

# Review of the previous forecast

In Q3 2017, gross domestic product (GDP) progressed by 0.5%, as expected in *Conjoncture in France in October 2017*. Domestic demand excluding inventory buoyed growth in GDP, almost as forecast (+0.6 points against +0.5 points). Foreign trade, however, weighed down more on growth than expected (-0.6 points against -0.2 points) and, symmetrically, the contribution of changes in inventories was greater than expected (+0.5 points against +0.3 points). The growth forecast for Q4 2017 is revised upwards slightly from that in *Conjoncture in France in October* (+0.6%).

Market-sector employment slowed down as forecast (+46,000 in Q3 after +77,000). At the same time, the unemployment rate rose to 9.7% of the French labour force (against an expected 9.4%). In November 2017, headline inflation stood at +1.2% according to the provisional estimate, a little higher than forecast, due to the rise in oil prices, and the forecast for the end of the year is also revised upwards to +1.2%.

## In Q3, activity progressed as forecast

In Q3 2017, growth reached +0.5% (*Table 1*) as expected in *Conjoncture in France in October 2017*. Production in all branches increased a little more than forecast (+0.7%, *Table 2*), although with differences in composition: production in the water-energy-waste branch came out higher than expected (+1.7% against 0.0%) due to the rather cool temperatures in September. Construction, meanwhile, disappointed slightly (+0.3% against +0.7%), due to an unexpected fall in civil engineering. In services, production was in line with the forecast.

## Domestic demand buoyed growth as forecast

The contribution of domestic demand excluding inventory to growth in GDP was slightly greater than forecast (+0.6 points against +0.5 points). Household consumption rebounded a little more than forecast (+0.6% against +0.5% and after +0.3%). Corporate investment was higher than expected (+1.1% against +0.6%), due to higher expenditure on manufactured goods. Household investment progressed almost as forecast (+1.1% against +1.0%).

**Table 1**  
**Gross domestic product and its main components in the expenditure approach**

Percentage changes from previous period in %

	Conjoncture in France October 2017		Conjoncture in France December 2017	
	Q3 2017	Q4 2017	Q3 2017	Q4 2017
Gross domestic product	0.5	0.5	0.5	0.6
Imports	1.4	0.2	2.8	0.2
Household consumption expenditure	0.5	0.3	0.6	0.3
General government consumption expenditure*	0.4	0.4	0.5	0.2
Gross fixed capital formation	0.6	0.8	0.9	1.1
of which: Non financial enterprises	0.6	1.0	1.1	1.2
Households	1.0	0.9	1.1	1.0
General government	-0.1	0.0	-0.2	0.7
Exports	0.9	1.7	1.1	1.8
<b>Contributions (in percentage points)</b>				
Domestic demand excluding changes in inventories**	0.5	0.4	0.6	0.4
Changes in inventories**	0.3	-0.4	0.5	-0.3
Net foreign trade	-0.2	0.4	-0.6	0.5

Forecast

\* General government and non-profit institutions serving households

\*\* Changes in inventories include acquisitions net of sales of valuable

Source: INSEE

## French developments

The external balance weighed down on growth (−0.6 points) more than expected (−0.2 points). Exports progressed a little more than anticipated (+1.1% against an expected figure of +0.9%) and imports were once again significantly more dynamic than expected (+2.8% against +1.4%). Purchases of agricultural products fell significantly less than had been forecast (−2.0% against −5.0%) and those of manufactured goods rose more than expected (+4.4% against +2.4%). The contribution of changes in inventories was greater than in the forecast (+0.5 points against +0.3 points), essentially due to aeronautics.

### The growth forecast for Q4 2017 is revised upwards

The growth forecast for Q4 2017 has been revised upwards from that in *Conjoncture in France* in October 2017 (+0.6% against +0.5%), due to manufacturing production that would appear to be significantly more dynamic than forecast (+1.5% against +0.6%). Production progressed sharply in October.

Domestic demand, however, should drive growth as anticipated in *Conjoncture in France* (+0.4 points). The household consumption forecast remains unchanged. In more detail, due to the inclusion of the data for October, the forecast has been lowered for manufactured products and energy, but raised in services, in line with the constant improvement in the business climate in this sector.

The household investment forecast, meanwhile, has been revised upwards slightly (+1.0%) and that for government investment raised more significantly (+0.7% against +0.0%) due to the expected rebound in civil engineering. Finally, with

the sharp improvement in the business climate, the forecast for corporate investment has been revised upwards.

Foreign trade would appear to have made a slightly more positive contribution to growth than had been forecast in October (+0.5% instead of +0.4%), essentially due to aeronautics deliveries being concentrated at the end of the year. Exports should accelerate a little more than forecast (+1.8%). Imports should be sluggish due to a backlash after exceptional sourcing this summer. Symmetrically, the contribution of changes in inventories is forecast to be lower, as in October (−0.3 points against −0.4 points).

### Market-sector employment slowed down as forecast

In Q3 2017, market-sector employment slowed down as expected (+46,000 net job creations, after +77,000). In addition, the unemployment rate (overseas departments included) stands at 9.7%, against a forecast of a fall to 9.4%, due notably to the unexpected fall in the halo of employment.

### At the end of 2017, inflation set to rise to +1.2%, a little higher than expected

In November 2017, headline inflation stood at +1.2% according to the provisional estimate, a little higher than forecast due to the upswing in oil prices. For the end of the year, the forecast for headline inflation has been raised slightly (+1.2% in December, against +1.0%), while core inflation should be a little lower than forecast (+0.6% against +0.8%), above all due to the price of services, which would seem to have been a little less dynamic than anticipated. ■

Table 2

### Activity by sector and labour market

Percentage changes from previous period in %

	Conjoncture in France October 2017		Conjoncture in France December 2017	
	Q3 2017	Q4 2017	Q3 2017	Q4 2017
<b>Output by sector</b>				
Agriculture	1.0	0.7	0.8	0.4
Manufacturing	0.6	0.6	0.8	1.5
Energy, water and waste	0.0	0.1	1.7	−0.2
Construction	0.7	0.6	0.3	0.8
Trade	0.7	0.7	0.9	0.7
Market services excluding trade	0.7	0.6	0.7	0.8
Non market services	0.3	0.3	0.5	0.2
<b>Total</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>
<b>Employment, unemployment, prices</b>				
Non-agricultural market sector employment	46	40	46	60
ILO* unemployment rate - Metropolitan France	9.4	9.4	9.7	9.5
Consumer price index <sup>1</sup>	1.0	1.0	1.0	1.2
Core inflation <sup>1</sup>	0.6	0.8	0.5	0.6

Forecast

\* ILO unemployment: unemployment as defined by the International Labour Organisation  
1. Year-on-year on the last month of the quarter

Source: INSEE