

French unemployment jumps despite high business confidence

All this week's surveys point to a continuing economic recovery



President of France

The last business climate indicators by INSEE shows another improvement for August. The trend is led by manufacturing but confidence in the service sector remains very high. The main disappointing points were weaker hiring intentions shown in the service survey while future retail sales prospects declined strongly. Unemployment figures confirmed the picture showing an increase of 35-thousand.

109

French Business Climate Indicator

Highest since summer 2011

Positive industrial production

Manufacturing leads the trend, confirming the results of the preliminary PMI figures that were released this week and showing that French manufacturing activity is expanding at its fastest pace in more than two years. Data released yesterday showed that this is backed by a decline in stocks

and strong foreign orders, which boosted the overall production outlook this summer.

We expect another strong quarter of industrial production growth in 3Q17

A stronger euro, however, could darken the growth prospects later in the year. Confidence in the building sector remained stable in August, at 104. It recovered its long-term average level in January and has been sustained above it (100) since May, showing that the sector is contributing to the ongoing recovery, notably through job creation. On that front, the service sector survey was less positive. As the PMI did this week, the survey shows a slowdown in the activity expansion seen since the beginning of 2017.

Employment watch

Hiring intentions in the sector have been much lower since June than in the first 5 months of the year. The fact that hiring intentions are faltering despite the 5-year high confidence level in the sector could be giving early signs of renewed job market weakness. The unemployed population figure published for July was expected to disappoint. Instead of decreasing, the unemployed population jumped back above 3.5 million, by 35k. In 2017, unemployment is up by 51k after 2016's decline of 113k. On that front, the labour market reform, which will be presented at the end of next week could increase hiring intentions if it is passed smoothly, which is far from a done deal.

The retail sector showed similarities with services. The survey disappointed as far as future sales prospects are concerned, while confidence declined to 108. Although the index remains higher in this sector than last year, a slowdown in consumer spending growth would be most unwelcomed in the second semester, not to say awkward as the trend remains positive in most European countries. All in all, this week's surveys are an indication of the continuing recovery in France, especially in manufacturing. French growth – having slowed down from 1.2% in 2015 to 1.1% in 2016 - is set to rebound to 1.5% in 2017. Afterwards, if the new government can take profit from the accelerating recovery to implement reforms, GDP growth could accelerate towards 1.7% in 2018.