

## French business confidence hits five-year high

Business confidence continues to improve in France but could a strong euro darken the horizon



Source: iStock

The INSEE business climate indicator hit 109 in August, which is the highest reading since the summer of 2011. Manufacturing led the trend, confirming yesterday's preliminary PMI figures, as it expands at its fastest pace in more than two years. Today's numbers show this is backed by a decline in stocks and strong foreign orders, which boosted the overall production outlook this summer.

Therefore, we expect another strong quarter of industrial production growth in 3Q17, but a more robust EUR could potentially darken the horizon.

Confidence in the building sector remained stable in August, at 104. It recovered to its long-term average level in January and has been remained above 100 since May, showing the sector is contributing to the ongoing recovery, notably through job creation. On that front, the service sector survey was less positive.

Hiring intentions in the sector have been much lower since June than in the first five months of the

year. The fact that hiring intentions are faltering despite the five-year high confidence level in the sector could be giving early signs of renewed job market weakness. Unemployment figures will be published tonight, and if the surveys are right, the July figure could disappoint. For the moment, employment growth – though improving – remains subdued.

Finally, the retail sector showed similarities with services. Future sales prospects remained disappointing, 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 unwelcome in the second semester 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. If the new Government can benefit from the accelerating recovery to implement reforms, GDP growth could accelerate towards 1.7% in 2018.