Quarterly Economic Report

February 2019

All data presented in this publication cover the EU28 in aggregate and are provided by Eurostat (National Accounts and Short-Term Business Statistics) and the European Commission (Business and Consumer Surveys, Autumn 2018 Economic Forecast).

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Highlights

- The international economic cycle has weakened considerably in H2 2018, as it is clear that the annual GDP growth of 2.4% in the EU in 2017, the highest since 2007, will not be repeated in 2018. Latest forecasts available (the IMF World Economic Outlook, Jan. 2019) have revised downwards GDP growth predictions for the euro area in 2018 and 2019 (1.8% and 1.6% respectively), while also latest European Commission forecasts (Nov. 2018) expected GDP growth in the EU in 2018 to be 2.1%, lower than 2.3% reported in its May 2018 forecast, and then to slow down to 1.9% in 2019 (next EC forecast is due on 7 February 2019).

- In Q3 2018, real GDP in the EU grew for the 23rd consecutive quarter (by 0.3%) but the EU's largest economy – i.e. Germany – experienced its first quarterly GDP slump (of 0.2%) since Q2 2014. On a year-on-year basis, GDP growth in the EU was lower than in Q2 (1.9% vs. 2.1%). Most leading indicators available (the EC Economic Sentiment Indicator, Industrial Production and the PMI Purchasing Managers' Index which went down to its 4-year low in December 2018), as well as major forecasters (IMF, OECD, Commission), signal that the economic cycle is weakening further, due to ongoing trade tensions, losses on financial markets (also due to the FED interest rate hikes in the US) and rises in oil prices (the spot price of Brent Europe reached 80 USD per barrel in October, the highest since 2014). Although 1 January 2019 marked the end of its Quantitative Easing (QE), the ECB has announced it will keep its key interest rates at their current lows at least up to the summer of 2019, supporting the macroeconomic environment.

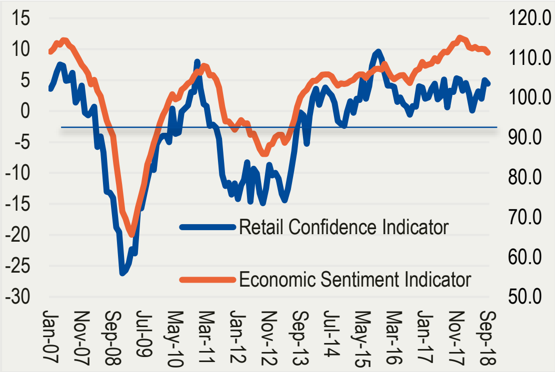
- The Economic Sentiment Indicator (ESI) has in fact been declining from January to November 2018 – mirroring the economic slowdown in major countries such as Germany, France and Italy, due to faltering manufacturing developments (car sector), the yellow vest protests and growing tensions on sovereign debt respectively. The Retail Confidence Indicator (measuring expectations of European retailers), remained around barely positive levels throughout 2017 and the first eleven months of 2018, having been worryingly disconnected from the general economic sentiment since early 2016. The Consumer Confidence Indicator has started decreasing in early 2018, after recovering throughout 2017, and has remained at negative levels since September, mirroring the weakening economic environment.

- The Consumer Price Index (CPI), after rising moderately since the first half of 2015, jumped from 1.5% % in April 2018 to 2% in November (i.e. above the ECB inflation target), mainly as a result of the rise in oil prices. Food inflation, which is traditionally more volatile, and that had been slowing down during the last winter season, peaked to 2.3% in September 2018 but eased to 1.3% in November.

- Inflation-adjusted retail sales have continued to grow in Q3 2018 (2%, vs. 2.3% in Q2), but slowed down reflecting the overall macroeconomic developments, still showing different growth rates among overall retail, food and non-food sub-sectors. Total retail sales grew by 0.3% on the previous quarter (lower compared to Q2, i.e. 1.1%). Food sales recorded flat growth compared to Q2 (+0.1%), resulting in a yearly growth of 1.5% (vs. 1.6% in Q2), which continued to mirror pressures on food sales compared to total retail since the start of the economic recovery in 2014. By contrast, growth of sales of non-food products continued to be higher than the two other segments, i.e. 2.4% in Q3 2018 (2.9% in Q2), albeit slowing down.

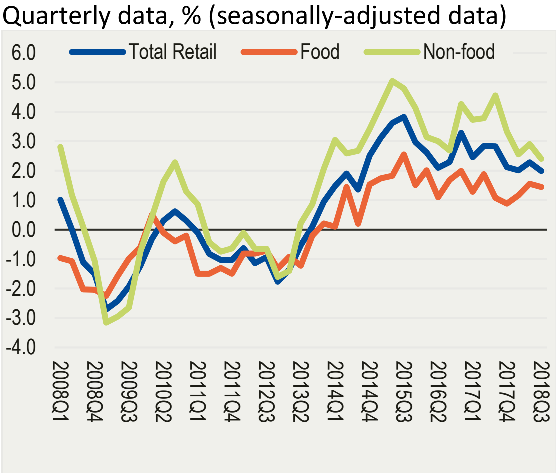
- Gross wages and salaries in Q3 2018 increased in real terms by 2.6% compared to Q3 2017, supporting retail spending. Broad labour market conditions remain overall positive. The unemployment rate in the EU has been decreasing sharply since H2 2013 and in November 2018 stood at 6.7%, close to the levels prior to the 2009 recession (concealing great differences across individual Member States). Total employment in the retail sector increased marginally in Q3 18 compared to Q2 2018 (+0.4%) and to Q3 2017 (+0.3%), standing at 19.4 million.

Retail Confidence Indicator and Economic Sentiment Indicator
Monthly data
ESI above 90 = positive expectations
RCI above 0 = positive expectations



The disconnect between retail confidence and economic confidence continues. The retail confidence indicator has been weak since July 2015, albeit above the lows experienced during the 2009 and 2013 economic recessions. This contrasts with the general economic sentiment indicator (ESI) which returned around its pre-recession level. However, the ESI has constantly been going down since March 2018, anticipating economic slowdown in the course of this year, as foreseen by leading indicators and major forecasters (the IMF, OECD and Commission).

Retail Sales (Retail Turnover Deflated Index, total retail, food and non-food), year-on-year growth rates,
Quarterly data, % (seasonally-adjusted data)

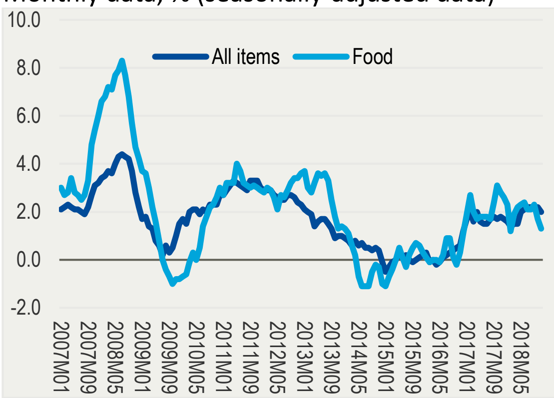


Inflation-adjusted retail sales have continued to grow in Q3 2018 (2%, vs. 2.3% in Q2), but slowed down reflecting the overall macroeconomic developments, and still showing different growth rates among overall retail, food and non-food. Total retail sales went up by 0.3% on the previous quarter (lower compared to Q2, i.e. 1.1%). Food sales were stagnant compared to Q2 (+0.1%), but increased on a yearly basis by 1.5% (vs. 1.6% in Q2), continuing to mirror lower food sales compared to total retail since the start of the economic recovery in 2014. By contrast, growth in sales of non-food products continued to be higher than the two other segments, i.e. 2.4% in Q3 2018 (2.9% in Q2), albeit slowing down.

Consumer Confidence Indicator
Monthly data
Above 0= positive expectations

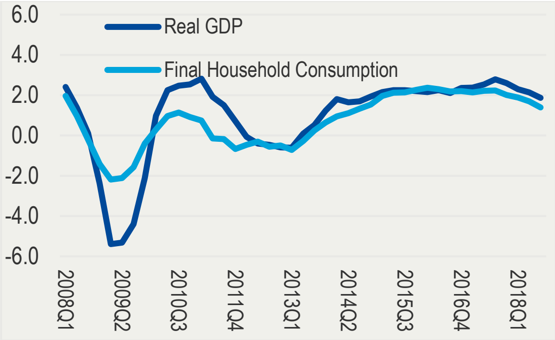
During the course of 2017, the Consumer Confidence Indicator recovered from the losses experienced during the recessions of 2009 and 2012/13 and returned to positive levels in early 2018. In line with the weakening economic environment, it has then fallen back to negative levels and has further decreased until November 2018.

Inflation (Harmonised Index of Consumer Prices, HICP)
Monthly data, % (seasonally-adjusted data)



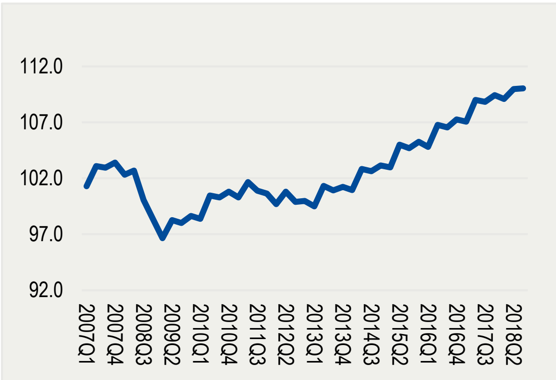
Inflation in the EU picked up during 2017, and accelerated during 2018, up to 2% in November, reflecting the rise in oil prices during the year. Food inflation, traditionally more volatile than overall inflation, peaked to 2.3% in September 2018, but then eased to 1.3% in November. It is worth noting that the EU average conceals very different developments across individual Member States (ranging from 4.4% in Hungary to -2% in Ireland).

Real GDP and Final Household Consumption
Year-on-year growth rates (%)



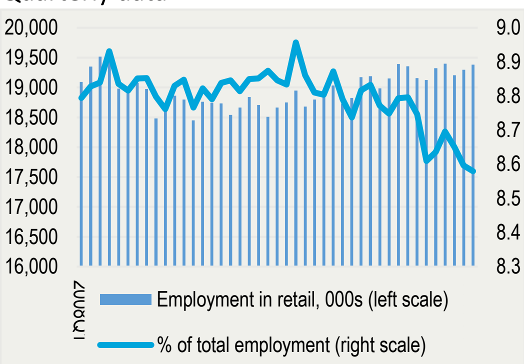
The economic recovery continued in Q3 2018, despite clear signs of economic slowdown, as real GDP growth in the EU was 0.3% compared to Q2 2018 – lowest since 2014 - and 1.9% compared to one year earlier (2.1% in Q2). Household consumption also continued to contribute to some growth in retail sales, but went up by a meagre 0.3% in Q3 2018 (by 1.4% year-on-year), i.e. at a slightly lower rate than the three previous quarters.

Real GDP per capita, Q1 2008=100 (3-month average)



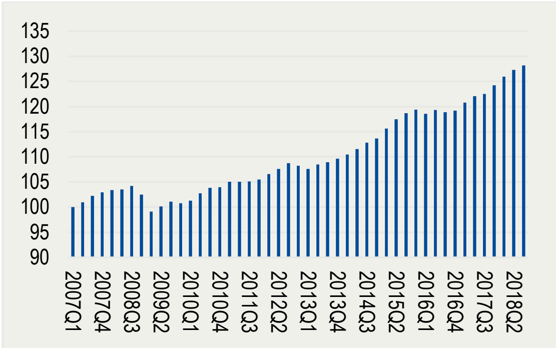
Reflecting the macroeconomic recovery, real GDP per capita has been increasing since 2013, with further acceleration since 2016, thereby supporting consumer demand. In Q3 2018, per capita GDP in the EU - in real terms - was 7 pp. higher than before the economic crisis of 2009.

Employment in the retail sector
Quarterly data



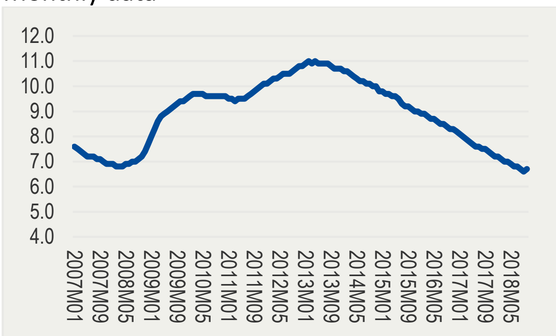
Total employment in the retail sector has marginally increased in Q3 2018 (by 0.4% compared to Q2 2018 and by 0.3% compared to one year earlier). Employment in retail is still around high levels (19.4 million), well above the all-time lows of 2011. The share of total employment represented by retail, however, continued to slightly decrease albeit remaining well above 8%.

Gross Wages and Salaries (entire economy)
Q1 2007=100



Nominal wages and salaries for the entire EU economy continued to rise, reflecting positive economic conditions, growing by 4.6% in Q3 2018 in nominal terms year-on-year. When adjusted for inflation, wages increased by 2.6% compared to Q3 2017.

Unemployment Rate (entire economy, % of labour force)
Monthly data



Total unemployment in the whole EU has continued to decrease since the peaks of H1 2013, falling to 6.7% in November 2018, and approached the lows recorded before the 2008-09 recession (albeit concealing great variety across Member States). The Commission predicts in its autumn forecast that the annual average unemployment rate for the EU in 2018 will be 6.9%, thus below the 7.6% recorded in 2017 and 8.6% in 2016. This consistently positive trend should be helpful in supporting consumer confidence and thus consumer demand.

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