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Article

The French recovery keeps gaining traction

GDP growth hits 2.2% on the year, a level not seen for six years

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France is back on the economic scene

After four quarters of quarterly growth above 0.5%, GDP growth has reached 2.2% on the year, a level not seen in more than six years. Domestic demand remains the main growth driver while the first signs of a stronger euro have hit export growth. If current reforms support domestic demand in coming quarters, competitiveness is likely to remain an issue. However, with soft indicators still showing strong activity levels, we can safely say that France is back on the eurozone economic scene.

Figures published on the last day of October by INSEE showed the French economic recovery keeps gaining traction. GDP increased by 0.5% QoQ after a revised 0.6% QoQ in 2Q17 which was better than expected. This is the fourth quarter of above 2.0% annualized quarterly growth, a level not seen in the last six years that has driven GDP growth towards 2.2% YoY in 3Q17. As a consequence, French growth could reach 1.8% in 2017 and gain sufficient base effects to reach 1.9% in 2018.

0.5% French GDP growth
quarter-on-quarter

Exports slip back but domestic demand is strong

In the third quarter, domestic growth engines largely compensated for the effects of a stronger euro which adversely impacted exports. Export growth slowed from 2.3% to 0.7% QoQ in 3Q17 while import growth remained dynamic, leading to a strong negative contribution of net exports (-0.6ppt). Stock building is partly compensating for the effect and should have a positive contribution to GDP growth this year (+0.6ppt).

Domestic demand remains strong and private consumption growth keeps accelerating.

At 0.5% QoQ in the third quarter, private consumption growth is at its strongest pace since last year. We believe the trend should continue as consumer confidence could reach higher levels in 4Q17 thanks to lower income tax announcements for 2018 and a declining number of

unemployed. Surveys also indicate that purchase intentions for durable goods have not been higher in the last six years. This will not be enough for private consumption to reach the 2.1% growth of 2016 which was pushed by lower oil prices and a catch-up effect after several years of weak growth. However, we believe that the current acceleration should continue and that private consumption should reach 1.9% in 2018 after 1.3% in 2017.

The recovery should continue

Business investments slowed in 3Q17, from 1.1% to 0.9% QoQ, a level that will push that above 4% for 2017. However, public investments declined by 0.2% QoQ. These should contract by 1.5% this year after -0.1% in 2016. Given President Macron's investments plans, the wind should turn in 2018 but public investments are likely to remain constrained by regional budget cuts and reorganizations.

Finally, the recovery in household investments has lost traction in the last three quarters, slowing to 1.1% QoQ in the third quarter. We still expect this to reach 5% YoY in 2017 after 2.6% in 2016 thanks to the recovery in housing prices and low interest rates. However, this growth should slow in 2018 because of slowly increasing interest rates and despite the fact that housing investments are still well below their 2008 levels.

The French economic recovery has gained traction in 2017 and we think that this will continue to be the case in coming quarters.

Reforms should increase purchasing power through a stronger labour market and investments. Competitiveness will probably remain an issue for the French government, especially as a stronger euro is weighing on the growth outlook. Given the continuing strength in soft indicators in the second half of the year, we believe that French growth – having slowed from 1.2% in 2015 to 1.1% in 2016 – could then rebound to 1.8% in 2017. Afterwards, if the Philippe Government can take profit from the accelerating recovery to implement reforms, GDP growth could accelerate towards 1.9% in 2018. France is back on the Eurozone economic scene.

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