

## A bad start for France if its going to reach its fourth quarter potential

Business confidence declined again in France in October, reaching a 20-month low. This is not a great start if we're going to see growth rebound after a year of disappointment; it might just be limited to 0.4% quarter on quarter



Source: Shutterstock

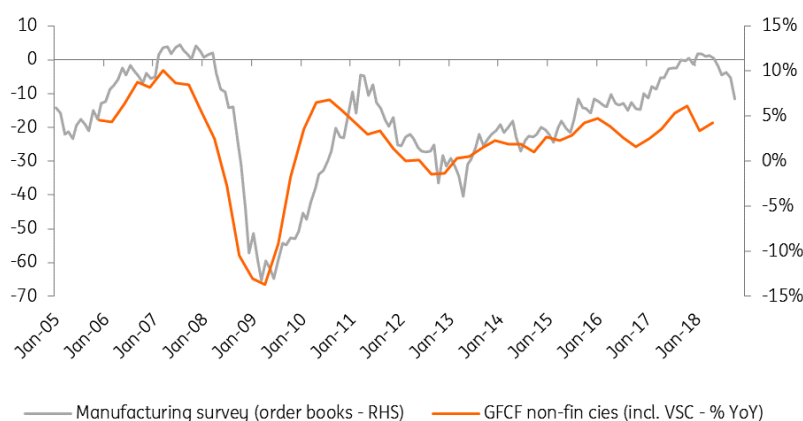
### Business confidence holds up n services, declines elsewhere

French business confidence declined in October, with the main index reaching its lowest level since March 2017 at 104; that's according to figures published this week by INSEE and confirmed by preliminary PMI data. At the same time, the PMI composite indicator rebounded slightly, from 54.0 to 54.3. This comes from the fact that the service sector has more weight in the PMI surveys. Surveys in the service sector showed that activity is still expanding (PMI services increased slightly in October) but, as the INSEE survey showed, expected demand declined together with investment intentions. These declines were limited as hiring intentions remain elevated in the sector, and that's positive for employment gains for the rest of the year.

The manufacturing surveys offered a less positive picture with a third decline of the PMI index (from 52.5 to 51.2, its lowest level since September 2016) in October. The INSEE surveys also showed a drop, from 107 to 104, a level consistent with levels last seen in the early stages of the

short recovery two years ago. Activity is still expanding and capacity utilisation remains high (at 85.2%, which is only a notch below the 85.8% registered at the beginning of the year). However, the worst news of the survey came from order books which showed a free fall in October, concentrated on domestic orders as foreign orders remained stable. As shown in the graph below, this could hamper an acceleration of the current business investment recovery.

## French business investment



Source: Thomson Reuters

## Retail and construction sectors still suffer from low consumer demand

The retail sector is also seeing confidence fall, with the confidence index there dropping to 105 (it was 111 in August) its lowest level since April 2017, according to the same INSEE survey. With energy prices taking a toll on consumer demand, expectations of future activity in the sector are adjusting downwards. In the building sector, confidence was stable in October, but there was no tangible improvement registered in order books.

All in all, the October confidence surveys are not a very good start for the last quarter, which could then show a more limited rebound of GDP than expected. On the investment front, with high capacity utilisation, 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 could still reach 1.8% in 2018 before slowing down next year.