), reflecting a sharp decline in office space. As the number of building permits continues to rise, construction investment should recover at the end of the year and grow moderately in H1 2020 (+0.3% per quarter). On average over 2019, construction investment is expected to slow significantly and to increase at its slowest rate since the end of the crisis in 2014 (*Graph*).

Equipment investment bounced back strongly (+7.1% after –1.8%). With political uncertainties undermining the confidence of business managers in industry, equipment investment should decline in Q4 (–1.0%) before recovering in H1 2020 (+0.8% per quarter).

In reaction, investment is likely to slow at the end of the year (–0.1%) before rising again in H1 2020 (+0.5% per quarter).

Foreign trade is set to make a neutral contribution to growth in early 2020

While exports declined in Q1 2019 (–0.8%), imports picked up sharply (+1.3%). Consequently, foreign trade hampered growth (–0.7 points). Exports are expected to recover at the end of the year (+0.6%), and then slow down in the first half of 2020, in an uncertain context for world trade. Imports look likely to slacken in Q4 (+0.3%) and should maintain this rate in H1 2020. Overall in 2019, exports are expected to be more buoyant than imports (+1.7% and +0.9%, respectively), and foreign trade should contribute positively to growth again (+0.3 points). In H1 2020, foreign trade is likely to make a neutral contribution to growth. ■

The increase in construction investment in 2019 is likely to be the smallest since the end of the crisis in 2014

Note : the change in growth rates for 2020 is the mid-year growth achievement
Source: Eurostat, INSEE forecast

United Kingdom

Brexit is still on the horizon

In Q3 2019, the United Kingdom returned to growth (+0.3%) after a downturn of 0.2% in Q2. The buoyancy of private consumption and the recovery in trade, in particular, have bolstered activity. From now on, activity is expected to slacken to +0.1% at the end of the year, penalised by weak domestic demand: imports and investment are likely to fall, and consumption should slow, due to the pre-electoral waiting game and prior to Brexit, now scheduled for 31 January at the latest. Assuming that the United Kingdom ratifies an exit agreement with the European Union before this date, activity is likely to remain stable in early 2020, before rebounding tentatively in the spring (+0.1%, Graph). The mid-year growth overhang for 2020 should stand at just +0.2%, after +1.3% in 2019.

Fragile recovery in foreign trade

In Q3 2019, imports bounced back slightly (+0.8%) after plummeting in the spring (–13.0%). Similarly, exports grew by +5.2% after a 6.6% downturn. However, this growth in trade is not necessarily set to last: in the context of *Brexit* and given the weakness of domestic demand, imports are expected to edge down by 0.5% at the end of the year and in early 2020, before perking up in Q2 (+1.5%). Exports also look set to slip back in Q4 2019 (–0.5%), and are also likely to edge down slightly in Q1 2020 (–0.1%), before stagnating in the spring. Overall in 2019, imports are expected to be more vigorous than exports (+2.5% and +0.20%, respectively).

Consumption is lacklustre

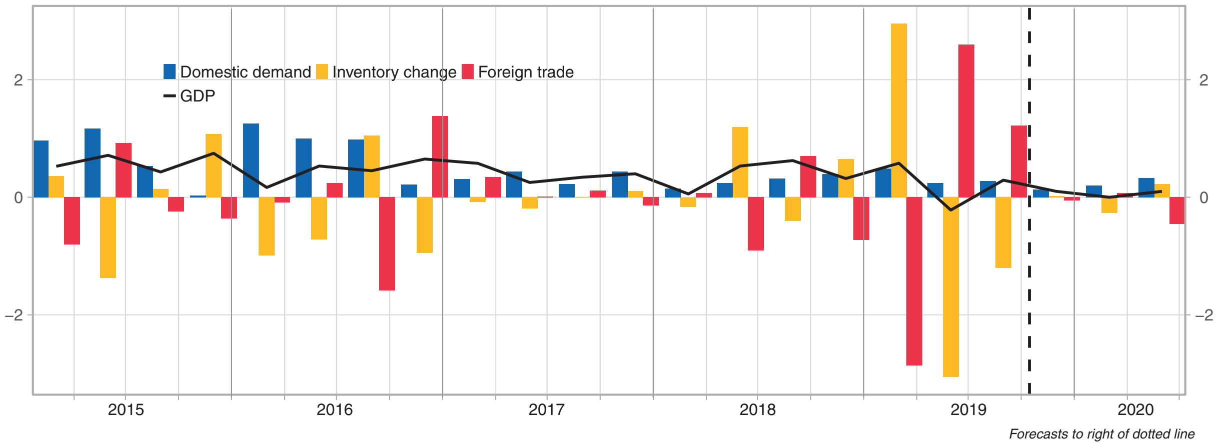
Household consumption kept growing by +0.4% in Q3, despite the slowdown in purchasing power (+0.4% after +0.8%), which should increase by +0.2% per quarter until mid-2020, held back by strong inflation (+2.2% year on year at the start of 2020). Consequently, as the new *Brexit* deadline approaches, consumption is expected to slow sharply, to +0.1% at the end of 2019 and in Q1 2020, before slowly recovering in the spring of 2020 (+0.2%). As a result, households are likely to increase their savings ratio to 7.0% in H1 2020.

Depressed private investment looks likely to be partly offset by public spending

The climate of uncertainty that continues to surround the terms of *Brexit* is hampering corporate investment in particular, which stagnated in Q3 2019 (+0.0% after –0.4%). Given the postponement of *Brexit*, enterprises are expected to postpone their investment decisions once again: private investment is therefore likely to edge down by 0.1% in late 2019, before picking up tentatively in 2020 (+0.1% in the winter, then +0.2% in Q2). Although public consumption slowed in Q3 (+0.3% after +0.8%), it is expected to increase at a more sustained pace (+0.5%) at the end of the year, before accelerating slightly in 2020 (+0.7% per quarter in H1). However, the holding of a general election on 12 December has generated uncertainty about public spending for 2020. ■

In the shadow of *Brexit*, counterbalancing variations in trade and inventories

changes in % and contributions in pointss



Source: ONS, INSEE forecast

United States

Soft landing

US activity remained vigorous in Q3 2019, (+0.5%, as in the spring), buoyed up by household consumption (+0.7%). Activity is likely to slow in Q4 (+0.3%), in line with household consumption, and should accelerate slightly in H1 2020 (+0.4% per quarter). On an annual average basis, activity is expected to grow by +2.3% in 2019, and its mid-year growth overhang for 2020 should reach +1.3%.

Activity is set to slow somewhat

In Q3 2019, US activity kept up a brisk growth rate (0.5%, as in Q2), driven by household consumption (+0.7%) but held back by corporate investment (–0.7%). Indicators derived from the business tendency surveys remained gloomy in November, suggesting a further slowdown in activity during Q4 (+0.3%).

Growth is expected to increase moderately in H1 2020 (+0.4% per quarter). On an annual average basis, activity looks set to slacken in 2019 (+2.3% after +2.9% in 2018), and its mid-year growth overhang for 2020 should rise to +1.3%.

Private consumption looks likely to slow down in the wake of purchasing power

Private consumption slowed in Q3 (+0.7% after +1.1%), partly as a result of higher customs duties on consumer goods imported from China. Wages should remain dynamic, buoyed by tensions on the labour market. However, taxes and social contributions are expected to rebound, investment income is likely to edge down, and core inflation looks set to rise. Household consumption should therefore weaken through to mid-2020 (+0.5% in Q4 followed by +0.4% per quarter), rising by +2.6% in 2019 after +3.0% in 2018. The mid-year growth overhang for 2020 should stand at 1.7%. The savings ratio is expected to stabilise at 7.6% in the first two quarters of 2020, after 8.0% in 2019.

Corporate investment is likely to pick up tentatively in 2020

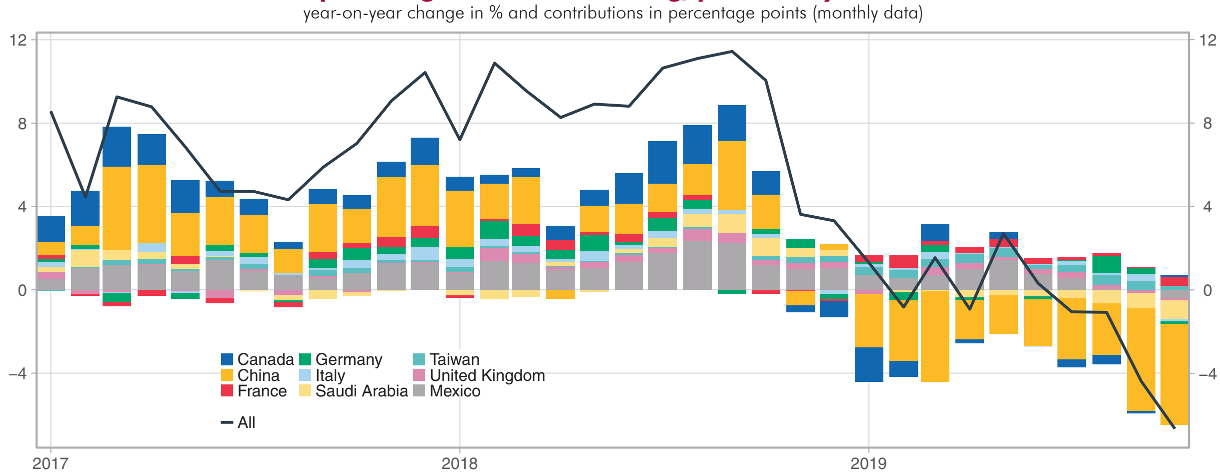
Corporate investment should dip again in Q4 (–0.1%) under the combined effects of the drop in oil prices, affecting investments in oil structures, and uncertainties over trade tensions. Assuming that these uncertainties ease, it is expected to pick up moderately in the first half of 2020 (+0.4% per quarter). All in all, corporate investment should slow sharply in 2019, to +2.1% after +6.4% in 2018, and its mid-year growth overhang for 2020 is likely to stand at just +0.1%.

Trade should remain sluggish

Exports recovered slightly in Q3 (+0.2% after –1.4%), as did imports (+0.4% after +0.0%). On an annual average basis, imports look likely to slow down in 2019 (+1.5% after +4.4%), especially those from China (Graph), and exports should to slow to a similar extent in 2019 (–0.2% after +3.0% in 2018). As a result, foreign trade is expected to hamper US activity again in 2019 (contributing –0.3 points, after –0.4 in 2018). The situation is unlikely to improve very much at the start of 2020 (expected contribution of –0.1 points to the mid-year growth overhang). ■

US imports of goods are decreasing, particularly from China

year-on-year change in % and contributions in percentage points (monthly data)



Last point: October 2019

Source: Census Bureau

Japan

Public spending is more buoyant than consumption

In Q3, Japanese activity slowed slightly (+0.4% after +0.5%), held back by the decline in exports. GDP is expected to edge down at the end of the year (–0.3%), in the wake of household consumption (–1.0%), following the increase in the consumption tax. It is likely to pick up again in H1 2020 (+0.2% followed by +0.3%), in line with the upswing in purchasing power.

Household consumption is set to slip back at the end of the year

Activity decelerated in Q3 (+0.4% after +0.5%). Industrial output declined (–0.5% after +0.7%), hampered by uncertainties – both domestic (due to the consumption tax rise) and external (related to trade tensions between China and the United States). In Q4, household consumption is expected to shrink (–1.0%) as a result of the tax rise, although this should be partly offset by measures such as the introduction of free pre-school services. It should then gradually recover through to mid-2020 (+0.3% and +0.4%). In the wake of consumption, Japanese GDP is likely to slip back in Q4 2019 (–0.3%) before growing moderately in H1 2020 (+0.2% in Q1, followed by +0.3%).

Public spending is likely to remain vigorous

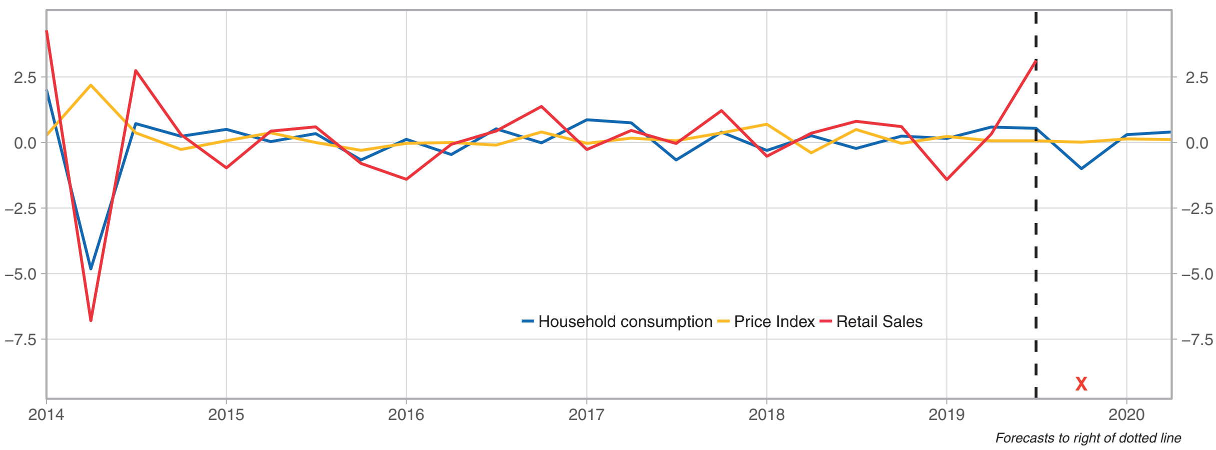
Public investment should remain dynamic until mid-2020 (+1.5% at the end of 2019 and then +0.5% per quarter over the forecasting period), boosted by projects for the Olympic Games and the reconstruction of areas hit by natural disasters. Public consumption should also maintain its momentum, buoyed up by fiscal stimulus measures such as free pre-school education. It is likely to accelerate to +1.0% at the end of the year, before rising again more moderately in H1 2020 (+0.3% per quarter). Corporate investment should come to a standstill at the end of the year (0.0%) before gradually increasing in H1 2020 (+0.2% then +0.5%).

Exports are suffering from the Chinese slowdown

Exports shrank in Q3 (–0.6%) due to the slowdown in Chinese demand. In this context of global tensions and uncertainties, they are expected to stall at the end of the year (+0.0%) and then increase slightly until June 2020 (+0.2% per quarter). Imports slowed sharply in Q3 (+0.3% after +2.1%) given the decline in purchasing power and should slow down at the end of the year (–0.5%), before bouncing back in H1 2020 (+0.7% in Q1, followed by +1.0%). Overall, foreign trade is likely to hold back activity in 2019 (contributing –0.3 points to the annual growth forecast of +1.2%), and in H1 2020 (contributing –0.3 points to the mid-year growth overhang forecast of +0.5% for 2020). ■

Substantial variations in consumption caused by a tax rise

quarterly variations in %



Note: the change in retail sales for Q4 2019 is the quarterly growth achievement at the end of October

Source: Cabinet Office of Japan

Emerging economies

The Chinese economy is faltering

In Q3 2019, Chinese activity slowed again (+1.4% after +1.5%) and is expected to maintain this pace until next June. On an annual average basis, activity looks set to decelerate in 2019, held back by the slowdown in both domestic and foreign demand, and its mid-year growth overhang should reach just +4.6% in 2020.

In Russia, after a dynamic Q3, activity is likely to slow slightly at the end of 2019 but then maintain a steady pace through to mid-2020. In India, domestic demand is struggling to recover and is holding back activity. Brazilian growth remains weak, but should hold firm with the support of domestic demand. In Turkey, activity has increased again and inflation has fallen: growth is also expected to continue, but should weaken in 2020. Lastly, growth in Central and Eastern Europe remains timid, in the wake of that of the Eurozone.

China: activity still hampered by trade tensions

In Q3, China posted a further decline in growth (+1.4% after +1.5%, according to the Chinese Statistical Institute), impacted by trade tensions with the United States (*Graph 1*). Industrial production decelerated to +5.0% year on year after +5.6%, and business climate indicators are down in the service sector.

The prospects through to June 2020 are as uncertain as the ongoing trade negotiations themselves. Industrial output should struggle to recover and the government's measures are unlikely to revitalise domestic demand. The published growth rate is expected to remain steady at +1.4% per quarter. On average, activity is likely to decelerate in 2019 (+6.1% after +6.6%), and the mid-year growth overhang for 2020 should stand at +4.6%.

While business and real estate investment has slowed year on year, household confidence indicators have picked up somewhat in recent months.

However, in Q3, retail sales and vehicle registrations continued to slow down year on year (+7.6% after +8.5%, and +0.8% after +4.2%, respectively).

Chinese customs data – reprocessed in accordance with the National Accounts and adjusted to account for the seasonal effects of the Chinese New Year – show a recovery in exports in Q3 (+1.4% after –0.9%), driven by anticipations of further increases in US customs duties, which were subsequently suspended as part of the first phase of a trade agreement between the two countries. Exports are expected to fall back at the end of the year (–1.0%) after the increase in US customs duties on 300 billion imported goods, and should come to a standstill in early 2020 (+0.0%) before recovering in mid-2020 (+0.5%). On an annual average basis, exports are expected to decelerate in 2019 to +2.2% after +6.6% and to slow sharply in 2020 (mid-year growth overhang of +0.1%).

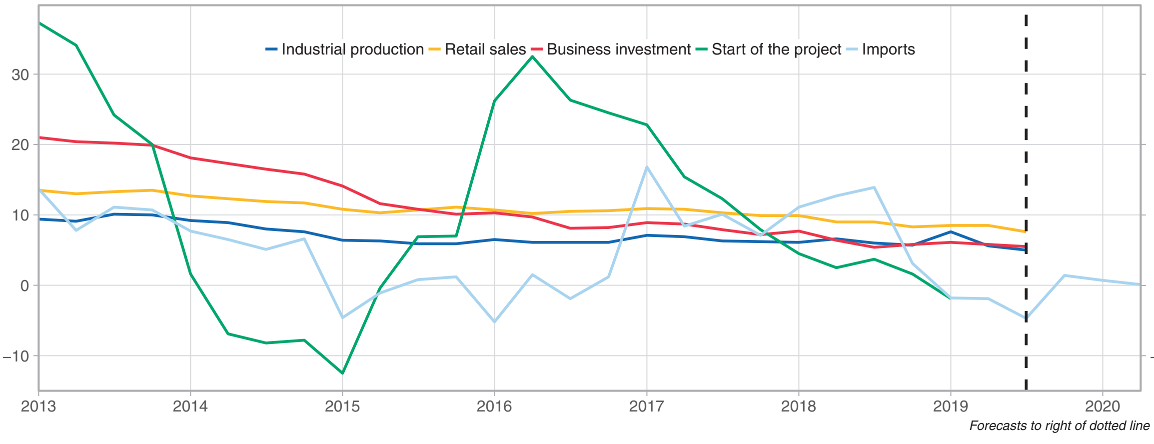
Imports look likely to edge down again at the end of 2019 (–0.5% after –0.1% in Q3) with domestic demand adversely affected by customs duties on US imports. They are expected to stabilise at the beginning of 2020 (+0.0%) and then accelerate slightly in Q2 (+0.5%). All in all, after a sharp decline in 2019 (–1.8% against +10.1% in 2018), they should get back on track in 2020, as suggested by their expected mid-year growth overhang (+0.3%).

Russia: continuous growth enabled by the slowdown in prices

Russian activity accelerated in Q3 (+1.1% after +0.9%), thanks to the drop in inflation, which stood at +4.3% year on year. The central bank

Slowdown in industrial output and domestic demand in China

year-on-year change in (%)



Source: National Bureau of Statistics of China (NBSC), INSEE calculations took advantage of this decline to reduce its base rate in order to boost domestic demand.

Exports, as defined by customs, recovered after two quarters of sharp decline, but imports fell once again.

Russian growth is likely to hold firm, but should slacken a little at the end of the year (+0.8%). On an annual average basis, it is expected to stand at +1.4%, which is lower than in 2018 (+2.2%). Activity is then set to continue, with growth of +0.7% per quarter in H1 2020, for an annual growth overhang of 2.6%.

India: domestic demand is struggling to recover

In Q3, Indian activity, handicapped by the slowdown in domestic demand, would appear to have accelerated slightly (+0.8% after +0.5%). Industrial output is likely to have contracted (–1.7% after +1.1%) and the balances of opinion derived from surveys of purchasing managers have edged down.

Household confidence continues to deteriorate as a result of rising unemployment. Vehicle registrations fell again (–21.7% in Q3 after –12.8%). After contracting sharply in Q3 (–5.2% after –0.6%), imports are expected to decline at the end of the year (–1.0%) due to weak domestic demand. They are then likely to gather pace at the start of the year: +0.5% in Q1 followed by +1.0%.

Activity looks set to slacken at the end of the year (+0.7% after +0.8%) and should remain moderate in 2020 (+1.0% per quarter). On average in 2019, it is expected to slow sharply (+4.7% after +7.4%) and its mid-year growth overhang for 2020 should be +2.8%.

Brazil: growth is set to hold firm thanks to domestic demand

Brazilian growth accelerated slightly in Q3 (+0.6% after +0.4%). Industrial output recovered after two quarters of decline due to a dam failure. Inflation fell in Q3 (+3.2%), and retail sales rose by 1.6%. Activity is then expected to grow moderately: +0.4% in Q4 2019, followed by +0.5% per quarter until mid-2020. On average in 2019, activity is likely to slow down (+1.1%, after +1.3% in both 2018 and 2017). In 2020, the mid-year growth overhang should stand at +1.6%.

Turkey: tentative but probably long-term recovery after the crisis

Turkish GDP accelerated in Q3 (+1.3% after 0.9%). The business climate in the manufacturing sector has risen and inflation has fallen sharply. This price slowdown has enabled the implementation of a monetary easing policy, which should help to boost domestic demand (*Graph 2*). However, Turkish activity is expected to slow down at the end of 2019 (+0.5%), and it looks set to maintain this moderate growth in H1 2020 (+0.5% per quarter).

On an annual average basis, Turkish GDP should virtually stagnate in 2019 (+0.1% after +3.0% in 2018). Its mid-year growth overhang is likely to reach +2.2% in 2020.

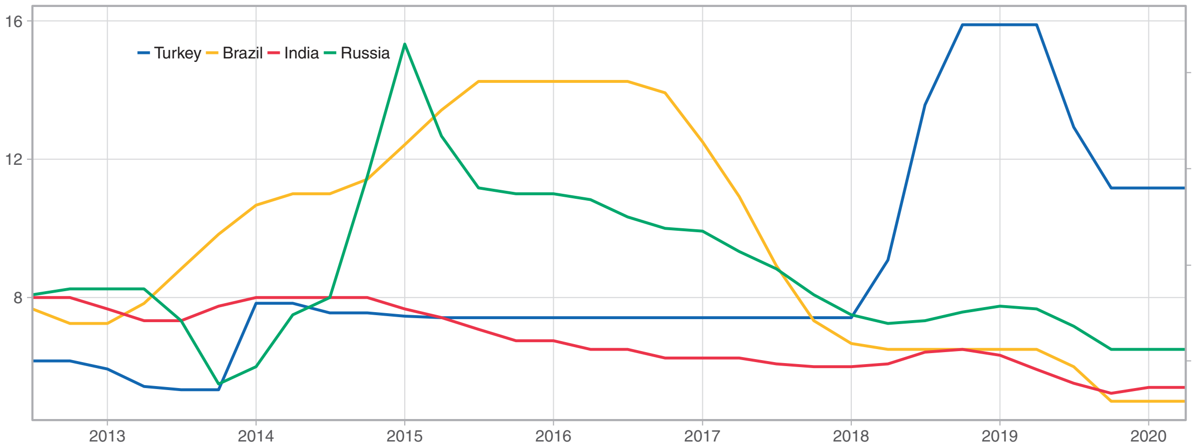
CEEC: moderate growth

In 2019, activity slowed down in the Central and Eastern European Countries (CEEC): +0.6% after +0.7%. Balances of opinion derived from surveys of purchasing managers have declined. However, activity is expected to carry on at this pace (+0.6% at the end of 2019 and early 2020, followed by +0.7% in Q2 2020), in the wake of the German recovery.

On average in 2019, growth is expected to decline again (+3.3%, after +3.9% in 2018). In 2020, the annual mid-year growth overhang should stand at +2.1%. ■

In emerging countries, the base rates of central banks are falling and stabilising

in %



Source: Turkstat, IBGE, MOSPI, Rosstat