

France: Dismal consumption in 1Q while 2Q starts on the wrong foot

GDP growth was weaker than previously thought while private consumption growth was dismal. Despite the strong consumer confidence surveys, the second quarter has started on the wrong foot



Source: Shutterstock

Consumer confidence stabilised in May

French GDP growth was weaker than previously thought, at only 0.17% QoQ in 1Q18 while private consumption growth was dismal.

In May, French consumer confidence remained broadly stable in contrast to business confidence which was more affected by the strikes.

Confidence remains lower than where it was in January, but it has been stable for the last four months around 100, which is much higher than the average of the previous five years (94). The May survey brought some good news, notably in terms of employment prospects as there were

more optimistic answers than pessimistic for the first time since 2007.

French consumers are also more confident in their capacity to save, which is positive except that it seems that people are more worried about savings than consuming as purchasing intentions remain low.

0.2%

Domestic demand growth

(QoQ) in the first quarter, below consensus

Lower than expected

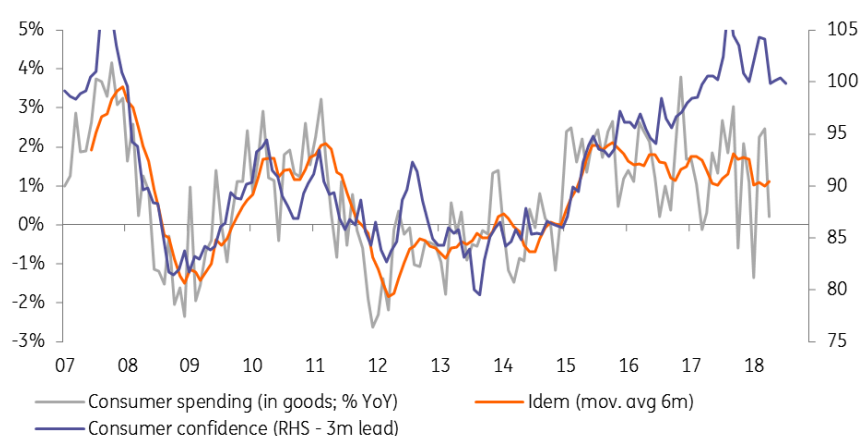
But fails to translate into higher consumption

This was confirmed by consumer spending on goods in April which posted a 1.5% month on month decline. Even though this data is volatile, the moving average remains disconnected from consumer confidence since 2016, showing a rather flat trend as you can see in the figure below.

To confirm this, an update of 1Q18 GDP figures show that growth has been weaker than previously thought in the first quarter, with domestic demand growing by a dismal 0.2% QoQ. Private consumption growth was even weaker at 0.1%, which means that it will take a strong rebound in the second quarter to bring private consumption growth above 1.5% in 2018 (after 1.1% only in 2017).

We don't believe this will happen in 2Q18 as rail and air strikes are likely to have dampened Easter holidays' expenditures and the same applies for the long weekends in May.

Consumer spending seems to have disconnected from confidence levels... for now



Source: Thomson Reuters

We remain optimistic for the second half of the year where a positive mix of fiscal measures and lower unemployment should help a much-awaited private consumption rebound and still bring GDP growth to 2.1%.

However, the current looming institutional crisis in the Eurozone could dampen confidence again and reduce 2H18 growth prospects further. The jury is still out.