

Household consumption and investment

In Q4 2016, household consumption picked up (+0.6%) after two sluggish quarters. Expenditure on goods rebounded strongly, especially on energy and automobiles, while consumption of services slowed slightly. On average over the year 2016, household consumption accelerated (+1.8% after +1.5%), in line with purchasing power (+1.9% after +1.6%).

In H1 2017, household consumption is likely to slow, reflecting in part the loss of impetus of household purchasing power. It is expected to slow significantly in Q1 (+0.2%), with most notably purchases of consumer durables at a standstill, then accelerate slightly in Q2 (+0.4%).

In Q4 2016, the savings ratio appears to have returned almost to its Q2 level (14.6%), after a brief rise in the summer (15.0%). As households are likely to smooth the effects of the slowdown in purchasing power on their consumption, it should fall back slightly once again at the beginning of 2017 and reach 14.4% by mid-year, its average level at the start of 2016.

Over the year 2016 as a whole, household investment in housing rebounded (+2.0%), after four years of decline. It should continue to increase steadily in H1 2017: the annual carry-over effect should stand at +2.7% by mid-year.

Consumption recovered in Q4 2016

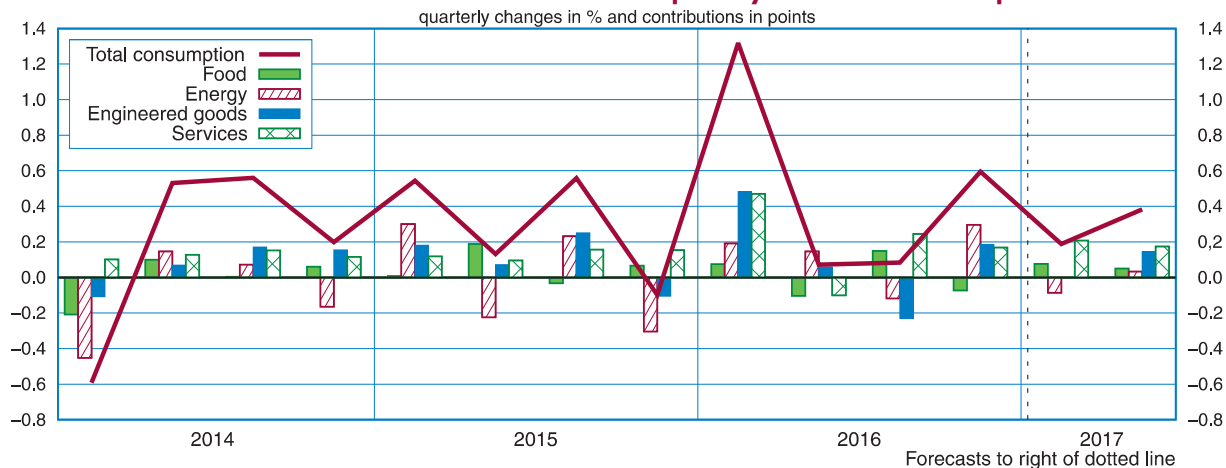
In Q4 2016 household consumption recovered (+0.6%) after two quarters of virtual stagnation (Graph 1).

Consumption of goods rebounded strongly (+0.9% after -0.4%). Energy consumption in particular bounced back sharply (+3.7% after -1.5%), with expenditure on heating boosted by an autumn that was cold overall for the season after a relatively warm September. Automobile purchases recovered their momentum (+2.3% after +0.1%) and expenditure on clothing picked up a little (+0.2% after -0.5%). In addition, spending on furnishings almost stabilised (-0.3%) after plummeting in Q3 (-6.4%). However, food consumption slipped back (-0.4% after +0.8%).

Consumption of services slowed slightly (+0.3% after +0.5%), mainly because spending on accommodation and food services came to a standstill after a buoyant Q3. However, expenditure on leisure services finally recovered (+1.1%) after a practically stable Q3.

On average over the year 2016 as a whole, household consumption increased more than in 2015 (+1.8% after +1.5%), in line with the rise in purchasing power (+1.9% after +1.6% in 2015).

1 - Contributions of the various items to quarterly household consumption



Source: INSEE

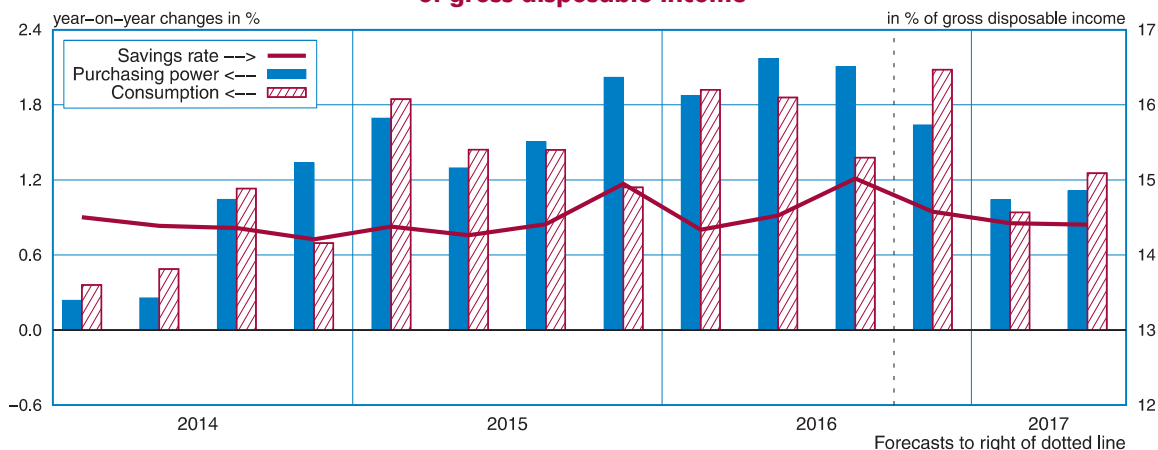
In H1 2017, consumption is set to slow a little

In Q1 2017 total household consumption is expected to slow (+0.2%; *Table*), partly reflecting the slowdown in household purchasing power. This is likely to be the case in particular for purchases of goods (0.0% after +0.9%). Spending on consumer durables is expected to grind to a halt (+0.1% after +1.4%), especially automobile purchases (0.0% after +2.3%). Additionally, energy consumption is likely to slip back (-1.0% after +3.7%): expenditure on gas and electricity is set to weaken, as winter temperatures overall were within the seasonal norms after an especially cold autumn, and spending on heating oil and fuel should stabilise after two quarters showing a greater increase than their usual trend. Expenditure on

furnishings should bounce back a little (+0.7% after -0.3%), although without returning to trend (+1.5%). In addition, food spending is likely to increase (+0.4% after -0.4%). Finally, consumption of services should grow slightly more than in Q4 (+0.4%): purchases of accommodation and food services are expected to accelerate thanks to a gradual return of foreign tourists, and transport services should remain sustained, while leisure consumption is set to slow, more in phase with its normal trend once again after a fairly dynamic year's end in 2016.

In Q2 2017 household expenditure is expected to accelerate slightly (+0.4%). In particular, purchases of manufactured goods, especially automobiles and furnishings, should return to a pace similar to their recent trend.

2 - Savings ratio and variations in consumption and in purchasing power of gross disposable income



Source: INSEE

Household consumption and investment expenditure

at chain-link previous year prices. SA-WDA

| | Quarterly changes in % | | | | | | | | | | Annual changes in % | | |
|---|------------------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|------------|---------------------|------------|------------|
| | 2015 | | | | 2016 | | | | 2017 | | 2015 | 2016 | 2017 ovhg |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| Total household consumption expenditures (G+S) | 0.5 | 0.1 | 0.6 | -0.1 | 1.3 | 0.1 | 0.1 | 0.6 | 0.2 | 0.4 | 1.5 | 1.8 | 1.0 |
| Tourism balance | 14.4 | -0.1 | 9.5 | -16.9 | -22.6 | -20.9 | -15.1 | -8.5 | 4.7 | 9.6 | -11.3 | -45.9 | -10.3 |
| Services (S) | 0.2 | 0.2 | 0.3 | 0.3 | 0.9 | -0.2 | 0.5 | 0.3 | 0.4 | 0.3 | 1.0 | 1.5 | 1.1 |
| Goods (G) | 1.0 | 0.1 | 0.9 | -0.7 | 1.6 | 0.2 | -0.4 | 0.9 | 0.0 | 0.5 | 1.9 | 1.7 | 0.8 |
| including: | | | | | | | | | | | | | |
| Food (AZ-C1) | 0.0 | 1.1 | -0.2 | 0.4 | 0.4 | -0.6 | 0.8 | -0.4 | 0.4 | 0.3 | 1.2 | 0.7 | 0.6 |
| Agriculture goods (AZ) | -0.2 | 1.3 | -0.5 | -0.8 | 1.5 | -1.6 | -1.1 | -0.9 | -0.4 | 0.2 | -0.3 | -1.0 | -1.9 |
| Agri-food products (C1) | 0.1 | 1.0 | -0.1 | 0.6 | 0.2 | -0.4 | 1.2 | -0.3 | 0.6 | 0.3 | 1.5 | 1.1 | 1.1 |
| Energy (DE-C2) | 3.6 | -2.6 | 2.8 | -3.5 | 2.3 | 1.8 | -1.5 | 3.7 | -1.0 | 0.4 | 1.4 | 1.8 | 1.7 |
| Energy, water and waste (DE) | 7.8 | -4.9 | 2.6 | -3.6 | 3.5 | 3.3 | -3.1 | 5.1 | -1.7 | 1.0 | 2.1 | 2.8 | 2.0 |
| Coke and refined petroleum (C2) | -0.9 | 0.1 | 2.9 | -3.5 | 0.9 | -0.1 | 0.8 | 1.8 | -0.1 | -0.4 | 0.7 | 0.5 | 1.3 |
| Engineered goods (C3-C5) | 0.9 | 0.3 | 1.2 | -0.5 | 2.3 | 0.3 | -1.1 | 0.9 | 0.0 | 0.7 | 2.6 | 2.5 | 0.7 |
| Manufactured goods (C1-C5) | 0.4 | 0.6 | 0.9 | -0.4 | 1.4 | 0.0 | -0.1 | 0.5 | 0.2 | 0.4 | 2.0 | 1.8 | 0.9 |
| Investment expenditure | -0.1 | 0.0 | 0.2 | 0.6 | 0.6 | 0.5 | 0.7 | 0.7 | 0.9 | 1.0 | -0.8 | 2.0 | 2.7 |

Forecast

Source: INSEE

French developments

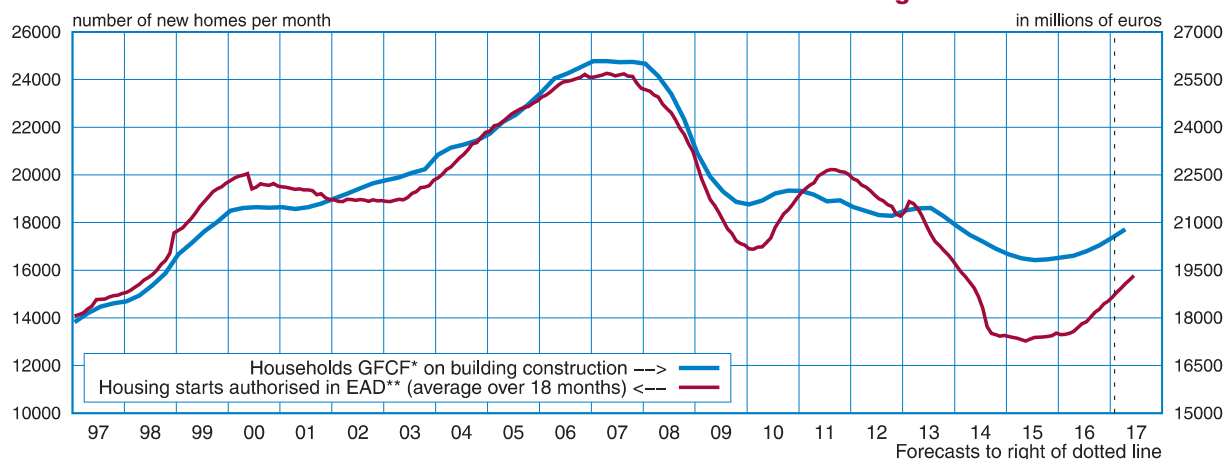
In mid-2017, the savings ratio is expected to fall to 14.4%, virtually the same level as at the beginning of 2016

As consumption stalled in spring and summer, while purchasing power increased steadily at the same time, households' savings ratio rose to 15.0% of their gross disposable income (Graph 2). In Q4 2016 the savings ratio would appear to have weakened, returning almost to its Q2 level (14.6%), with consumption bouncing back while purchasing power appeared to have virtually stabilised. On average over the year 2016, this ratio seems to have barely increased at all: 14.6% after 14.5% in 2015. In H1 2017 households are expected to smooth the effect of the slowdown in purchasing power on their consumption and the savings ratio is likely to fall back moderately, to 14.4% by mid-year. It should therefore return to its average level from the beginning of 2016.

Household investment should continue to increase steadily in H1 2017

In Q4 2016 household investment continued to increase significantly (+0.7% after +0.7%), for the sixth consecutive quarter. The number of authorised housing starts has grown continually since the beginning of 2016 (Graph 3). In view of the usual time lags between permits being issued and actual construction, household investment is also expected to increase solidly in H1 2017 (+0.9% per quarter on average). On average over the year, household investment bounced back in 2016 (+2.0%) after four years of decline (including -0.8% in 2015). For 2017, the annual carry-over effect should stand at +2.7% mid-year. ■

3 - Household investment on construction and housing starts



*GFCF: gross fixed capital formation
 **EAD+: estimated actual dates

Sources: INSEE, SOeS