French consumers fail to support the recovery in 1Q18

French GDP growth was a weak 0.3% QoQ in 1Q18 as private consumption growth disappointed. Net exports also failed to contribute positively to growth. This jeopardises the prospects of 2% growth in 2018.

Source: iStock

2.1

French GDP growth YoY

First quarter of 2018

Only public investments showed a positive surprise in 1Q18

The first quarter GDP figures posted some unpleasant surprises in terms of French domestic demand dynamism. First, private consumption came out below expectations, at a mere 0.2%, showing no sign of improvement for the last two years. Private consumption grew by only 1.3% in 2017. With such a weak start to the year, it is difficult to see 2018 consumption growth above

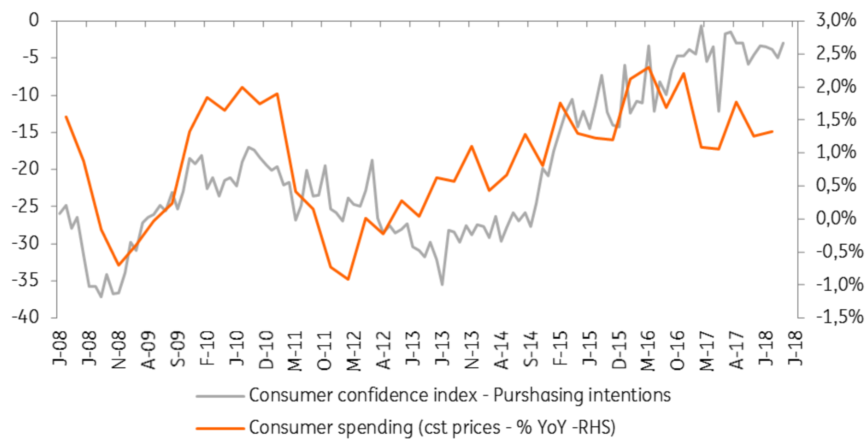
1.5%.

Despite anaemic consumption growth in the first quarter, purchasing intentions still show that an acceleration is possible this year

Non-financial companies' investments slowed down to 0.5% QoQ, its lowest speed since the end of 2016, while household investments remain supported by low-interest rates and a stronger housing market. Another surprise came from public investments which grew by 0.9% QoQ, their strongest since 2011. This is only the second positive contribution to growth of public investments in the last 20 quarters.

On the external front, it seems that a stronger euro was already working against French exporters in the first quarter as exports declined by 0.1QoQ. Weak imports, due to a weaker domestic demand, allowed the contribution to stay in non-negative territory. However, this could change if private consumption revives somewhat in coming quarters.

Consumers' purchasing intentions point to a further acceleration of consumption



Source: Thomson Reuters

Can the current levels of confidence lead to higher growth in 2018?

Figures published this week by INSEE show that in industry, companies remain confident about the general outlook: if the index has been decreasing in the last 5 months, it remains at its 12-months average while order books are still seeing inflows. However, at 109, the main industrial confidence index was lower in April than the last two quarters' average. We are likely to see similar figures in May, showing a consolidation of growth prospects at a high level for Q218, but without further acceleration. In the services sector. On the contrary, confidence has been stable in the last three months, just below its January peak (109), at 107 in April. Hiring and investment intentions, in particular, remain upbeat at the start of the second quarter, boding well for the current trend of declining unemployment. We, therefore, think that investments should remain supportive in 2018, growing by 3.3%.

French consumers are still upbeat about the economic recovery

The last consumer confidence figures show only a slight rebound in April. It seems that the job market is not really the main concern: in fact, French consumers are still upbeat about the economic recovery. However, they fear for their own financial situation and their ability to save. Nevertheless, purchasing intentions remain elevated and lower unemployment should materialise in higher spending. Given the first quarter figures, it is hard to count on a strong acceleration in 2018 as a whole. We think that for private consumption growth to reach 1.5% this year after only 1.3% in 2017, it will require a rebound in confidence. Even though labour market and fiscal conditions are improving for French households, it seems that French consumers are still to be convinced.

All in all, we still think that French GDP growth can reach 2.1% in 2018 as further euro strengthening should take time and as unemployment is declining. While all the conditions are there for a consumption rebound, we will need a rebound in business confidence to see a further acceleration of investments. The return of trade war rhetoric is not helping, and on the internal front, there is no doubt that the highly symbolic social conflict in the national railways could give a strong signal about the government's ability to reform.