Output

In Q1 2017, gross domestic product slowed slightly (+0.4% after +0.5% in Q4 2016), as did total output of goods and services (+0.5% after +0.7%). The dip stems from a decline in output in the manufacturing sectors (–0.2% after +0.7%) and in energy-water-waste (–1.3% after +2.5%).
Since December 2016, the business climate in France has been fluctuating at four to five points above its long-term average (100). It stood at 105 in May. It has improved considerably in industry, reaching a level in May not seen since June 2011. In construction, it exceeded its long-term average for the first time since mid-2012 and is higher in services and trade. Total output of goods and services is expected to gather pace slightly in Q2 2017 (+0.6%) and should remain buoyant in H2 (+0.6% then +0.5% in Q3 and Q4), taking its average rise over the year to +1.9% after +0.9% in 2016.

Output of goods and services is expected to continue increasing steadily until the end of 2017

After rising by 0.7% in Q4 2016, output of goods and services slowed slightly in Q1 2017 (+0.5%; *Table 1*), due to a decline in manufacturing output and that of energy-water-waste. However, activity picked up in agriculture and market services; it also increased as solidly as in the previous quarter in trade.

Reaching 105 in May, the business climate confirms a clear brightening of the picture since December 2016 (*Graph 1*). The improvement is even more substantial in industry: the business climate reached 109 in May, its highest level since mid-2011.

Drawing on this outlook, output of goods and services is expected to gather pace a little in Q2 2017 (+0.6%) and should remain buoyant in H2 (+0.6% then +0.5% in Q3 and Q4), mainly following the profile of manufacturing industry and construction. Indeed, manufacturing output is expected to bounce back in Q2 due to the reopening of refineries, and it should gather pace in construction; activity should then increase steadily in both sectors in H2. Activity in market services and in trade is expected to slow a little in Q2, before increasing robustly in H2.

Manufacturing output is expected to recover in spring 2017 and then remain buoyant for the rest of the year

Manufacturing output contracted in Q1 2017 (–0.2% after +0.7%), mainly due to a marked decline in manufacturing of coke and refined petroleum products (–11.0% after +4.7%) and in agri-food (–0.8% after –0.8%). On the other hand, output picked up in "other industries" (+0.6% after –0.2%), remained vigorous in transport equipment (+1.0% after +3.3%) and stabilised in capital goods (after +1.1%).

Table 1

Output by branch at the previous year's chain-linked prices
Q/Q-1 variations (as a %), SA-WDA data

| | Quarterly changes | | | | | | | | | | | | Annual changes | | |
| | **2015** | | | | **2016** | | | | **2017** | | | | **2015** | **2016** | **2017** |
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**			
Agriculture (2%)	–0.7	–1.0	–1.4	–2.0	–2.5	–1.3	–0.1	1.4	2.4	1.7	1.0	0.2	–1.5	–5.6	4.9
Manufacturing industry (20%)	1.1	–0.1	0.4	0.6	0.2	–0.9	0.7	0.7	–0.2	0.8	0.7	0.5	1.9	0.8	1.5
Energy, water, waste (4%)	3.6	–2.2	1.2	–0.6	1.3	0.7	–2.2	2.5	–1.3	0.7	0.0	0.2	0.6	0.8	0.1
Construction (8%)	–0.1	–0.3	–0.5	0.2	0.1	–0.3	0.3	0.6	0.3	0.7	0.6	0.6	–1.5	0.1	1.8
Trade (10%)	1.0	0.5	0.8	0.2	1.0	–0.4	0.0	0.6	0.6	0.5	0.6	0.6	3.0	1.5	1.8
Market services excluding trade (41%)	0.5	0.3	0.4	0.3	0.6	–0.3	0.4	0.6	0.9	0.5	0.6	0.6	1.7	1.3	2.4
Non-market services (15%)	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.9	1.0	1.0
Total (100%)	**0.6**	**0.0**	**0.3**	**0.3**	**0.4**	**–0.3**	**0.3**	**0.7**	**0.5**	**0.6**	**0.6**	**0.5**	**1.4**	**0.9**	**1.9**

Forecast
Weights constructed from the annual production value in 2015.
Source: INSEE

French developments

In Q2 2017, manufacturing output is expected to bounce back (+0.8%). Indeed, the quarterly carry-over effect in the industrial production index (IPI) was positive in April (+0.3%), the business climate was stable in May at its highest level since June 2011 and the balances of opinion of business managers in industry on expected activity and order books remain substantially above their average level. In detail, activity is expected to bounce back in agri-food (+0.5% after –0.8%), with the climate gaining 3 points in two months (*Graph 2*), and in coke and refined petroleum products (+4.7% after –11.0%), due to the re-opening of a refinery that was undergoing maintenance in Q1. Output is expected to rise again in capital goods (+1.4% after 0.0%), in line with the new improvement in the business climate, which in May rose to its highest level for nine years. Activity is expected to remain vigorous in "other industries" (+0.5% after +0.6%), with the business climate remaining considerably higher than the norm. On the other hand, activity is expected to remain virtually unchanged in transport equipment (+0.1% after +1.0%), the automotive sector being particularly affected by temporary supply difficulties. Value added, which is relatively unaffected by coke and refined petroleum products, should gather pace more moderately than output: +0.6% after +0.2% (*Table 2*).

In H2 2017, manufacturing output should remain solid (+0.7% in Q3 and then +0.5% in Q4). On average over the year it is expected to gather pace sharply in 2017 (+1.5% after +0.8% in 2016).
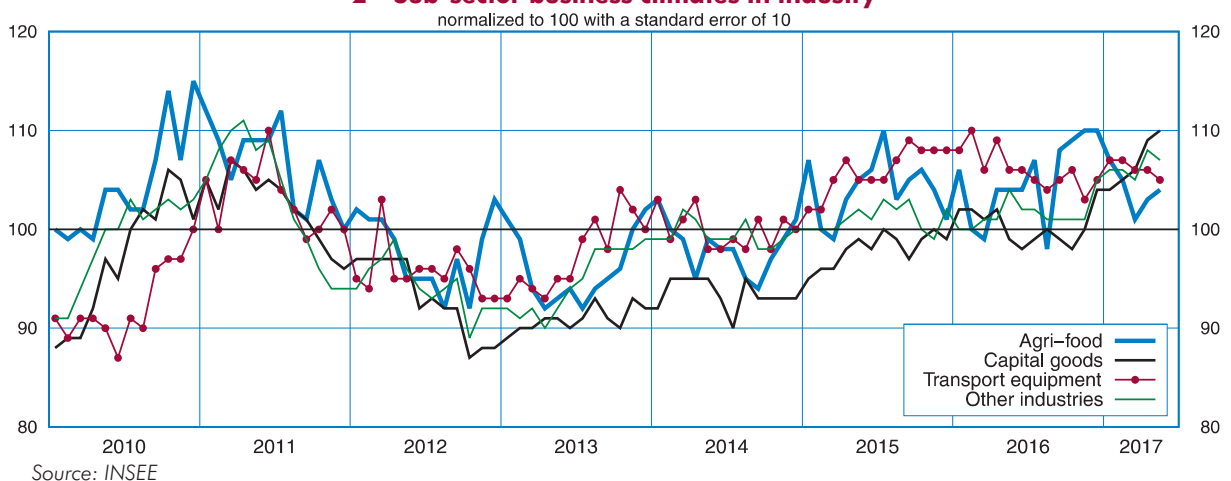
Agricultural output should bounce back in 2017 after two years of decline

Agricultural output increased sharply in Q1 2017 (+2.4% after +1.4%). Assuming weather conditions are normal, it should continue to rise steadily through the end of 2017, so that, on average over the year, agricultural output should recover (+4.9%) after two years of pronounced decline (including –5.6% in 2016). The rebound in agricultural activity is expected to contribute +0.1 points to annual growth in gross domestic product.

1 - Business climate in France: all sectors in industry, services and construction

normalized to 100 with a standard error of 10

Source: INSEE
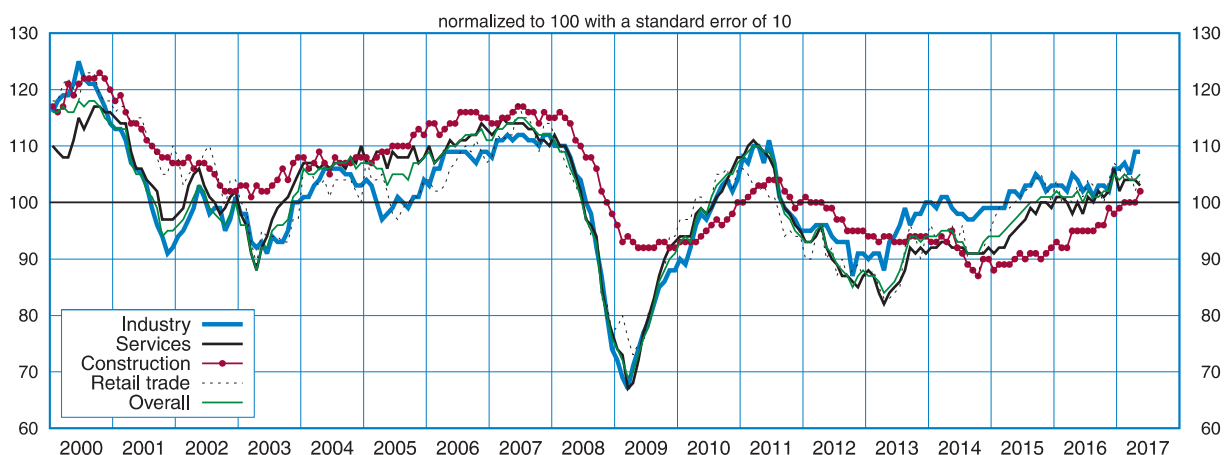
2 – Sub-sector business climates in industry

normalized to 100 with a standard error of 10

Source: INSEE

Energy output is expected to bounce back in Q2

After falling in Q1 2017 (−1.3% after +2.5%) under the effect of temperatures above the seasonal norms in February and March after a cool autumn, energy output is expected to bounce back in Q2 (+0.7%) and then show weak growth in H2 (0.0% then +0.2% in Q3 and Q4). On average over the year, it is expected to increase by 0.1% (after +0.8%).

In construction, activity is expected to gather pace in the spring and then stay steady

In Q1 2017, output in construction slowed (+0.3% after +0.6%). Activity in the building sector increased whilst it fell again in civil engineering, hampered by unfavourable weather conditions.

In Q1 2017, the number of building permits for single dwellings picked up and has remained on an upwards trend since the beginning of 2015. On the other hand, the number of building permits for collective housing fell for the second consecutive quarter. In the business tendency survey carried out with business leaders in the building sector, the balance of opinion on expected activity was above its long-term average (*Graph 3*). Furthermore, opinions on order books in the building industry and the prospects for activity in small construction firms are improving. In civil engineering, the balances of opinion of business leaders concerning their activity substantially exceed their long-term average. Consequently, a rebound is expected in spring 2017. Total construction output is expected to gather pace in Q2 2017 (+0.7%) and then increase sharply once again in H2 (+0.6% per quarter). Over the whole of 2017, it is expected to pick up quite considerably (+1.8% after +0.1% in 2016).
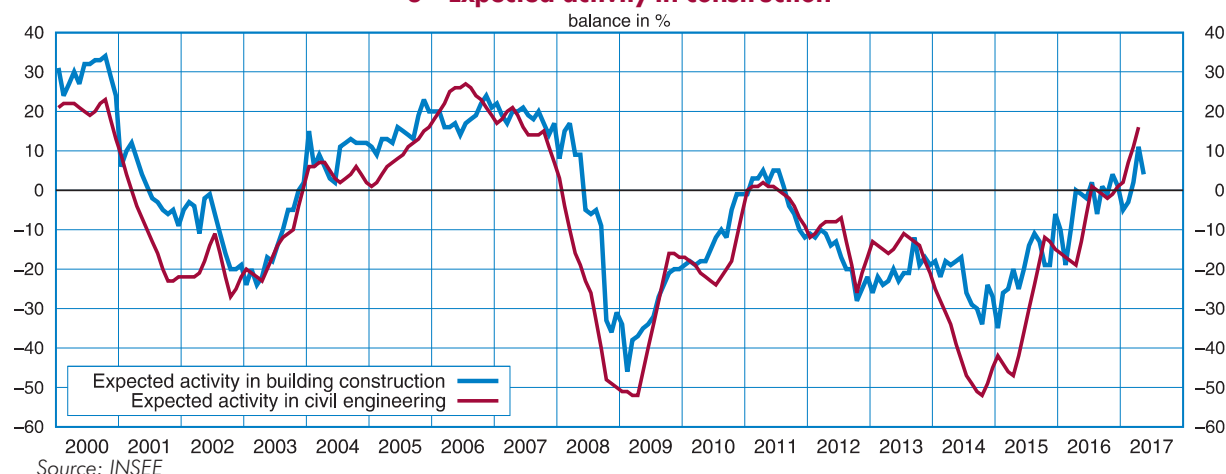
3 - Expected activity in construction
balance in %

Expected activity in building construction
Expected activity in civil engineering

Source: INSEE

Table 2

Value added by branch
Q/Q-1 variations (as a %), SA-WDA data

| | Quarterly changes | | | | | | | | | | | | Annual changes | | |
| | 2015 | | | | 2016 | | | | 2017 | | | | 2015 | 2016 | 2017 |
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Agriculture (2%)	0.0	−1.0	−2.0	−3.2	−4.1	−2.7	−1.0	0.9	2.4	3.5	1.9	0.4	0.5	−9.8	5.7
Manufacturing industry (11%)	0.1	0.2	0.4	0.6	0.5	−0.1	0.4	0.3	0.2	0.6	0.6	0.5	0.9	1.4	1.4
Energy, water, waste (3%)	4.5	−1.8	1.8	−0.6	1.8	0.5	−2.7	1.8	−2.0	0.7	0.0	0.2	2.4	1.3	−1.3
Construction (5%)	−0.3	−0.6	−0.3	0.3	0.0	0.0	0.0	0.3	0.2	0.5	0.5	0.4	−2.0	0.0	1.2
Trade (10%)	0.7	0.3	0.7	0.1	0.9	−0.4	−0.1	0.4	0.4	0.4	0.5	0.4	2.2	1.1	1.2
Market services excluding trade (46%)	0.2	−0.1	0.4	0.4	0.8	−0.2	0.4	0.5	0.7	0.5	0.5	0.5	0.9	1.4	1.9
Non-market services (23%)	−0.1	0.1	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.9	0.9
Total (100%)	**0.3**	**0.0**	**0.3**	**0.3**	**0.5**	**−0.1**	**0.2**	**0.4**	**0.4**	**0.5**	**0.5**	**0.4**	**0.8**	**1.0**	**1.5**

Forecast

Weights constructed from the annual production value in 2015.
Source: INSEE

Trade activity should continue to grow steadily in 2017

In Q1 2017, trade activity grew at the same sustained rate as in Q4 2016 (+0.6%). Indeed, for manufactured goods household consumption remained buoyant (+0.3% after +0.6%), and corporate investment accelerated (+2.7% after +1.1%).

In Q2, activity is expected to slow a little (+0.5%): consumption of goods is expected to remain positive, exports of manufactured goods should bounce back (+2.8% after –2.0%) but trade margins should suffer from the expected contraction of investment. In wholesale trade as well as in retail trade, the business climate improved in May. In both sectors, it stands at 104, above its average level, and the balances relating to general and personal prospects remain higher than their long-term average.

As a result, trade activity is expected to increase vigorously in H2 (+0.6% in each quarter). On average over the year, it should increase by 1.8% in 2017, after +1.5% in 2016.

Market services excluding trade: activity is expected to rise at a sustained pace in 2017

In Q1 2017, activity in market services excluding trade saw a sustained increase (+0.9% after +0.6%). Activity gathered pace sharply in accommodation and food services (+1.0% after 0.0%) and information and communication (+1.7% after +0.7%), and bounced back in "other service activities" (+0.5% after –0.2%). It continued to grow markedly in services to businesses (+1.2% after +1.0%) and in transport services (+0.6% after +0.8%).

In May 2017, the business climate in the service sector was virtually unchanged at 103, above its long-term average. It confirmed the brighter picture since the end of 2016 – in December it had reached a level not seen since mid-2011. The composite indicator is particularly high in transport (108; *Graph 4*) and in administrative and support services (108). In accommodation and food services, the business climate dipped in May, after a marked improvement in April, but it remains above its long-term level, confirming that tourists are returning to France. In Q2 2017, activity in market services excluding trade is expected to slow down (+0.5%) and then continue growing at a similar rate in H2 2017 (+0.6% per quarter). Over 2017 as a whole, output of market services excluding trade is expected to accelerate markedly (+2.4% after +1.3%).

Mainly non-market services: growth in activity is expected to remain moderate

In Q1 2017, activity in mainly non-market services grew at the same rate as in Q4 2016 (+0.3%). It is expected to continue increasing at this moderate pace until the end of the year. Overall over the year, output is expected to grow by 1.0% in 2017 in these sectors, as in 2016. ∎

4 – Sub-sector business climates in services
normalized to 100 with a standard error of 10

Source: INSEE