

Quality Inside – Made in Europe

Europe's economy developing positively

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At mid-year 2018, the economic development in Europe is in good shape. Most of the EU countries have been able to register a constant upward trend in the first months of the current year. However, there are dark clouds on the horizon because of Great Britain's withdrawal from the European Union and the trade dispute with the USA. Their consequences for the economic development cannot be estimated yet.

The economy in the countries of the European Union (EU) is facing not just one but two problems in the summer of 2018: For one thing, Brexit, i.e. the withdrawal of the member country Great Britain from the EU, is coming closer and closer, and secondly, a customs dispute with the USA has begun in the past months. After the USA began imposing import duties on steel and aluminium imports from the EU in June, the European Community started levying duties for various imported products from the USA as well. Up till now, the furnishing industry in Europe and its suppliers have only been slightly affected by the American import duties. For example, the import duties have caused costs for materials to rise for European companies that have production locations in the USA and work to some extent with steel from Europe. If the trade dispute grows, experts think effects on the economic development in both parts of the world can be expected. But the negotiations between the EU and the USA to reduce trade barriers, which have just started at the time of our editorial deadline, awaken hope that an agreement in the EU-US trade conflict can still be reached in the coming months. According to experts, such a trade agreement would increase the economic performance of the EU and the USA by 2 per cent over the long term.

Possible effects of Brexit

With regard to Great Britain's withdrawal from the EU, which is planned for March of 2019, there are also different predictions. According to market researchers, the first negative effects on the British economy can already be detected: The British currency has lost about 15 per cent of its value in comparison to the euro since the Brexit vote in the summer of 2016. In 2017, the growth of the economy was weaker than expected at 1.7 per cent and also lower than the growth rate in the euro zone, which was about 2.6 per cent. In the years before, the country had stood out in Europe with above-average growth rates, but in the past year it was one of the countries in Europe with the lowest growth. According to a study, the British economy could lose out on eight per cent of the growth previously expected for the next 15 years. If a bilateral trade agreement between Great Britain and the EU should be reached, experts think that only 2 per cent of that growth would be lost. Many companies have already begun to change their supply chains because of the trade hurdles that are to be expected, and have built up storage capacity accordingly. Ultimately, experts reckon that in March 2019, UK will only formally withdraw from the EU and will remain in the EU single market and the European customs union till the end of 2020.

Positive economic development in the EU

In 2018, the economy in the eurozone (EU countries with euro currency) has been able to continue its positive course. But after the economy grew by 2.6 per cent in 2017, it looks as if growth has been slower in the current year. For the countries in the eurozone, the experts at the IfW (Institute for the World

Economy) are expecting economic growth of 2.1 per cent in the current year and 2.0 per cent in the coming year. Because of the undiminished positive economic development, the unemployment rate will decline further from 8.4 to 7.8 per cent. Private spending for consumption will remain correspondingly high: In 2017, it rose by 1.7 per cent. In the current year, it is expected to increase by 1.6 and in 2019 by 1.8 per cent. Consumer prices rose by 1.5 per cent in 2017, and the rate of increase for both this and the next year is now expected to be 1.7 per cent respectively.

Housing construction booms

The development in construction and especially in housing construction plays an essential role in the economy and is a signal for the future development in the furnishing industry. That is because moving into a new home is often connected with buying new furniture. The European research and consulting network Euroconstruct is expecting further growth in completed new dwellings in the network's 19 member countries (15 West European and 4 East European countries) for 2018. After new dwelling construction increased by about 9.7 per cent to 1.57 million units in 2017, 1.75 million units are expected for 2018. That would be an increase of 6.2 per cent. The experts at Euroconstruct, however, are expecting the number of finished new dwellings to stagnate in the coming years. So all in all, that would mean an increase of 21.5 per cent in completed new dwellings between 2016 and 2020.

In the following, we report on the current and expected economic development in selected countries of the European Union:

- **Germany:** With a share of 21.2 per cent, Germany continues to contribute the largest part of the economic output in the EU and was able to show positive development in 2017. For example, a total of 245,300 new dwellings were completed in the year under review, which was an increase of 2.6 per cent in comparison to the year before. For the first time, the number of permits for new dwellings was declining – by 7.3 per cent to 348,000 units in the entire year. So experts are expecting a declining number of new dwellings this year and next year. However, there was a change in the trend during the first months of 2018, as the number of new dwellings approved by the end of April this year increased by 0.7 per cent. For the most part, the growth was due to the construction of new flats in multi-family buildings; in single-family homes, on the other hand, there was a slight decline. According to economic experts, growth in the gross domestic product will be 2 per cent for the current year, and thus weaker than in 2017 (+ 2.5 %). In 2019, though, the economic output should increase again by 2.5 per cent. The IfW experts also see a positive development in the unemployment rate, which should decline from 3.8 per cent in 2017 to 3.2 per cent in 2019. However, the good employment situation will make consumer prices rise more, so after a 1.7 per cent rise in 2017, 2 per cent can be expected for this year and next year.
- **France:** The third most important national economy (15 per cent share) in Europe, following Germany and Great Britain, will probably not grow as strongly this year and next year as it did in 2017. After a growth of 2.3 per cent, the IfW is expecting an increase of only 1.7 per cent for the current year. And the GDP should also rise by the same percentage in 2019. This country is the leader in Europe as far as housing construction is concerned. In 2016, a total of 335,000 new dwellings were completed in France, and that number should rise further, according to a forecast by Euroconstruct. In 2018, almost 420,000 completions are expected, and in 2019, there should be 388,000. Despite a slight decline in the unemployment rate, it will remain higher than the average among EU countries. In 2017, the rate was 9.4 per cent. Therefore, economic experts are expecting only a moderate increase of 1.8 per cent in consumer prices in 2018. In the year 2017, they rose by 1.2 per cent.
- **Great Britain:** In the EU, Great Britain contributes about 15.9 per cent to the economic output and is thus the second largest economic power in the union. Following an already disappointing previous year, the British economy started off the year 2018 badly: In the first three months, the

gross domestic product rose by only 0.1 percent. According to expert estimates, the country will be able to achieve growth of about 1.3 to 1.4 per cent in 2018, which means it will have the weakest growth since the worldwide financial and economic crisis in the year 2008. In the past years, the country distinguished itself with above-average high growth rates, 2.8 per cent in 2014, for example, and 1.9 per cent in 2016. In the coming year, in which the country wants to complete the Brexit, the increase in the gross domestic product will probably amount to only 0.9 per cent, according to IfW experts. In housing construction, however, no weakening can be detected so far: In 2016, just about 165,000 new homes were completed. In 2018, there will probably be 194,000. According to Euroconstruct, that number will even rise to 203,000 by 2020. Consumer prices rose by 2.8 per cent in 2017. In 2019, the increase should be about 2.2 per cent. The unemployment rate should remain unchanged at 4.4 per cent in the coming years.

- **Italy:** Italy is still one of the major worries of the EU countries because its economic situation is just not picking up. The fourth most important economic country in the European Community (11.3 per cent share) must anticipate lower economic growth this year than in 2017. In the past year, the gross domestic product still increased by 1.6 percent, but the IfW is forecasting a rise of only 1.1 per cent for 2018. Next year, growth should be even lower at 0.8 per cent. Due to the still high unemployment rate (expected to be 10.8 per cent in 2018) Italian consumers will probably not be in the mood to buy much. Correspondingly, the increase in consumer prices should remain at 1.3 per cent. Housing construction should also be weak, according to Euroconstruct. The experts are expecting only 83,000 new dwellings to be built in the current year, which is still an increase of just about 3 per cent in comparison to the previous year. With an estimated growth of overall 7.3 per cent, the development in construction of new dwellings in Italy will probably be one of the worst in Europe for the time period 2016-2020.
- **Spain:** In Spain, which for a long time has been one of the EU's chief worries, the economy is becoming more stable from year to year. After the country was able to achieve economic growth of 3.1 per cent in 2017, the IfW is expecting further growth of 2.7 per cent for the current year. In 2019, it is expected to be 2.1 per cent. The biggest problem in the country is and remains the high unemployment rate. Although it is supposed to decline from 17.2 per cent in 2017 to 15.8 per cent in the current year, it remains one of the highest in Europe. At least the country has been able to leave the years of crisis behind. In 2013, the unemployment rate was still 25 per cent and the country registered a decline of 2 per cent in the GDP. The increase in prices was 2 per cent in 2017 and should decline to 1.8 per cent this year and next. The positive development in the country is also reflected in the development in construction of new dwellings: In 2018, Euroconstruct is expecting about 75,000 new units, which would be 37 per cent more than in 2017 and almost twice as many as in 2016. The number of completed new dwellings should rise to 95,000 by 2020, which would be an increase of 137 percent in the period under review.
- **Benelux:** Together with the other Benelux countries Belgium and Luxembourg, the Netherlands contributes 7.9 per cent of the total economic output in the EU countries. With a share of 4.7 per cent, though, Holland is the most important player. After an increase of 3.3 per cent in GDP, the country has to expect significantly lower growth this year and next year. According to the IfW, it will decline to 2.3 per cent in 2018 and 2 per cent in 2019. There will probably be a slight rise in consumer prices from 1.3 to 1.7 per cent. There is positive development in the unemployment rate, which was 4.9 per cent in 2017 and is expected to fall to 3.9 per cent in the current year and then to only 3.1 per cent in 2019. Due to the satisfactory economic development, there is expected to be some growth in construction of new dwellings in the Netherlands. In 2016, just about 55,000 units were completed and in 2017 about 62,000; now, that number is expected to continue to rise to 74,000 new dwellings by 2020.

In the neighbouring country of Belgium, dwelling construction is expected to increase much less strongly. There, about 45,000 units were built in 2016. In 2017, there were 48,000. For 2020, a slightly lower number of completions is expected, so there will probably be a growth rate of only 5.3 per cent for the forecast period. In 2017, economic growth was 1.7 percent and, according to the IfW prognosis, it is going to sink to 1.5 or 1.6 per cent. As in the Netherlands, a decline in the

unemployment rate is also expected in Belgium, but it is almost twice as high as that of the Netherlands. After being 7.2 per cent in 2017, the rate should decline to 6.4 per cent in the current year and to 6 per cent in 2019. Consumer prices are going to change only slightly; they rose by 2.2 per cent in 2017. In 2018, they are expected to rise by 2 per cent. With a contribution of 0.4 per cent to EU economic performance and only about 600,000 inhabitants, Luxembourg is comparatively insignificant.

- **Austria:** Just as in most of the other EU countries, the economic experts in Austria are also expecting low growth in the gross domestic product. In 2017, the growth rate was still 3.2 per cent, but for the current and the coming year growth rates of 3.0 and 2.0 per cent are expected. The unemployment rate is supposed to sink slightly in the report period. Following a rate of 5.5 per cent in 2017, a decline to 4.9 per cent is forecast by 2019. The increase in consumer prices, which was at 2.2 per cent in 2017, should settle at 2.3 per cent. Because of the generally positive economic development, Euroconstruct is expecting a further increase in completions of new dwellings. While a total of 48,300 units were built in 2016, about 56,500 new dwellings are expected to be completed in 2018. In 2020, more than 60,000 are expected, which would mean an increase of 24.6 per cent in the forecast period.
- **Poland:** Poland is not only one of the most important furniture-producing countries in Europe and the fourth largest furniture exporter in the world, but also way out front in Europe as far as housing construction is concerned. According to Euroconstruct, the country had a total of 163,400 new dwellings in 2016, and about 200,000 are expected for 2018. The experts say that the rate of increase during the report period will be 25.5 per cent. In contrast to its importance in the furniture industry, though, the country contributes only about 2.9 per cent to the economic output of the EU. Following growth of 4.5 per cent in GDP in 2017, the IfW is expecting a significantly weaker rate for this year and next year namely 3.4 and 2.9 per cent respectively. With a slightly declining unemployment rate (from 4.9 to 3.8 per cent in 2019), consumer prices will probably rise a little, with the rate increasing from 1.5 to 1.8 per cent.
- **Finland, Sweden, Norway, Denmark:** Among the four Nordic countries, only Finland uses the euro as currency, while Sweden and Denmark have kept the same currencies as before. Besides that, Norway – like Switzerland – is not a member of the European Union, but there are special trade agreements with the country. With a share of 3.1 per cent, Sweden is the Nordic country that contributes the most to the GDP of the EU. However, economic experts are expecting a decline in economic development in Sweden. After an increase of 2.7 per cent in 2017, growth is predicted to decrease to 2.6 and 1.9 per cent in 2018 and 2019 respectively. While the unemployment rate is expected to sink slightly to 6.3 per cent by 2019, the increase in consumer prices will be about 2 per cent. However, positive development is expected in construction of new dwellings during the period under review: In 2016, 53,600 units were completed. During the current year, the number should be 72,500. By 2020, though, the number of completed new dwellings is expected to decline to about 58,500. With an increase of 9.1 per cent in the forecast period 2016 to 2020, the country will thus register the second weakest rate of growth among the Nordic countries. Only in Norway is the increase in construction of new dwellings expected to be less at 0.5 per cent. For Denmark, an increase of 45 per cent and for Finland an increase of 15.9 per cent are predicted. The number of completions should increase to 43,500 in Finland in 2018, but decline to 35,000 by 2020. The economic performance of the country grew by 2.7 per cent in 2017, and the increase should be 3 per cent in the current year. For 2019, a decrease to 2.1 per cent is expected. High unemployment is problematic; the rate in 2017 was 8.6 per cent and it is expected to sink only a little. With a rate of 0.8 per cent, the country registered one of the lowest increases in consumer prices in the EU for 2017. In the current year, prices are expected to rise by 1.3 per cent. The Danish economy will probably grow by only 1.8 and 1.5 per cent respectively in 2018 and 2019. In 2017, the GDP still rose by about 2 per cent. Consumer prices are expected to rise only slightly, and the unemployment rate should decline from 5.7 per cent to 4.5 per cent in 2019.
- **Greece:** For many years, the southern European country has been one of the biggest worries among the EU countries. Since the worldwide economic and financial crisis, Greece has lost over a quarter

of its economic power. Currently, it contributes only 0.5 per cent to the economic output in Europe. In the meantime, following massive economic support measures from the EU, the country is back on course for recovery. At the end of August 2018, the European Union's rescue program for Greece will come to an end and the crisis-ridden country will have to finance itself again. According to the IfW, economic growth of 1.3 per cent was achieved in 2017, and the rate is expected to continue to rise in the current and coming year to 2.1 and 2.3 per cent. The country's main problem continues to be the high unemployment rate, which was 21.5 per cent in 2017. For 2018 and 2019, the IfW predicts that it will decline to 19.8 and 18 per cent respectively. For comparison: At the peak of the economic crisis in the country, the unemployment rate was more than 27 per cent. Correspondingly, the increase in consumer prices is low and should be about 0.9 per cent in the current year. As far as housing is concerned, in 2005 building permits for about 195,000 new dwellings were granted, but the number for 2017 was only 10,335 according to the Greek statistics authority EL.STAT – that, however, was an increase of 11 per cent in comparison to 2016. *Richard Barth*

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