

Eurozone

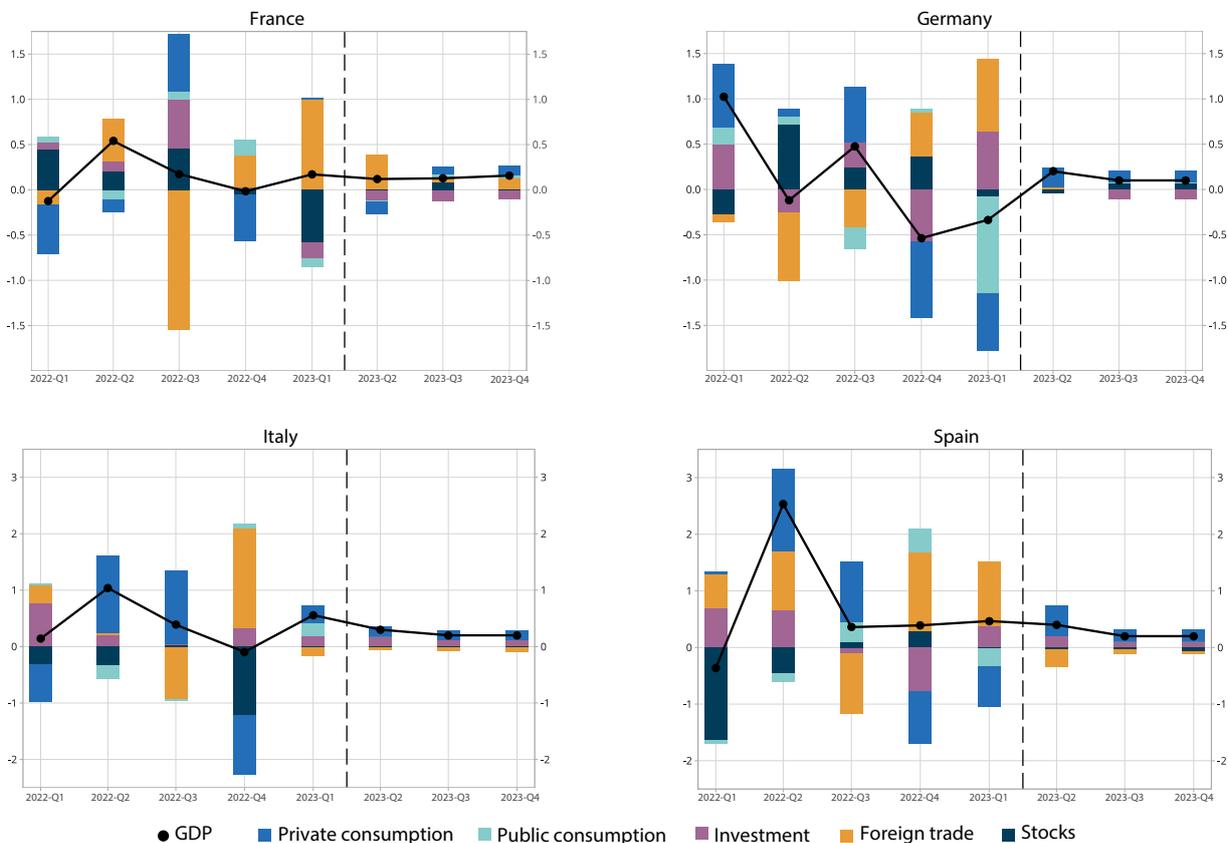
In Q1 2023, growth in the main Eurozone economies was slightly more buoyant than in the previous quarter

In Q1 2023, growth in economic activity was sluggish in the Eurozone (-0.1% after -0.1% in Q4 2022), in a context of high prices which curbed both household consumption and production in the most energy-consuming industries. Thus, activity fell back again in Germany (-0.3% after -0.5%, ► **Figure 1**): this downturn should be qualified somewhat, however, as it is mainly the result of a strong decline in government consumption (-4.9%, as government spending on vaccines and tests associated with the health crisis came to a halt). In contrast in Italy and France, activity recovered a little of its vigour (respectively +0.6% after -0.1% and +0.2% after +0.0%). In Spain, where there is greater potential for catch-up, activity continued to grow at a similar pace to previous quarters (+0.5% after two quarters at +0.4%).

After falling at the end of 2022 in the four main Eurozone economies, household consumption then evolved in a variety of ways, but was hampered by prices that were still high even though inflation year-on-year had begun to ebb (► **Focus** international inflation). Thus, consumption continued to fall in Spain and Germany, it remained virtually stable in France and increased in Italy, although not making up for the downturn in the previous quarter. In Spain, this further decline comes after a significant deterioration in household purchasing power in 2022 (-3.0%). In Germany, the reduction in household consumption is linked in particular to the decline in car purchases, with the ending of subsidies for the purchase of hybrid and electric vehicles at the end of 2022.

► 1. Quarterly variations in GDP and contributions of demand items

(quarterly variations in % and contributions in points)



Note: forecasts beyond the dotted line.

How to read it: in France, in Q1 2023, GDP improved compared to Q4 2022 (+0.2%), and foreign trade contributed +1.0 point to this increase.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

International economic outlook

Investment increased considerably in Spain, Italy and Germany, despite the monetary tightening policy that had begun in the Eurozone in summer 2022. In Germany, investment in construction rebounded, taking advantage of favourable weather conditions after several days of frost had hampered construction in Q4. In Italy and Spain, investment was sustained mainly because funds started to be mobilised as part of the European recovery and resilience plan, of which these two countries are the main beneficiaries. This funding is mainly useful for catching up with investment, as neither country has yet been able to recover from losses following the 2008 crisis. In France, investment fell in Q1: household investment has declined sharply since mid-2022, and corporate investment weakened at the start of 2023.

Thus, with the exception of Italy, domestic demand hampered activity, whereas foreign trade on the contrary bolstered it, sometimes with some strong trends. Spanish exports in particular were very dynamic, driven in part by tourism. In Germany and France, the positive contribution of foreign trade is due more to the drop in imports, in line with sluggish domestic demand. In Italy, foreign trade affected activity, as a result of a sharp decline in exports of goods (-1.7%).

Despite falling energy prices, energy-intensive industries are hampered in manufacturing production

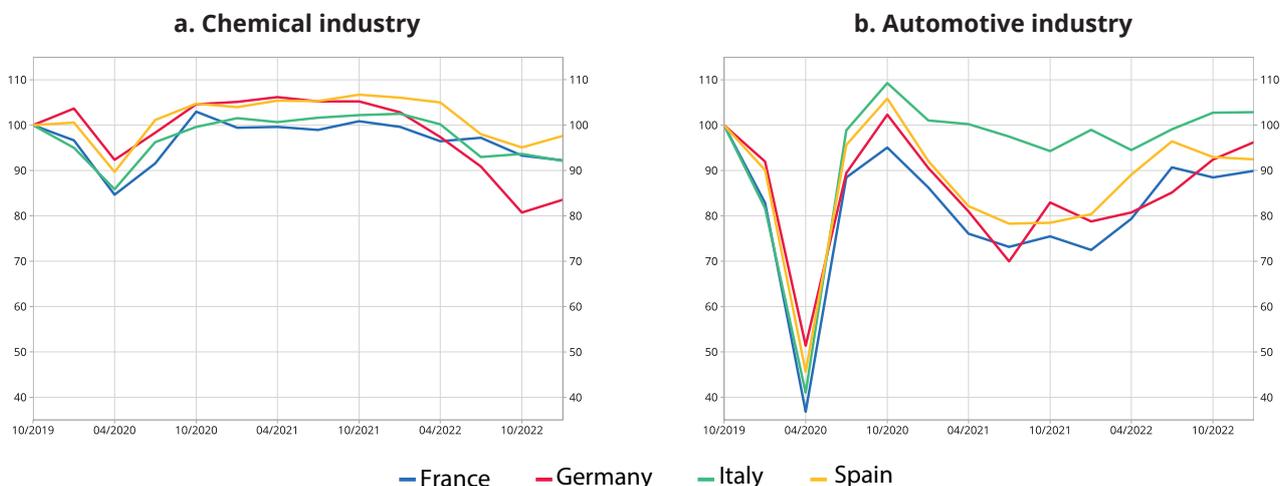
Manufacturing production evolved in different ways in Q1 2023: the manufacturing production index increased significantly in Germany, whereas in France, Italy and Spain it contracted slightly. As in the previous quarter, and despite the drop in energy prices, output in the energy-intensive branches was fairly slow or even fell back (as in the chemical industry, for example, where output remains very much in decline compared to its level one year ago, ► [Figure 2.a](#)). In fact, the prices that companies are experiencing now are not necessarily the spot prices, but may reflect earlier increases in these prices (► [Focus](#) in *Economic Outlook* of December 2022). Conversely, in branches that have been experiencing supply chain difficulties since the end of the health crisis, production has continued to make up for this shortfall: this is the case in the manufacture of transport equipment (and especially in the automobile industry, ► [Figure 2.b](#)). These branches have had the benefit of value chains that are continuing their return to normal and according to the business tendency surveys their order books are fairly full.

In Q2 2023, manufacturing output is expected to continue to develop in contrasting ways in the different branches. The easing of supply chain difficulties could continue to bolster output in the branches concerned, but it may slow if there is less potential for catch-up and, in the case of Germany, if order books are considered to be on a downward trend. Output in energy-intensive industries could recover some of its vigour, as energy prices continue to fall.

In construction, where production was dynamic at the start of 2023 in Germany, Italy and Spain, there are contrasting prospects for the coming months. According to the business tendency surveys (► [Figure 3.a](#)), the indicator of economic confidence, based on the current level of order books and on coming workforce trends, has been in continuous decline in Germany since the start of the year, and in France since the autumn. It seems to be more promising in Italy and Spain, however, probably due to the support from the recovery and resilience plan.

► 2. In Q1 2023, output in the automobile branch continued to make up for the accumulated delay after supply chain difficulties

(industrial production index as quarterly average, base 100 in Q4 2019)



Last point: Q1 2023.

How to read it: in Q1 2023, in France, output in the chemical industry, according to the IPI definition, was 8.0% below its Q4 2019 level (data adjusted for seasonal variations and working days).

Source: INSEE, Destatis, Istat, INE.

In services (► **Figure 3.b**), the outlook for production seems to be relatively unpromising in Italy, Germany and France, according to the business tendency surveys. In particular, the balance of opinion on expected output fell sharply in May in Germany and Italy after several months when it increased. Conversely, this balance of opinion is on an upward trend in Spain, especially in the catering branch, promising a dynamic tourist season.

Prices are likely to remain high but the trend looks set to place a little less strain on household purchasing power

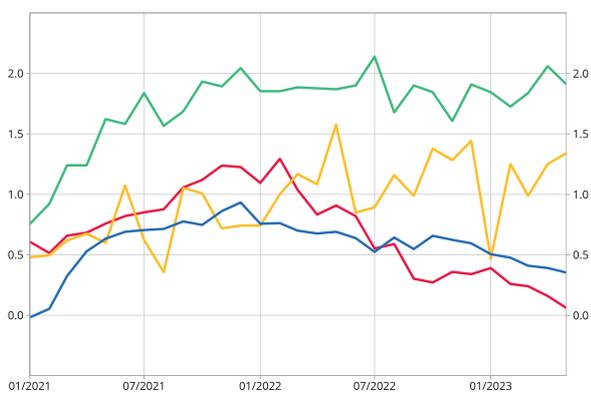
In the main Eurozone countries, inflation (according to the year-on-year variation in the consumer price index) has fallen back in recent months, although this trend is mainly the result of “base effects” (► **Focus** International inflation). Nevertheless, prices overall continued to rise in the Eurozone during the first four months of the year: energy prices did indeed fall back, but food inflation and core inflation were high, as price increases were spread across all products. In May, however, in France and Spain, the drop in fuel prices led to a decline in the consumer price index overall. In Germany, the drop in the price index was linked to the introduction in May of a 49-euro monthly ticket for local and regional public transport. By the end of the year, and assuming that the price of oil remains fixed across the forecasting period, inflation is expected to continue its decline, mainly due to base effects, with price levels continuing to increase but not as briskly as last year.

Employment rose in Q1 in the four main Eurozone economies and the employment indicator, according to the business tendency surveys, remains well above its long-term average (► **Figure 4.a**). Wages, meanwhile, are expected to maintain the same momentum as last year, and could even accelerate slightly. In Spain, they were boosted at the start of the year by a sharp increase in the minimum wage (+8% in January) and should continue to be buoyant following the agreement reached in May between employers and unions, which set a 4% pay rise in 2023 for employees covered by collective agreements. In Germany, employee pay is expected to benefit from pay reviews already signed in some branches of the economy, such as metallurgy and the public sector.

Consequently, but excluding France, purchasing power is likely to be a little more vigorous from one quarter to the next than in 2022: support for nominal income is expected to be stronger than last year and price rises less dynamic. As an annual average, purchasing power is expected to fall back in Germany in 2023, hampered by its net decline in H2 2022, while in Italy it is unlikely to be very dynamic. It should have more momentum in Spain, bolstered by wage income. Nevertheless, in Germany and France, households say that in recent months they have been a little less pessimistic over their future financial situation, according to the outlook surveys (► **Figure 4.b**).

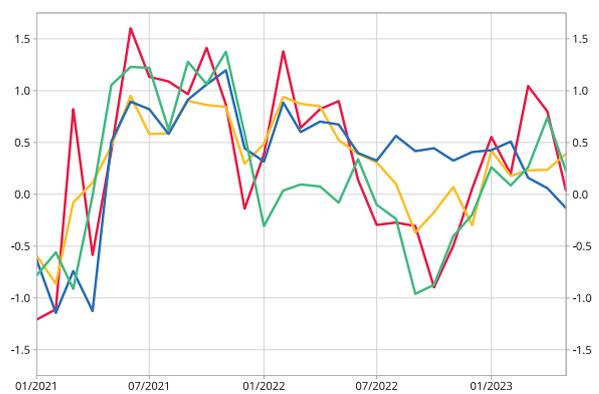
► 3. In spring 2023, the outlook for the construction branch is on a downturn in Germany and France (long-term average=0; standard deviation=1)

a. Confidence indicator in construction



— France — Germany — Italy — Spain

b. Expected demand in services for the next 3 months



Last point: May 2023.

Note: data are taken from business tendency surveys. These balances are monthly and correspond to European surveys centralised and harmonised by the DG ECFIN, mainly regarding seasonal adjustment. They have been centred (average of balance between January 2005 and May 2023) and reduced in order to facilitate comparisons between countries. The confidence indicator for construction is an aggregated indicator. It corresponds to the average of balances of opinion on the current level of orders and on prospects for employment in the next 3 months.

How to read it: in May 2023, in Italy, companies in the construction branch have a higher level of confidence than normal: the aggregated indicator is 1.9 points above its long-term average (average of balance between January 2005 and May 2023).

Source: DG ECFIN, INSEE calculations.

International economic outlook

Over the rest of 2023, activity in the Eurozone is expected to increase slightly, with no significant boost from domestic demand

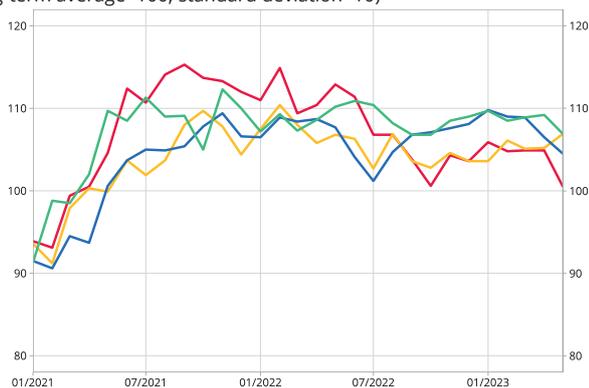
In 2023, domestic demand is expected to remain sluggish overall in the main Eurozone economies. Consumption could certainly pick up a little, especially in Germany and Spain due to wage increases, but it will probably continue to be hampered by continuing price rises, although these should lessen. Investment is likely to be affected by the rise in interest rates, but could nevertheless benefit from the different recovery plans, especially in Italy and Spain. Regarding foreign trade, imports are expected to be sluggish, in the wake of domestic demand; in Italy and Spain exports could derive benefit from the summer tourist season, but otherwise their growth is likely to be modest, due to weak support from foreign demand.

Between now and the end of the year, activity is expected to be sluggish in Germany, resulting in a drop in German GDP as an annual average in 2023 (► [Figure 5](#)). It is likely to improve moderately in Italy and Spain, boosted by domestic demand that looks set to continue a fairly upward trend. ●

► 4. In spring 2023, the outlook for employment remained high, while the financial situation expected by households improved

a. Indicator of probable change in employment in the next three months

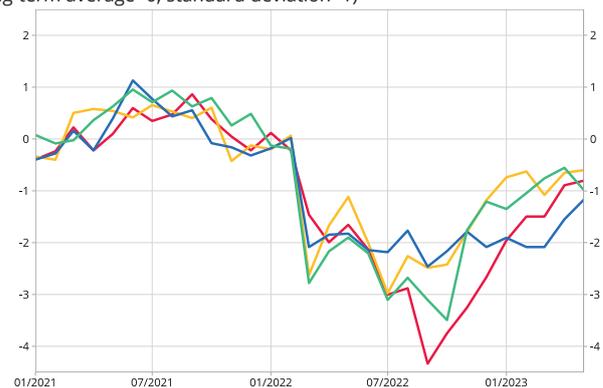
(long-term average=100; standard deviation=10)



— France — Germany — Italy — Spain

b. Financial situation in the next 12 months

(long-term average=0; standard deviation=1)



Last point: May 2023.

Note: data are taken from business tendency surveys. These balances are monthly and correspond to European surveys centralised and harmonised by the DG ECFIN, mainly regarding seasonal adjustment. In the left-hand graph, the indicator is the weighted average of the branches normalised at an average of 100 and standard deviation is set at 10. These values may therefore differ from employment climate data calculated and disseminated by INSEE from the same source but using factor analysis; the trends are similar, however. In the right-hand graph, the balances of opinion are centred (average of balance between January 2005 and May 2023) and reduced in order to facilitate comparisons between countries.

How to read it: in May 2023, in Spain, companies expected a rise in employment: the indicator is 6.9 points above its long-term average (average of balance between January 2005 and May 2023).

Source : DG ECFIN, INSEE calculations.

► 5. Past and forecast GDP growth in the Eurozone

(in %)

	2021				2022				2023				2020	2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
France	0.0	1.0	3.1	0.5	-0.1	0.5	0.2	0.0	0.2	0.1	0.1	0.2	-7.7	6.4	2.5	0.6
Germany	-1.5	1.9	0.8	0.0	1.0	-0.1	0.5	-0.5	-0.3	0.2	0.1	0.1	-4.1	2.6	1.9	-0.3
Italy	0.5	2.5	2.9	0.9	0.1	1.0	0.4	-0.1	0.6	0.3	0.2	0.2	-9.0	7.0	3.8	1.3
Spain	-0.2	1.4	3.1	2.3	-0.4	2.5	0.4	0.4	0.5	0.4	0.2	0.2	-11.3	5.5	5.5	2.0

■ Forecast.

Source: INSEE, Destatis, Istat, INE, INSEE forecast.