

France: December data points to contraction for the first time in 3 years

Flash Purchasing Manager Indices for December showed a contraction in both service and manufacturing activity. Although this blip is due to temporary factors, it underlines the potential impact of the Yellow Vest movement on growth should it continue



Source: iStock

49.3

French PMI Composite

The lowest level in 30 months

Temporary factors are behind December blip, but the trend is worrying

The first estimates of PMI activity indices in December are painting a grim picture of French activity at the end of the year. Two factors seem to be at play. First, the manufacturing sector is still experiencing delays in car production due to the change in environmental norms which have been

affecting both production and sales since the summer. Second, confidence in the economic outlook has been hit in December by the Yellow Vest protests. This effect was particularly high in the service sector of course, and we expect it was concentrated in logistics, which suffered from declining orders and road blockades, retail and hospitality. The sharp contraction in the service sector from 55.1 in November to 49.6 in December, confirms that the effect on GDP growth should be close to 0.1pp. If this does not affect our 1.6% growth forecast for 2018, caution is necessary for 2019.

2019: “Continuing confidence with increasing caution”

To quote Mario Draghi in his December press conference, one should be cautious with the signals this survey brings. We expect the protests to decrease in coming weeks, although they will not disappear. There will, therefore, be a rebound, but levels above 55 in PMI surveys should be hard to reach again, and the Yellow Vests are not the only culprits. Looking at the survey results throughout Europe, it is clearly showing that the downward trend in the economic outlook is persistent, and not only in France. This is why we already revised our 2019 GDP growth from 1.7% to 1.4%. If the Yellow Vest protests continue in 1Q19 or affect the end-of-year holiday season even more dramatically, we would be inclined to revise it downwards again, but let's not forget that the slowdown was already there before the protests and was unlikely to vanish with them, if ever they do.