

France: Hiring intentions remain strong amidst concerns of a weaker outlook

This week's data still depicts growing activity, though at a slower pace, and declining unemployment. However, it's hard to be entirely satisfied with these numbers if they're to remain in history books as the top of a cycle that started almost ten years ago



Source: Shutterstock

Business confidence was stable in June, with the exception of manufacturing

The main French business confidence indicator was stable in June across sectors, at levels still reflecting reasonably strong economic expansion. However, they confirm if the second half of the year is likely to present a rebound in activity, we can't expect GDP growth returning to the levels seen at the end of 2017 i.e. to 2.5% per year.

Confidence declined in the manufacturing sector from 109 in May to 107.5 - just below its 2017

average. Capacity utilisation remains high, at 85% in the second quarter, but a decline in the general outlook, together with a mix of slowing orders especially domestic ones and rising inventories, has driven hiring intentions and expected activity down. If there is an acceleration of growth in the second half of the year, which remains one of our five scenarios, it will probably not rely mainly on the manufacturing sector.

The confidence report presented some good news as well. Most notably in the building sector where capacity utilisation is now at 90% - a ten-year high, with new orders still increasing and the highest hiring intentions of the last five years. A recent survey among SMEs even showed that hiring was currently their biggest break to growth as they could not find qualified workers, especially in the building sector.

97.3 Consumer confidence
Still higher than its five-year average

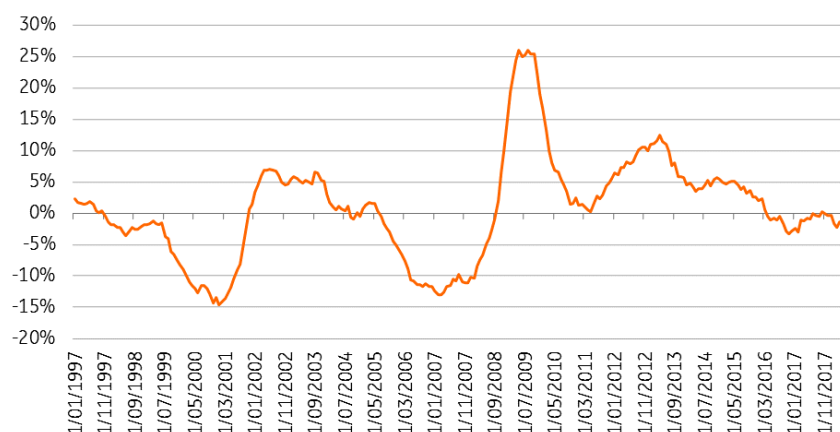
Hiring intentions still indicate acceleration of employment growth

Service confidence was also stable in June, but we note that service companies see a decline in the general outlook, mostly triggered by the threats of trade wars around the globe and a general end-of-cycle feeling. This is confirmed by lower PMI indicators in July: the service sector PMI was down at 55.3 (from a high of 60.0 in November), still indicating an expansion of activity.

If confidence was stable in the service sector, it was mainly because of other positive components such as higher expected demand for the next three months and strong hiring intentions.

Strong hiring intentions in the service and building sectors are positive for employment growth, which we expect to accelerate in the second half of the year. With the unwinding of subsidised job schemes, stronger private employment growth is not completely translated in the job market statistics.

In June, the number of jobseekers only declined by 1.3k, after strong increases in April and May. At 3.44 million in the second quarter, the job seeker population has declined by only 1.3% on the year, a rhythm which is much slower than in previous recoveries where yearly declines reached more than 10%. The current rhythm should accelerate in the second half of the year, and we still expect unemployment to be down below 9.0% at the end of 2018, but it still looks painfully slow.



Source: Thomson Reuters

Consumer confidence surveys indicate more savings rather than spending

Consumer confidence was stable in June, showing a mix of declining general outlook and sale expectations and hiring intentions rebounding.

We remain cautious about this optimism as consumer confidence indicators published for July show only a limited rebound, from 97.0 to 97.3. Even though this is higher than the average confidence registered in the last five years, it remains at the lowest level in the last 18 months. Moreover, it seems that what has been improving lately is households' opinion of their ability to save rather than their spending intentions. This is why we still expect weak private consumption growth in 2018 (1.2%) after the already dismal 1.1% registered last year.