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Article

French business confidence points to growth stability in the third quarter

Business confidence was stable in France in June, and more generally in the second quarter, indicating that growth is unlikely to accelerate much in the coming months. If the outlook for 2018 is less upbeat than three months ago, we believe it is still too soon to believe in the recently much more pessimistic official forecasts

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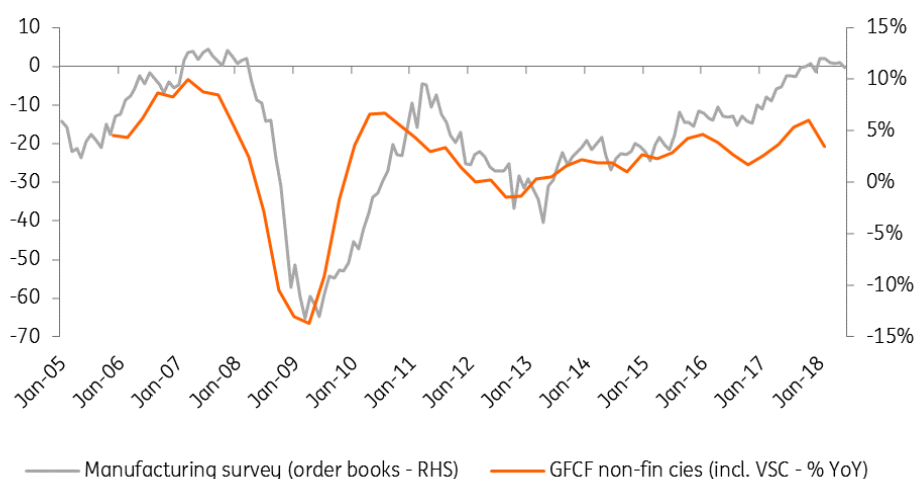
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The wind is turning for order books but investment and hiring intentions remain high

Figures published by INSEE show that confidence remained stable in both the manufacturing and service sector in June. In the industry, business confidence has been stable in the second quarter as a whole (109.5), slightly below 4Q17 and 1Q18. However, manufacturing companies are losing confidence in the general outlook (this component is down from its January peak and back at last year's level). This could be due to the fact that order books, which had been filling up for the last six months, turned around in June while inventories, although still fairly low, increased somewhat in May and June. What allowed the stabilization in confidence is the optimistic expectations of manufacturing companies about their own production outlook in coming months. All in all, the picture, therefore, remains fairly positive for activity in the manufacturing sector, although less than in the beginning of the year.

The main downside risks are likely to impact growth negatively only at the end of the year, leaving space for a stronger domestic demand in coming months

In the building sector, confidence kept increasing in June: capacity utilization reached 90% for the first time this decade and hiring intentions remain elevated. The same survey in the service sector gave a less rosy picture in June. Confidence indeed did not recover from its drop of May and remained at last year's level. Companies are more cautious about upcoming demand and hiring intentions slowed down markedly in June, coming back at their level of last October. Similarly, investment intentions, although they remain elevated, slowed down in June.



Source: Thomson Reuters

Can the current levels of confidence materialize in 2.0% growth in 2018?

All in all, the June confidence survey is showing that we can only count on a limited rebound of GDP in the third quarter. The extent of the slowdown (and of the strikes' impact) in the second quarter of 2018 will therefore be key to determine this year's growth. Recent projections by INSEE and Banque de France (respectively 1.7% and 1.8%) look pessimistic in that regard. On the investment front, with high capacity utilization and a high level of order books, we remain optimistic for 2018 while household spending should rebound in the second half of the year. Instability in the Eurozone around the future Italian budget and the prospects of a EU-US trade war

could still have an effect, but we believe the bulk of it will be felt in 2019. Therefore, we still think that growth can approach 2.0% this year, before slowing down in 2019 while remaining above potential (1.8%).

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