

France: Confidence data points to a pause in unemployment improvements

Business confidence declined slightly in France in August to reach a one-year low. It remains consistent with above-average activity levels in all sectors, but a demand boost is needed to maintain this. This casts some doubt on the likelihood of seeing further drops in the unemployment rate as had been expected



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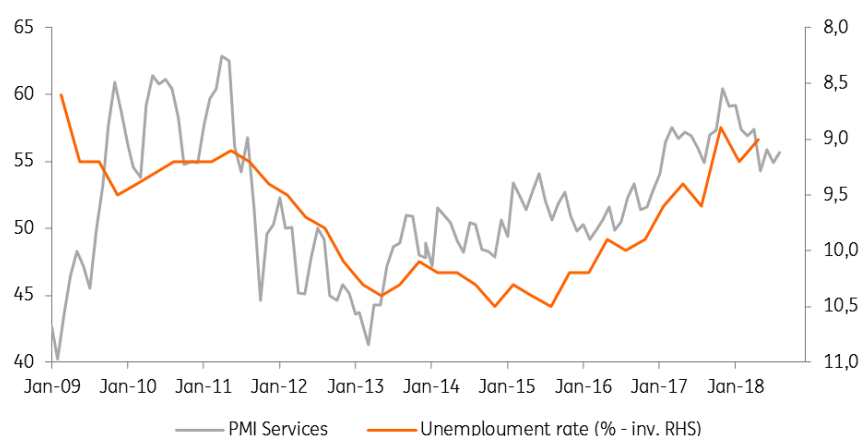
105 French business confidence at a 15-month low in August

Business confidence remained stable in the manufacturing and service sectors, but for how long?

Figures published this week by INSEE and confirmed by preliminary PMI data show that confidence remained broadly stable in both the manufacturing and service sectors throughout the summer. Industry business confidence has been stable since February at 110, slightly below its level of the

end of 2017. However, data from both July and August showed that manufacturing companies are losing confidence in the general outlook (this component is at a 15-month low). This could be due to the fact that order books, which had been filling up in the first half of the year, turned around in June, while inventories have been increasing since April and were at a two-year high in August. This could drive down manufacturing production in coming months. Thus, although the picture remains positive for the time being, it seems that dark clouds are gathering over activity in the manufacturing sector and that it may only be a matter of time before confidence begins to decline again.

In the service sector, confidence has been stable since April but the August survey brought some positive aspects: hiring intentions have rebounded, as has the perceived pricing power. Recent investments have also been higher than expected. However, activity remains low in comparison with the end of 2017, such that investment intentions declined in August. These elements have been broadly confirmed by the preliminary PMI indicator for August which slightly rebounded. Although hiring intentions remain high in the sector, current confidence levels show that improvements in the unemployment rate in recent quarters could pause unless more demand is generated.



Source: Thomson Reuters

Other sectors drove business confidence down in August to its lowest level since April 2017

Overall business confidence declined from 106 to 105 in August despite the stability observed in the two main sectors. This is because confidence declined in both the building and retail sectors. In the building sector, the decline was very small as the situation remains positive: capacity utilisation reached 90% for the first time this decade in June and hiring intentions remain elevated. Only the expected activity volume in new dwellings declined in August, despite very high order books. The building sector remains a bright spot for the time being. The same cannot be said about the retail sector for which confidence dropped from 114 to 111, its lowest level in a year, as confidence in the general outlook plummeted.

All in all, the August confidence survey confirms that we can only count on a limited rebound in GDP in the third quarter. On the investment front, with high capacity utilisation and a high level of order books, we remain optimistic for 2018, but household spending will take more time to rebound and adjust to higher oil prices. While private consumption growth should barely

accelerate from the 1.1% reached in 2017, we think that GDP growth should reach 1.8% in 2018 and 2019.