

## France: Is there light at the end of the tunnel?

The last business confidence surveys show that the wave of pessimism which has hit the country since November is coming to an end. However, confidence still has to be restored: the current economic mood is closer to wait-and-see than to recovery



Paris, France. Demonstrators during a protest against rising cost of fuel and oil prices by people wearing yellow vests.

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### Taking back control, for now

Is this the end of the dramatic surge in French pessimism? As the “yellow vest” movement celebrated its three-month birthday last week, with a few thousand demonstrators across France, it was clear the national debate launched by the French Government allowed President Emmanuel Macron to take back control, at least temporarily. Hundreds of local public debates are being organised across France until mid-March when it is expected that the government will try to get something out of the many proposals being made. In the meantime, the pressure on President Macron has been alleviated, allowing him to regain some ground in opinion polls (a February Ifop poll showed a 28% approval rating while support of the “yellow vests” reached its lowest level since the beginning of the yellow wave, at 50%).

## Some stabilisation in business confidence

In manufacturing, the monthly INSEE survey showed no change, at 102.8, in February, but one should note that this is mainly due to an improvement in the general outlook and recent production trends. Order books remained lower than at the end of 2018 and, for the first time since September, it seems to have taken a toll on the individual production outlook for the next three months. This could therefore negatively impact industrial production in 1Q19.

In the service sector, confidence improved, leading to a slight rebound in overall business confidence in February, the first since November last year. PMI indicators were also out to confirm this story. In the service sector, the index rebounded from 47.8 to 49.8 while the composite PMI indicator was at 49.9, indicating stable activity. However, they bode ill for employment growth: at these levels, hiring intentions could soon show signs of weakening.

## Economy in wait-and-see mode

If the wind of pessimism has stopped blowing, the dust still has to settle. At current levels, activity indicators are only pointing to a limited rebound in 1Q19. If order books continue to deteriorate, the currently expected 0.4% quarter-on-quarter GDP rebound could disappoint. However, with job creation still positive and with inflation falling (the final figure for January was 1.2%, down from 2.3% last summer), real wage growth could accelerate and lead to a rebound in consumer demand. This could compensate for a drop in foreign demand due to Brexit and trade war uncertainties. Given the weaker European economic context that is expected in 2019 and 2020, we see no reason to change our main forecast, that GDP growth will return to potential, or 1.3% YoY, in both years.

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