France: Disappointing GDP rebound in the first quarter

French GDP growth rebounded by only 0.3% in 1Q19. This comes from a weaker than expected recovery in private consumption and low Eurozone demand for French exports. Recently announced tax cuts should support growth this year but will be curbed by the current high propensity of French consumers to save

Household consumption in France is slowly recovering from the effects of the 'Yellow Vests' protests

Domestic demand continues to suffer the effects of the 'yellow vests' crisis

French GDP growth in the first quarter of 2019 was slightly weaker than we thought it would be. The expected rebound in private consumption was absent and that weakened domestic demand. Household consumption has recovered from the stagnation recorded in the last quarter of 2018 because of the "yellow vests" crisis, but only by 0.4%. Over the year, consumption growth is only 0.6%. Given the strong preference for savings that consumer surveys have been showing, we expect only a limited boost from the recently announced tax cuts.

In addition, household investment in new construction experienced a new quarter of contraction (-0.3% in the quarter after -0.1% in Q3 and -0.2% in Q4) despite low-interest rates. At this stage, even though the announced tax measures should contribute to the growth of purchasing power, which already increased significantly in 2018, private consumption growth in 2019 should be barely above 1%. Only when households feel they have rebuilt their savings is it likely that these measures will have a stronger acceleration effect on private consumption.

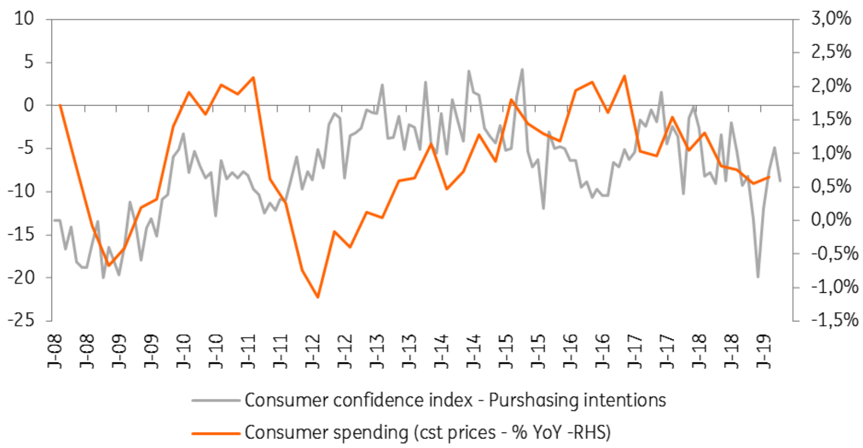
On the other hand, business investment continued to perform well in the first quarter, although its pace has declined since the first half of 2018. It must be said that capacity utilisation has fallen slightly since then and the international context is less buoyant for industry. Business investment was still up in Q1, by 0.5% after 0.4% in Q4. This brings their growth to 4.0% on the year, which is very positive given the weakness of domestic demand. We do not expect a major drop in the pace of investment in 2019, not least because order books remain elevated and financing conditions are very favourable.

French exports weakened in 1Q19

In the fourth quarter, weak domestic demand growth (+ 0.2%) was offset by a strong contribution from net exports but the rebound in demand in the first quarter also caused an increase in imports so that the external balance was less positive for growth in 1Q19 (0.0%). It should be noted, however, that exports barely increased in 1Q19 (0.1%). The first detailed figures tend to show that it is mainly Eurozone demand (Germany and Italy in particular) which slowed while the rest of the world continues to contribute strongly to French growth. This is mainly due to a strong dollar, a situation that we expect will remain for most of 2019.

> *The slowdown in world trade and Eurozone growth may have an impact on French external demand*

However, while net exports will have had a particularly high contribution to growth in 2018 (0.6pp is the highest since 2012), we do not think it can be repeated in 2019 when we expect a neutral effect of foreign trade on growth. Indeed, the slowdown in world trade and Eurozone growth may have an impact on French external demand. Also, the expected recovery in domestic demand is likely to increase imports. Finally, the recent gains in export growth do not seem to stem from a particular improvement of the competitive position of France which has, at best, stabilised over the last two years, but of temporary exchange rate effects.



Source: Thomson Reuters Datastream

2019 starts in minor mode

Looking at the first quarter figures, it seems that domestic demand will still need some time to recover from the abnormal levels of anxiety recorded earlier in the year in consumer surveys. They still show a strong preference for savings and higher fears of unemployment than last year despite the resumption of job creation. Given the expected slowdown of the economic environment in Europe in 2019 and 2020, GDP growth should remain in these two years at a level close to its potential, 1.3%.

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