

Forecasts

By

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It is during periods of low visibility that voluntarism may wrongly take the place of strategy.

Europe plans to increase (or experience an increase in) its spending on healthcare, elderly care, energy transition, and defense from around 15.4% to around 20.4% of its GDP between 2024 and 2030, which itself will only grow by 1.5% per year (excluding inflation)² given its demographics, productivity, and mix of activities.

As a result, would the rest of the economy stop growing? Would certain sectors – and if so, which ones – decline?

Within these major projected growth trends – and others, such as semiconductors, digitalization, medical equipment, etc. – the various sub-sectors, business segments, technologies, and competitors each anticipate growth rates and gains in market share (at company level) or gains in the economy as a whole (at sector level). These expectations are defensible when taken individually. They are inconsistent overall. Some will come true, but at the expense of others.

One privilege of working in multiple sectors and with many companies and investors is to regularly verify these inconsistencies:

- Inconsistencies between the projections of major sectors and a country's overall economic growth in the medium term, given its demographics, mix of activities, and productivity (see Tables 1 to 3).
- Inconsistency and unsustainability of announced subsidies and public spending with the budgetary and debt capacities of governments.
- Inconsistency of projections for certain products, services, and new consumption patterns with the average budget and spending structures of households as a whole or by income bracket, or with the investment capacities of companies.
- In particular, inconsistency between incentives to encourage households to invest heavily in significant changes to their consumption patterns (energy, mobility, etc.) and the fact that rising real estate prices are already placing a massive strain on their disposable income.
- Inconsistency between volume growth expectations and value growth expectations, with strong growth for many products and services accompanied by price decreases (excluding inflation) made possible by this growth and the productivity effects it induces and fuels (see Table 4).

¹ Figures for the European Union; health and elderly care expenditure: “as is” dynamics anticipated by the European Union; energy transformation: “Green investment needs in the EU and their funding” report, January 2025; Defense: 5% of GDP in 2035, compared with 1.3% in 2023 (announced at the NATO summit in June 2025).

² IMF Forecast of April 2025 for the European Union (27 countries) plus UK. 3.5 to 4.5% per annum in nominal terms, with inflation of 2-3% per annum.

- Inconsistency between these projections and the inflation necessarily induced by the contradictions they create, with increases in the cost of capital, the resulting declines in asset prices, and therefore the induced recessionary effects.
- Inconsistency between the expectations and investments of each player and the resulting situation of overcapacity, with its effects on prices, margins, and reinvestment capacity.

For example, in the automotive sector in France, where households are no longer buying new cars (used cars will account for 75% of sales by 2024), how can we reconcile the multiple objectives and forecasts? Massive electrification of new car sales by 2035 (insufficient to transform the fleet), downsizing of the fleet to favor other means of mobility (reducing potential sales volume), contradictory positions on the age limit for old cars, re-industrialization and development of national and European automakers (hardly competitive versus Chinese automakers and their overcapacities in electric vehicles).

Targeted market studies can correctly capture macro and micro trends and segmentations over the short term (1 to 3 years) in large, resilient and/or small-scale sectors. On the other hand, they struggle to produce realistic medium-term forecasts (5 to 8 years) for large, fast-moving sectors, as these would require consistency between macro-economic expectations, government choices on subsidy allocation and industrial policies *and their sustainability*, the strength of technological innovations, client trade-offs, and the strategy of each player.

The problem is not a lack of “data” (which are merely opinions, extrapolations or probabilities). On the contrary, there is a plethora of such data, concealing from casual observers the fact that, in a *world without growth, medium-term projections are bound to conflict with one another*.

As a result, bubbles – both industrial and financial – regularly form (and burst) every ten years or so. The business plans and valuations made for each of the players in a new or fast-moving sector are indeed realistic, each taken separately, if the company achieves its goal of industry concentration and leadership in 8 or 10 years’ time; but they are incoherent overall when ten competitors on the starting line are forecasting the same finishing position in the medium term. And the bubble bursts all the more rapidly when the growth of the sector itself is not of the anticipated magnitude or duration.

We know what often distinguishes the winners in these situations: the first or one of the first at the outset, the speed and scale of investment ahead of demand and other competitors, the focus on *a few key factors* that justify client acceptance, the business model that both delivers them competitively and finances growth, the structural and lasting advantage of the new product or service vis-à-vis a critical and solvent mass of clients and consumers, outside of any subsidies.

Coldly identifying these factors, their coherence and the realism of the underlying, *sustainable* drivers of growth is key. In many businesses, the competitiveness of the offering (vis-à-vis clients and competitors, and vis-à-vis different types of offering) is probably today a more objective indicator of projected company growth than a demand forecast.

Europe grew by 2.5% a year from 1995 to 2005 (excluding inflation)³. During this period, the development of new activities, increases in government spending, subsidies to finance industrial policy choices... were all essentially stacked on top of one another and of ongoing dynamics. Few drastic choices were to be made (and few were made). Major industries from the early 19th century were able to survive for many years before being replaced or relocated, some being subsidized at the expense of a more favorable evolution of the activity mix.

Since 2010, and for the next ten years, European growth will not exceed 1.5%³ (excluding inflation). The parameters determining this overall growth (demographics, business mix, productivity) are already in place and difficult to modify over such a short period. Any new expenditure, investment, development of a new activity or technology, or evolution of a consumption mode will essentially be at the expense of another. Businesses, consumers, citizens and governments will have to *make choices* about their investments, spending and subsidies.

All the growths currently forecast in the various business plans, activities, technologies, major sectors and European countries *are not possible together at the same time*. We need to challenge forecasts.

Jean Estin

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Estin & Co is an international strategy consulting firm, with offices in Paris, London, Zurich, New York and Shanghai. The company assists senior executives of major European, North American and Asian corporations with their growth strategies, and managers of private equity firms with the analysis and valuation of their investments.

³ Europe refers to the 27 current member states of the European Union plus the United Kingdom. Real GDP growth in constant euros (IMF estimates).

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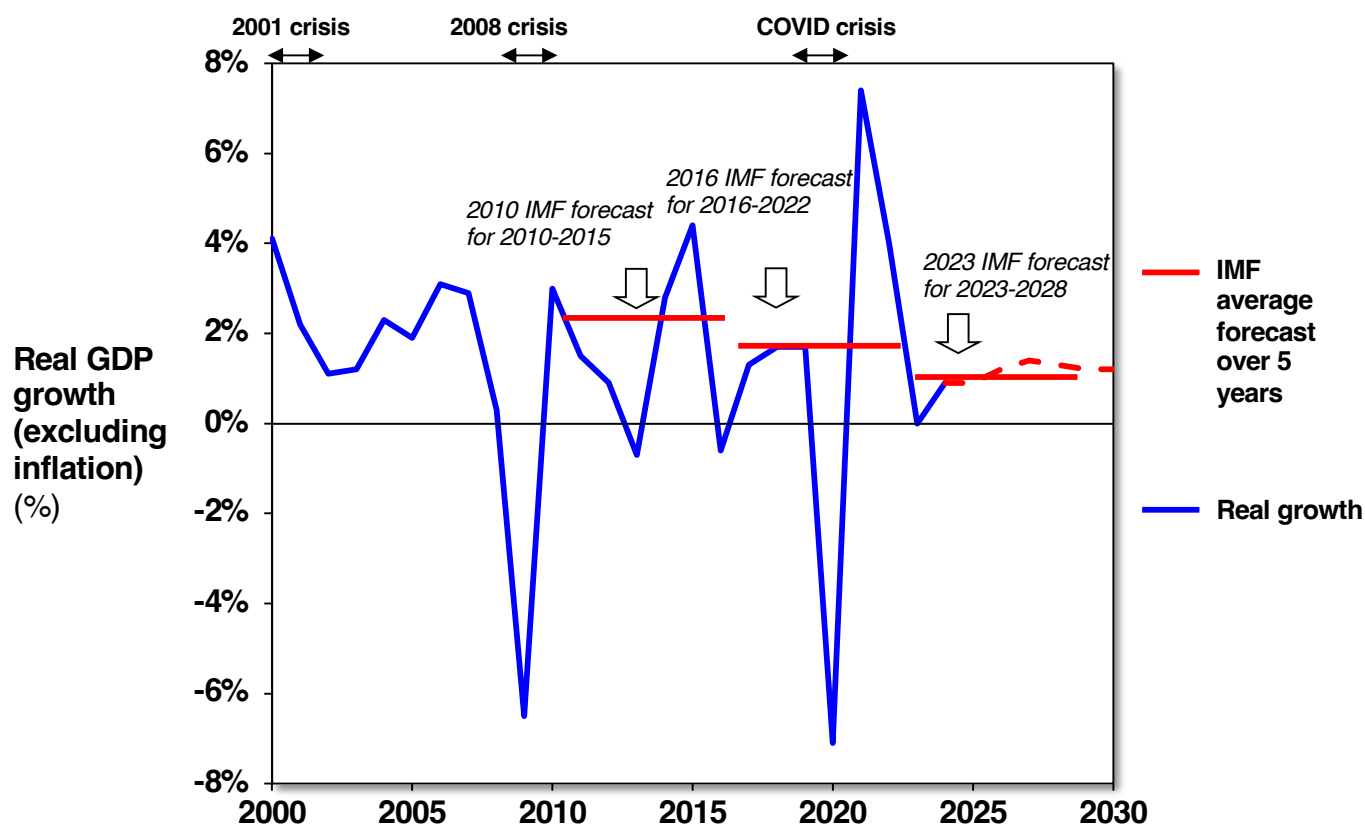
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**- Table 1 -
Europe ⁽¹⁾ GDP dynamics**

*- Over the last ten years, IMF forecasts of Europe's growth ⁽¹⁾
have consistently been above actuals -*

PUBLIC DATA



GDP growth (% p.a.)	2004 -2009	2010 -2015	2016- ⁽³⁾ 2022	2023- 2028
IMF forecast (%)		2,5%	1,7%	0,9%
Real	0,4%	1,8%	1,5%	0,5% ⁽²⁾
Delta (%)		- 30%	- 13%	- 22%
<i>Date of estimate</i>		2010	2016 ⁽²⁾	2023

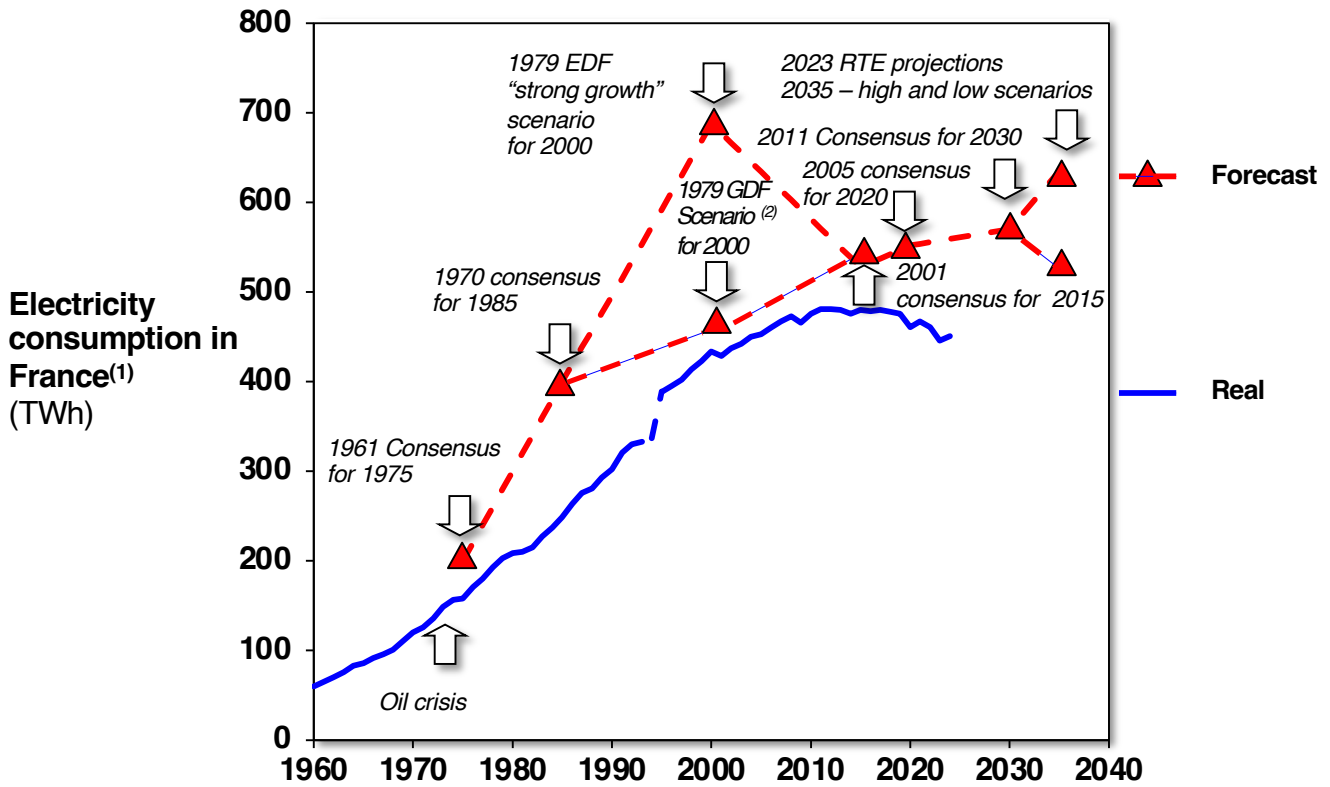
Note : IMF = International Monetary Fund. Forecasts from the April World Economic Outlook for the years indicated. (1) Eurozone + UK : constant perimeter (excluding Estonia, Latvia and Lithuania having joined the eurozone in 2010); (2) Average growth over 2023-2024; (3) Six-year period by exception (COVID crisis). IMF forecast for 2022 made in 2017 (not 2016 as for the other years in the period)

Sources: IMF; Estin & Co analysis and estimates

**- Table 2 -
Evolution of electricity consumption in France**

- For 60 years, forecasts for electricity consumption in France have been 20% to 60% higher than actuals -

PUBLIC DATA



Electricity consumption in France (TWh)

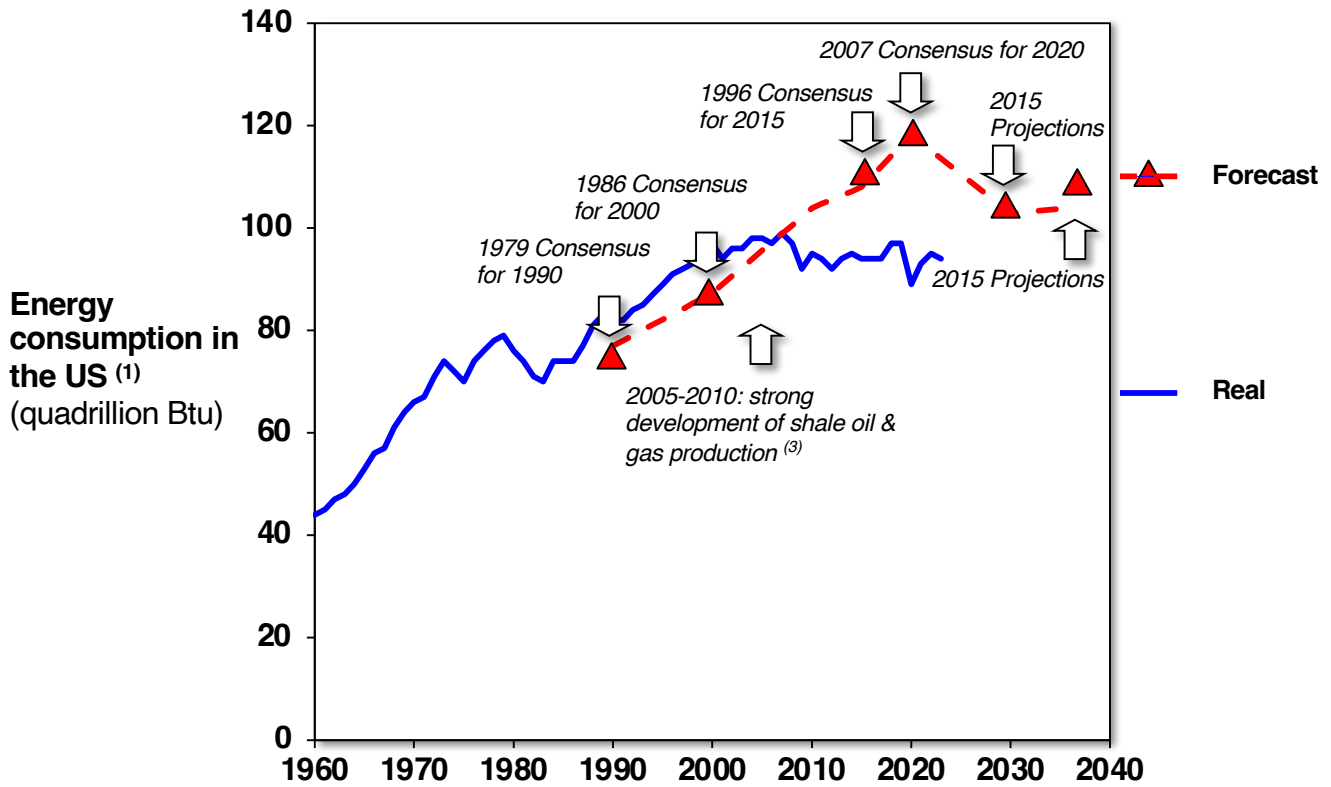
	1975	1985	2000	2015	2020	2030	2035
Forecast	200	400	452/688	528	552	570	583 ⁽³⁾
Real	158	249	434	480	461	-	-
Delta (%)	- 21%	- 38%	- 4%/59%	- 10%	- 20%	-	-
<i>Date of estimate</i>	1961	1970	1979	2001	2005	2011	2023

(1) Actual consumption; (2) "Low consumption" scenario; (3) Median
Sources: RTE, UFE, EDF, SDES, Estin & Co analysis and estimates

**- Table 2 -
Evolution of energy consumption in the US**

- Since the development of shale oil & gas, forecasts for energy consumption in the US have been 10% to 25% higher than actuals -

PUBLIC DATA



Electricity consumption in the US (quadrillion Btu)

	1990	2000	2015	2020	2030	2035
Forecast	77	87	108	118	103	104
Real	82	97	94	89	-	-
Delta (%)	7%	11%	-13%	-25%	-	-
<i>Date of estimate</i>	1979	1986	1996	2007	2015	2015

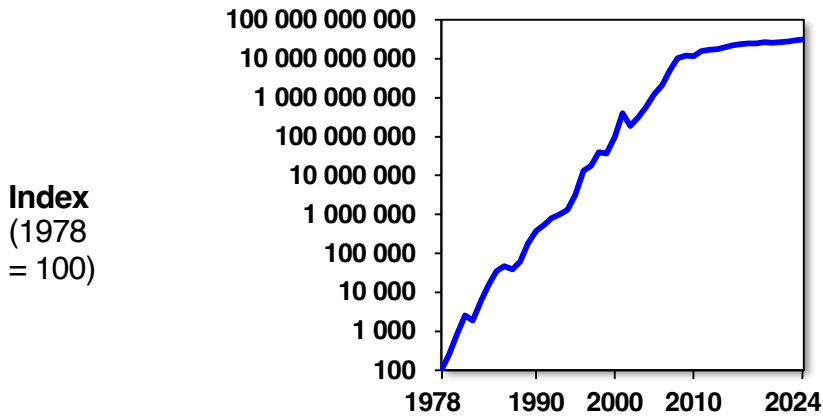
(1) Actual consumption including Petroleum products, Natural gas, Coal, Nuclear power, Renewable energy and others ; (2) "Low consumption" scenario ; (3) Due to technological progress and 2005 Energy Policy Act giving less oversight to the Federal state
Sources: Energy Information Administration, Estin & Co analysis and estimates

**- Table 4 -
Evolution of the DRAM semiconductor market in terms of volume and value**

- Despite the continued strong penetration of DRAM memory, its market in value has only grown at the same rate as the global economy over the past 30 years -

PUBLIC DATA

- Volume -



CAGR 1978-2024

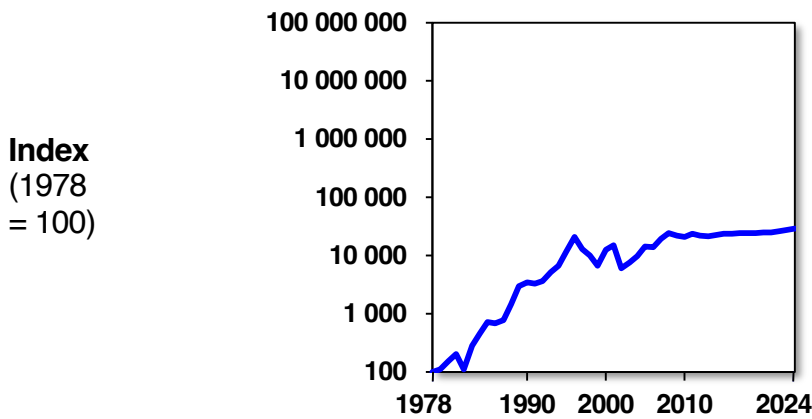
53% p.a.

+ 40% p.a. on average over 1994-2024



Taking into account the negative price dynamics (- 26% p.a.)

- Value -



CAGR 1978-2024

13% p.a.

+ 5% p.a. on average over 1994-2024

Sources: Infineon, Micron, DataQuest, Semiconductors Industry Association; Estin & Co analysis and estimates