



# External factors unsettle the European economy

Over summer, the tide has turned in Europe. After an encouraging economic development in the previous year, the first months of 2019 saw the first storm clouds gathering. Meanwhile, external factors overshadow further growth in the European Union and visibly dampen the mood in industry.

When the European Union (EU) was founded in 1961, there were only six countries involved. Since Croatia joined in 2013, a total of 28 states now belong to this economic community, however only 19 have the Euro as their official currency. The Euro is used each day by around 341 million people and is thus the second most frequently used currency in the world. EU member states such as the United Kingdom and Denmark have retained their own currency, however. The remaining seven countries will take on the Euro as soon as the required prerequisites are fulfilled.

## External factors

The most important driver of growth in the European Union (EU) in 2019 is domestic demand and here in particular, private house-

hold consumption. However, for some time, the mood has been characterised by uncertainty. On top of the unclear situation in the United Kingdom, where the idea of Brexit (the withdrawal of the state from the EU) is still being fought over, there was also a governmental crisis in Italy in August. There, the Prime Minister resigned in the middle of August so that there will either be a new government formed or new elections in autumn at the latest. At the editorial deadline, it looked like a new government could form. However, based on the unclear political situation, economic experts expect purchasing restraint by consumers and negative effects on private consumption.

The Ifo-Institut (Germany) also see this occurring in the event of a hard

Brexit, meaning without a trade agreement. According to a study by the economic research institute, this would result in the level of prosperity falling, to the greatest extent in Ireland by 8.16 per cent. For the United Kingdom, the institute calculated a reduction of 2.76 per cent. The real earnings in Germany would fall by 0.72 per cent and in France by 0.52 per cent. In the smaller EU states, the reductions would be between 0.35 and 1.64 per cent. The institute views the effects on the rest of the world as rather low.

The uncertainty over the political development in the United Kingdom and in Italy could also influence the economic development in the whole of Europe. The trade dispute between the USA and China as well as between the USA and

the EU is also causing headaches for companies in western Europe. They fear that America's punitive tariffs and the Chinese countermeasures will make exports into this country more difficult over the next while.

For the reasons mentioned above, over recent months, the leading economic institutes have scaled back their forecasts of economic development in the European Union over the last few months. In Germany, a significant slowing down of the economic development was recorded in the middle of the year, meaning that in summer, the economic forecasts were adjusted downwards for a second time.

In their summer forecast for 2019 across the whole EU (28 states), the European Commission only ex-

### Various negative factors overshadow the economic development of the EU.

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pected a growth of 1.4 per cent, in the Eurozone (19 member states with the Euro as their official currency) even only as much as 1.2 per cent. For 2020, the expectations had even lowered when compared to earlier forecasts and are only 1.4 per cent for the Eurozone and 1.6 per cent for the whole European Union. The low oil prices and the weaker economic prospects mean that the experts are also predicting lower inflation which should be at 1.3 per cent in the Eurozone in 2019 and 2020, and at 1.5 to 1.6 per cent in the whole EU.

### Positive development in housing construction

The development of housing construction plays an important role for the furniture sector. Moving into a new flat or home usually goes

hand-in-hand with the purchase of new furniture. The connection between housing construction and the purchase of furniture is especially high in the kitchen area, as, unlike living furniture, the previous kitchen furnishings usually do not fit into the new space.

In the whole of the EU, housing construction has experienced a very positive development over recent years. The European research and consulting network Euroconstruct expects the number of completed homes to increase by one quarter to 1.77 million units in the period between 2017 and 2020. In 2019, the growth should amount to 3.3 per cent and a new record high should be achieved with 1.774 million completions. 1.773 million units are forecast for 2020. At the same time, Euroconstruct notes significant differences in the growth dynamics in individual countries, which relate to state-specific support measures. Since 1974, Euroconstruct has regularly been observing and analysing the

construction sector development in 15 western European countries and four eastern European countries.

In the following, we will present the economic development and forecasts of leading economic institutes for selected member states and regions in western Europe. The individual states contribute to a greater or lesser extent to the economic performance of the European Union, based on their size, population and economic potential. With a proportion of over 21 per cent, Germany is the country with the greatest economic performance in the community, followed by the United Kingdom, France, Italy and Spain.

**Germany:** In Germany, the biggest economic power in the EU, the dynamics in the economy have slowed down in summer 2019. In the second quarter, the gross domestic product (GDP) even dropped slightly compared to the previous year. Compared to the same period of the previous year, the GDP has stagnated in the first six months. Accordingly, the leading economic institutes have lowered their forecasts once more. At the beginning of the year, they had already scaled back their forecasts from 1.8 per cent to 1 per cent.

The IfW Kiel (Institute for the World Economy) expects a GDP growth of 0.6 per cent for 2019. The federal government expects 0.5 per cent. In 2018, the German economy grew by 1.5 per cent. The forecasts for 2020 are more optimistic, where the economic experts of the IfW expect a growth of 1.6 per cent. The IMF (International Monetary Fund) even forecast 1.7 per cent growth. The economic experts give the reason for this as the increasing private consumption in Germany and the continuing low unemployment rate of 3 per cent. The moderate increase in consumer prices should also have a positive effect. These are supposed to have increased by only 1.4 and 1.5 per cent in 2019. In 2018, they increased by 1.9 per cent.

Over the course of the year, however, there emerged a reduction in readiness to invest in new homes. According to statements from the statistics authority Destatis, the

Of the 28 member states of the EU, 19 belong to the so-called Eurozone and use the Euro as their official currency.

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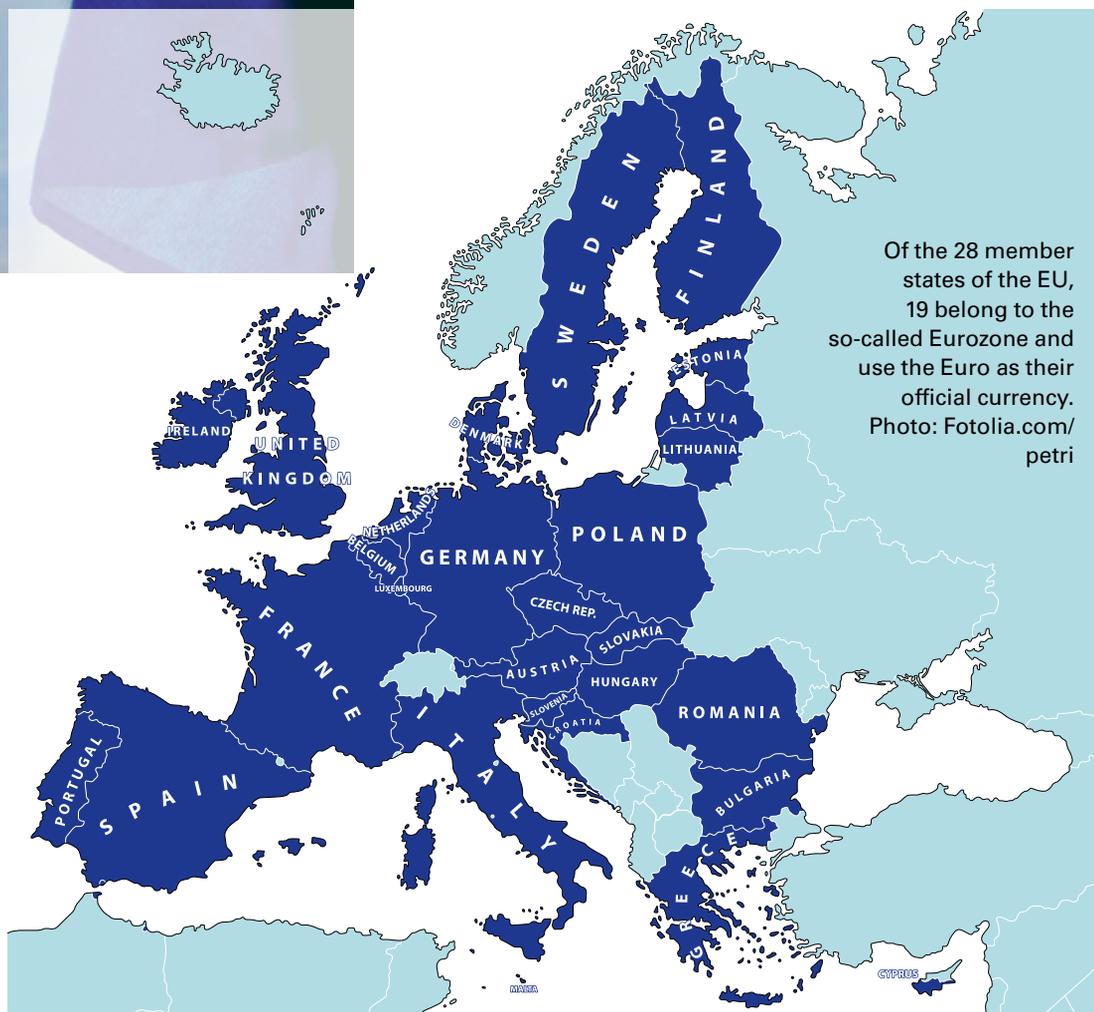




Photo: European Parliament

number of building approvals in Germany in the first half of 2019 dropped by 2.3 per cent compared to the period in the previous year. The construction of only 164,600 homes was approved. Building approvals for two-family dwellings (-4.7%) and multiple-family dwellings (-3.2%) were affected above all. The number of building approvals for single-family dwellings remained close to the number for the previous year, according to the German statistics authority. Based on the reduction in approvals, experts predict a further reduction in housing construction activities. In the overall year 2018, the construction of 347,000 homes was approved, which was a slight reduction of 0.3 per cent compared to 2017. At the same time, a total of 285,914 homes were completed in the reporting year, which is a slight increase of 0.4 per cent compared to the previous year. In 2018, the construction of homes in multiple-family dwellings increased (+9.2%), while the completion of homes in single-family dwellings decreased by 3.7 per cent.

**France:** As the third most important national economy in the European Union, France was able to increase its GDP in 2018 by 1.7 per cent, and the experts are predicting

a further growth of 1.4 per cent for 2019. The forecasts for economic growth in 2020 are just as high. The positive economic development will also further reduce the unemployment rate, which was still at 9.1 per cent in 2018. A reduction to 8.3 per cent is predicted by 2020. A reduction in consumer prices of 2.1 per cent in 2018 to 1.4 per cent in 2020 could also encourage French consumption. In France, housing construction is also continuing to develop positively. According to statements from Euroconstruct, the number of completions in 2018 rose to 400,000 homes, an increase of almost 7 per cent. In 2019 it is expected to become 417,000 before the number of completions is then supposed to decline to 408,000 in 2020.

**Benelux (Belgium, the Netherlands):** In both Benelux states, the economic dynamics are slowing. Above all, this can be seen in the Netherlands, where the GDP should only increase by 1.8 per cent this year and in the coming year. In 2018, the growth amounted to 2.6 per cent. In Belgium, IfW Kiel expects a stable economic development. After 1.4 per cent growth in 2018, the current and following years are expected to see a growth of 1.4 and 1.3 per cent respectively.

The consumer prices are expected to grow by 1.8 per cent, while in the Netherlands, they are expected to grow by 2.3 per cent in 2019. In 2020, the upward trend of prices will supposedly reduce to around 1.8 per cent. A consistent or slightly declining rate of unemployment may encourage private consumption.

The Euroconstruct experts view the housing construction activity as positive in the Netherlands. Here, the construction of 68,000 homes in 2019 and 74,000 homes in 2020 is expected. This would be a clear increase compared to 2016, when the number of completed homes was just under 55,000. With Euroconstruct anticipating a decline in completions to just under 48,000 units, the forecasts for Belgium are just the contrary. However, in 2019, a significantly higher number of homes is expected to be built than in the previous years. In contrast to 2016, the number of completions is 9.5 per cent higher.

**United Kingdom:** The United Kingdom contribute around 15.1 per cent to the economic performance in the EU and are thus the second greatest economic power in the Union. Officially, the United Kingdom want to withdraw from the EU on 31 October after several post-

ponements, and thus carry out the long-planned Brexit. At the editorial deadline, it was unclear whether there would be no deal, or whether the state would enter into a trade agreement with the European Union. In any case, experts anticipate economic consequences for the United Kingdom, but also for the European states. At the same time, the state is split by the discussion as, for example, the majority of Scots are in favour of remaining in the EU and are now demanding their country's independence. Problematic here is the situation for Ireland, which will remain in the EU, while the northern part of the island is part of the United Kingdom and will therefore leave the EU. An external border of the EU would therefore run across the island and thus make border controls necessary, which would lead to unrest among the population. This problem will supposedly be solved by a "backstop" arrangement, which would permit unrestricted trade on the island of Ireland. The arrangement intends for the United Kingdom to remain in the customs union with the EU until a permanent solution is found for Northern Ireland, which makes border controls unnecessary. However, the Prime Minister, Boris Johnson, who was

newly appointed in June, rejects such a backstop arrangement and wants to remove the agreement from the exit deal. He fears that the United Kingdom will remain tied to the EU for a long period of time if both parties cannot reach an agreement. On the other hand, the representatives of the European Union want the arrangement to avoid the possibility of goods flowing into the EU in an uncontrolled manner. Economic experts believe that if the state leaves without an agreement ("no-deal Brexit"), this would lead to reduced investments by companies, falling exports due to increased trade barriers and a loss of value of the British currency. According to experts, the gross domestic product is to drop by around 2 per cent by 2020. Up until now, they had believed the British economy could grow by 1.8 and 1.5 per cent respectively in 2019 and also 2020. As before, the housing construction figures are going upwards. After the number of completions from 2018 lightly increased to around 177,000 homes, the Euroconstruct network expect a further increase for 2019 by 11 per cent to 182,000 newly constructed homes. In 2020 it is supposed to be as many as 188,000 units.

**Italy:** Not merely due to the new governmental crisis, the country is the problem child in the European Union. It is the fourth largest economic nation in the EU, and at the

**The withdrawal of the United Kingdom agreed for the end of October is unsettling the European economy.**

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same time, the country with the highest debt. In terms of absolute figures, no country in the EU is more in debt than Italy. Greece only has greater debt than Italy in terms of the rate. The prospects are also not very bright. Over the year so far, there have only been small indications of the economy reviving. For 2019, the IMF and the EU Commission expect a growth of a mere 0.1 per cent. The situation may only improve in 2020, meaning that the forecasts here predict an economic growth of 0.6 per cent. The level of unemployment here remains one of the highest in Europe and persists at 10.1 per cent. The consumer prices should further drop and increase by only 0.8 per cent in 2020 after an increase of 1.3 per cent. Low-level growth is also seen in housing construction. In 2018, the number of completed homes only grew by 3 per cent to around 83,000 units. For 2019, experts also anticipate only a low increase to just under 85,000 completions. In 2020, this should be just under 87,000 homes.

**Scandinavia (Denmark, Sweden, Norway, Finland):** In the four northern countries, the economic development is rather varied. As EU member states, Denmark, Sweden and Finland contribute 6 per cent to the economic performance of the community. While in Finland, after a growth of 2.1 per cent in 2018, the economy is only supposed to increase by 1.3 or 1.2 per cent, the IfW Kiel is anticipating Denmark having a greater increase in economic performance in 2019 than in 2018. After 1.2 per cent, the GDP is to increase by 2 per cent in

the current year. In 2020, the forecast is 1.5 per cent. In Sweden, almost the same level of GDP growth is expected, meaning that for this year and next year, a 2.3 and 2.1 per cent increase are forecast. In Norway, which is not a member of the EU, 2019 is expected to be a record year. According to the forecast, the GDP should increase by between 2 and 2.6 per cent. The experts are also optimistic for 2020, where the forecasts range from 2.5 to 3 per cent. In 2018, the country was able to expand its economic performance by 1.4 per cent.

The development of housing construction is also broken down. While experts in Denmark in particular expect a clear increase to 25,500 in this year and 27,000 next year, the three other countries are expected to suffer a decline in completions. After 40,000 more homes were built in Finland in 2018, the number of anticipated homes by 2020 will drop to 31,000.

In Norway, the number of home completions between 2016 and 2018 increased by almost 27 per cent to 37,300 units, however this number is supposed to drop to 33,000 homes by 2020. In Sweden, things look similar. Here, the number of newly built living units increased from 2016 to 2018 by almost 40 per cent to just under 75,000. Here, only 73,700 in 2019 and in the following year, just under 70,000 homes are predicted to be completed.

**Austria:** After a GDP growth of 2.7 per cent, Austria is expected to have significantly weaker economic dynamics over this year and next year. The growth should amount to just 1.3 per cent in 2019 and 1 per cent in the following year. With an almost unchanged rate of unemployment between 4.6 and 4.9 per cent, the economic experts at the IfW Kiel anticipate a drop in consumer prices. While these only gained 2.1 per cent in 2018, this year and next year there is a forecast increase of 1.4 and 1.3 per cent.

In Austria in 2019, the completion of around 53,000 homes is expected, which would be a growth of 1 per cent compared to the previous year. However, the experts only expect an insignificant increase for 2020 with 53,700 completed homes.

**Greece:** The economic recovery of the country is making further progress. After the GDP grew in 2018 by 1.9 per cent, the IMF expects 2.4 per cent in the current year. IfW Kiel is more restrained and expects only an increase of 1.3 and 2.0 per cent for this year and next year respectively. The economy shrunk continually over many years. The more positive economic development is reflected not least in the declining unemployment. In 2017 it was at almost 21 per cent, so in 2019, a further reduction of the rate to 17.6 per cent is expected. In 2020, it is to amount to a mere 15.7 per cent. However, the economic recovery may cause the prices to increase, which means that consumer prices are anticipated to increase by up to 1 per cent.

The housing construction situation in Greece is also moving upwards again, although the number of building approvals remains under the numbers from before the global economic and financial crisis. After 13,800 units in 2017, the number of building approvals increased in 2018 to 15,200 homes. However, according to the Greek Office for Statistics, the figures for the first five months 2019 were only insignificantly above those for the period in the previous year. Before the crisis, the number of building approvals was up to 80,000 homes per year.

**Spain:** After the long economic crisis, the Spanish economy is on a course of recovery. After a GDP growth of 2.6 per cent in 2018, the country is forecast to experience an increase of 2.4 per cent and 2 per cent over the coming year and the year after. This will also lower the high rate of unemployment from 15.3 per cent in 2018 to a forecast 12.5 per cent in 2020. The moderate increase in consumer prices, which were at 1.7 per cent in 2018, and should be 1.2 and 1.4 per cent in 2019 and 2020, may boost private consumption.

The increasing number of building approvals indicates the sustainable economic recovery of the country. After the number of home completions climbed from 40,000 to around 70,000 units in the period 2016 to 2018, Euroconstruct expects a further increase to 80,000 in 2019 and 90,000 homes in the year after.

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