

Foreign trade

In Q1 2017, world trade grew strongly again (+2.2% after +1.7%), as did world demand for French products (+1.5% after +1.9%). However, French exports contracted (-0.8% after +1.0%), notably due to sales of transport equipment. In Q2, exports are set to rebound (+2.2%), driven mainly by deliveries on major aeronautical and shipbuilding contracts. They are likely to slow down in reaction in Q3 (+0.9%), before returning to higher growth (+1.3%), driven notably by continuing strong world demand.

Imports accelerated in Q1 (+1.4% after +0.6%), above all due to large one-off purchases of manufactured goods, in pharmaceuticals and refined petroleum products. They should stagnate in Q2. In H2, they are likely to return to a pace that is more in line with the content of domestic demand (+0.6% on average per quarter). On average, foreign trade is set to knock 0.3 points off annual growth in gross domestic product in 2017, which is significantly less than in 2016 (-0.8 points).

World trade should accelerate strongly in 2017

In Q1 2017, world trade accelerated again (+2.2% after +1.7%, *Table 1*), driven by dynamic Chinese, South Korean and American imports. Through to the end of the year, it should maintain a steady growth rate of 1.2% on average per quarter, as suggested by the high levels of balances of opinion on export orders in business tendency surveys around the world (*Graph 1*). World trade should continue to benefit from the recovery in imports in the emerging and US economies. On average in 2016, it had slowed down (+1.5% after +2.5%), posting its lowest growth since 2009. In 2017, it is set to accelerate strongly (+5.9%), driven by an upturn in global investment and in processing trade in Asia (*Report* p.19).

In this international context, world demand for French products progressed strongly again in Q1

(+1.5% after +1.9%, *Graph 2*). Through to the end of 2017, it is likely to progress slightly less quickly than world trade (+1.1% on average per quarter): due to its geographical orientation, France does not benefit as intensely as other economies from the recovery in demand in emerging countries. On average over the year, however, world demand for French products should pick up strongly in 2017 (+5.3% after +2.5%).

Exports are expected to pick up by the end of the year 2017

In Q1 2017, French exports fell back (-0.8% after +1.0%, *Table 2*) despite buoyant world demand. Manufacturing exports contracted significantly (-2.0% after +1.8%). This fall was driven mainly by a sharp drop in transport equipment (-6.7% after +4.3%) after the record aeronautical deliveries at the end of 2016. Similarly, sales of refined petroleum products fell (-5.5% after +0.2%) due to stoppages at several refineries. To a lesser extent, exports of "other industrial products" also fell back (-0.9% after +1.4%). However, energy exports rebounded strongly (+20.1% after -11.4%) with the resumption of activity of nuclear power plants that were previously under maintenance. Agricultural exports recovered to some extent, meanwhile (+3.3% after -5.5%). Finally, sales of services accelerated (+1.0% after +0.3%).

In Q2 2017, exports of goods and services are set to regain momentum (+2.2%), notably those of manufactured goods (+2.8%, *Graph 3*). Aeronautical and shipbuilding sales are set to increase sharply, driven by several deliveries on a number of large contracts, including the Meraviglia cruise ship and satellites that could not be launched in March due to industrial action in French Guiana. Exports of energy (+1.0%) and agricultural products (+0.5%) should progress slightly. Exports of services should return to a growth rate slightly below their trend (+0.8%).

Table 1

World trade and world demand for French products

levels ; percentage changes from previous period

	2016				2017				2015	2016	2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
World trade	-0.6	0.7	0.7	1.7	2.2	1.4	1.2	1.0	2.5	1.5	5.9
Imports of advanced economies	0.1	0.5	0.6	1.3	1.4	1.2	1.0	0.9	4.0	2.2	4.6
Imports of emerging economies	-2.1	1.3	0.7	2.4	3.8	1.6	1.6	1.3	-0.6	-0.1	8.8
World demand for French products	-0.1	1.3	0.5	1.9	1.5	1.3	1.1	1.0	3.5	2.5	5.3

Forecast

Source: INSEE

French developments

In H2 2017, French exports should continue to be marked by the delivery schedules of major aeronautical and shipbuilding contracts. Manufacturing exports should therefore slow down in reaction in Q3 (+0.5%), before accelerating in Q4 (+1.3%). Agricultural exports should show a recovery (+10.0% then +5.0%), provided that the summer harvests return to normal. Energy exports should continue to increase, although less than in H1 (+1.0% per quarter).

All in all, exports are expected to follow the same profile as manufacturing exports, accelerating in Q2 (+2.2%), slowing in Q3 (+0.9%) and accelerating once again in Q4 (+1.3%). Over the year as a whole, they should be stronger in 2017 than in 2016 (+2.8% after +1.9%), but French exporters are set to lose market share once again.

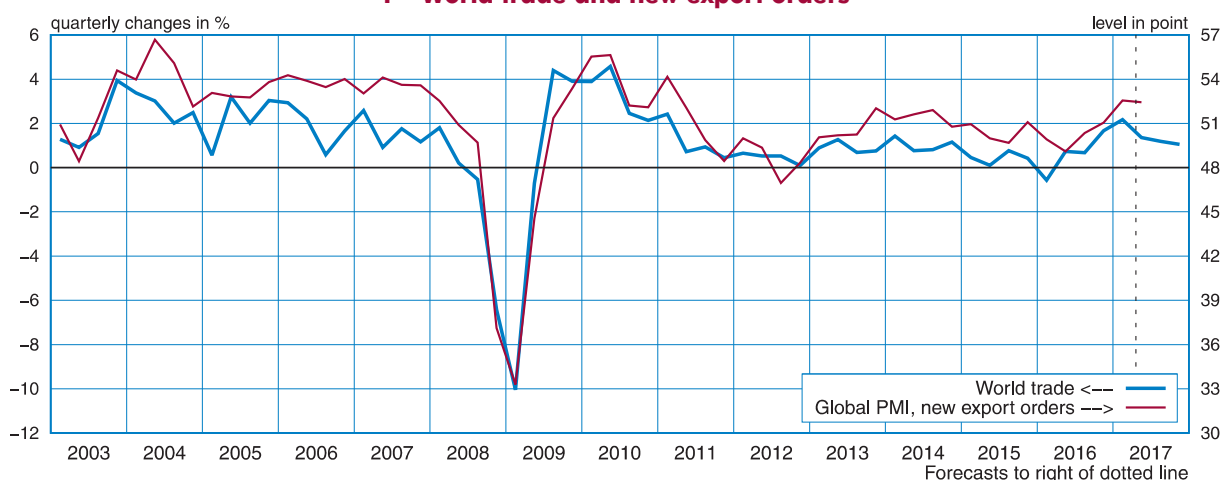
Imports are likely to remain dynamic in 2017

French imports gathered pace in Q1 2017 (+1.4% after +0.6%), especially those in manufactured goods (+3.0% after +0.3%). Imports of refined petroleum products rebounded

sharply (+27.7% after -10.7%), while those of "other industrial products" also accelerated significantly (+2.7% after +0.3%), notably in pharmaceuticals, as did imports of capital goods (+1.8% after +0.6%), driven by dynamic investment. However, imports of services fell once again (-0.1% after -0.3%). Likewise, energy imports contracted (-8.8% after +9.5%), as did those of agricultural products (-0.4% after -0.1%).

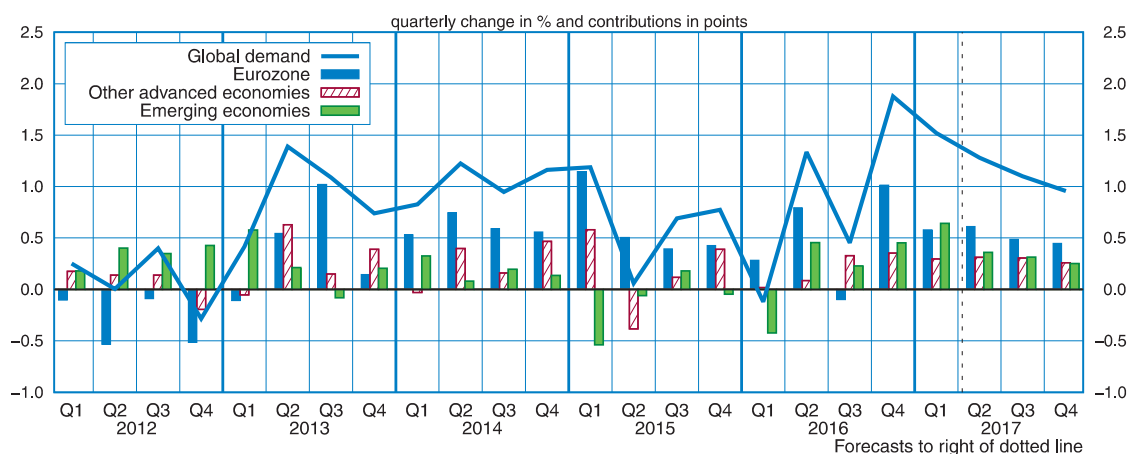
In Q2, manufacturing imports should contract in reaction (-0.3%), as the dynamic purchasing at the start of the year in pharmaceuticals and refined petroleum products would appear to be mainly a one-off. Over the last three quarters of the year, imports of services should increase at the same pace as exports of these products (+0.8% per quarter). Imports of agricultural products should fall back slightly (-0.5%) in Q2, then more sharply in H2 (-3.0% in Q3), with the upturn in domestic agricultural production. Energy imports, which have reached a very high level, should fall back gradually (-0.5% in Q2, -6.0% in Q3 and -4.0% in Q4).

1 - World trade and new export orders



Sources: Markit, DG Trésor, INSEE forecast

2 - World demand for French products and contributions of the main partners

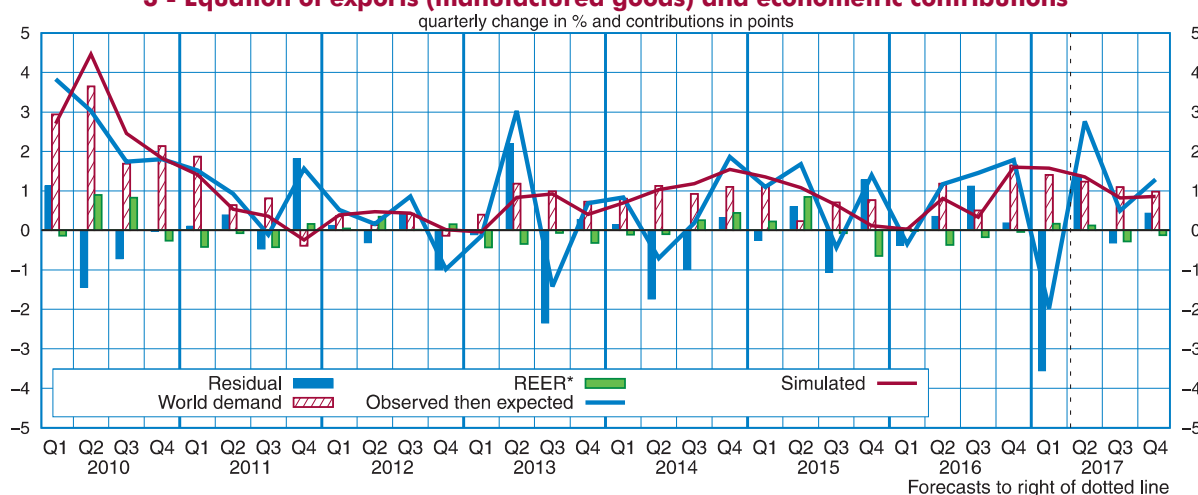


Sources: DG Trésor, INSEE forecast

All in all, imports are set to stall in Q2 2017, before returning in H2 to a growth rate more in line with domestic demand (+0.5% then +0.7%). Over 2017 as a whole, imports should decelerate slightly (+3.5% after +4.2% in 2016), but still increase more significantly than exports. Foreign

trade is therefore likely to hold back growth in gross domestic product again (-0.3 points), although less than in 2016 (-0.8 points). The improvement should mainly come from agricultural products, energy, and also the tourism balance (*Focus*). ■

3 - Equation of exports (manufactured goods) and econometric contributions



*REER: real effective exchange rate
Sources: INSEE, DG Trésor

Table 2

Foreign trade growth forecast

variations in % at chain-linked previous year prices, contributions in points

	Quarterly changes								Annual changes		
	2016				2017				2015	2016	2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Exports											
All goods and services	0.3	0.2	0.6	1.0	-0.8	2.2	0.9	1.3	4.0	1.9	2.8
Manufactured products (68%)*	-0.3	1.2	1.5	1.8	-2.0	2.8	0.5	1.3	3.9	3.0	3.1
Imports											
All goods and services	0.6	-1.1	2.8	0.6	1.4	0.0	0.5	0.7	5.5	4.2	3.5
Manufactured products (68%)*	0.8	-0.9	2.0	0.3	3.0	-0.3	1.0	1.0	5.2	4.4	4.5
Contribution of foreign trade to GDP	-0.1	0.4	-0.7	0.1	-0.7	0.7	0.1	0.2	-0.5	-0.8	-0.3

Forecast

*Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2016.

Source: INSEE