

French growth: a better second half in sight

There looks to be better prospects for French growth in the second half of the year, according to the latest figures from INSEE. They've confirmed a 1.6% growth projection for 2018 but we think it could be higher



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President Macron and his government could really do with some economic good news for the second half of the year, and he might just get it if you look at the latest figures. The numbers from INSEE, the French statistics body, confirmed a growth prospect of 1.6% in 2018. The good news comes from the effects of lower taxes on households which should boost purchasing power by 0.5% and 1.7% QoQ in 3Q18 and 4Q18 respectively. This could help consumer spending to rebound after two-quarters of near stagnation. However, as consumers are eager to save and are facing higher energy prices, the rebound should be temporary: we believe private consumption growth will be limited to 1% this year after 1.1% in 2017.

There's been no recovery for President Macron in the opinion polls, whose popularity has been nosediving since the summer. His approval rating is now at a new low, concentrated on those who voted for him in the first round of the Presidential election last year. It is now down to 30%, from

40% in June. The resignation of his Interior Minister, the second senior resignation after his Environment Minister Mr Hulot (one of the heavyweights of the Philippe team and the most popular political figure in the Government), was damaging. It continues to shine a light on the government's team management problems rather than reforms, which is not good for confidence.

On the investment front, INSEE is expecting a 3.6% growth for business investments this year. With high capacity utilization and a high level of order books, we are more optimistic, while we believe that export growth was still supported by a weak euro in 3Q18. At this stage, we still think that GDP growth could reach 1.8% this year, before slowing down to 1.7% in 2019.