

Output

In Q3 2017, gross domestic product grew steadily (+0.5%) after three quarters at almost the same rate (0.5% to 0.6%). Total output of goods and services increased, as in the previous quarter (+0.7%).

In November, the business climate in France reached a level not seen since January 2008, well above its long-term average. The output of goods and services should therefore continue to increase quite considerably in Q4 (+0.8%).

Over the year as a whole, it is expected to grow by 2.3% (after +0.9% in 2016), its biggest rise since 2011. It is set to progress significantly again in H1 2018 (+0.6% in Q1 followed by +0.4% in Q2). By mid-2018, the carry-over effect for output for the year is expected to be +2.0%.

The output of goods and services should barely slow through to mid-2018

After significantly increasing in Q2 (+0.7%), output continued to grow at this rate in Q3 (Table 1). Activity slackened in agriculture (+0.8% after +1.3%) and to a significant extent in construction (+0.3% after +1.2%), but accelerated sharply in energy-water-waste (+1.7% after +0.4%). It increased at almost the same pace as in Q2 in the manufacturing (+0.8%), trade (+0.9%), market services excluding trade (+0.7%), and non-market services (+0.5%) sectors.

In November, the business climate in France reached its highest level since January 2008 (Graph 1), driven by all sectors. This level has not been seen in six years in services, nine years in the building industry, and ten years in retail trade and manufacturing.

The output of goods and services should therefore remain vigorous in Q4 2017 (+0.8%), taking its average growth over the year to +2.3%. Activity is expected to slip back slightly in energy-water-waste (-0.2%), and to slow somewhat in agriculture (+0.4% after +0.8%), trade (+0.7% after +0.9%) and non-market services (+0.2% after +0.5%). It is likely to gain more momentum in construction (+0.8% after +0.3%) and should continue to grow in market services excluding trade at virtually the same rate as in Q3 (+0.8%). It should pick up sharply in the manufacturing sectors (+1.5% after +0.8%). In H1 2018, output is expected to rise steadily again in all sectors (+0.6% in Q1 and then +0.4% in Q2), despite declining in the spring due to a deceleration of activity in the manufacturing, construction and trade sectors. By mid-2018, the growth overhang for output should be +2.0% for the year.

Manufacturing output is set to accelerate significantly at the end of 2017

After picking up strongly in Q2 2017 (+0.8%), manufacturing output increased again in Q3 (+0.8%) thanks to transport equipment (+3.6%) and "other industries" (+0.8%). However, activity

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		
	2016				2017				2018		2016	2017	2018 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture (2%)	-2.3	-1.4	-0.6	0.5	1.1	1.3	0.8	0.4	0.1	0.0	-5.6	2.3	1.1
Manufacturing industry (20%)	0.3	-0.8	0.7	0.7	-0.1	0.8	0.8	1.5	0.6	0.3	0.8	1.9	2.5
Energy, water, waste (4%)	1.3	1.3	-2.4	2.4	-0.8	0.4	1.7	-0.2	0.3	0.3	0.8	1.2	1.2
Construction (8%)	0.1	-0.2	0.3	0.8	0.6	1.2	0.3	0.8	0.7	0.5	0.1	2.6	2.2
Trade (10%)	1.0	-0.3	-0.2	0.7	0.4	0.9	0.9	0.7	0.6	0.5	1.5	2.2	2.2
Market services excluding trade (41%)	0.5	-0.3	0.4	0.7	1.0	0.7	0.7	0.8	0.6	0.6	1.3	2.8	2.2
Non-market services (15%)	0.3	0.2	0.2	0.3	0.3	0.4	0.5	0.2	0.3	0.2	1.0	1.3	1.0
Total (100%)	0.4	-0.3	0.2	0.7	0.6	0.7	0.7	0.8	0.6	0.4	0.9	2.3	2.0

Forecast

Weights constructed from the annual production value in 2015.

Source: INSEE

French developments

slipped back in the coke and refined petroleum (-1.2%), agri-food (-0.3%) and capital goods (-1.0%) sectors.

In Q4 2017, manufacturing activity is set to accelerate significantly. In October, the quarterly carry-over effect in the industrial production index (IPI) was very high (+3.0%) and the business climate was very positive, at a level not seen since December 2007 (Graph 2). The balances of opinion on expected activity and order books were substantially above their normal level. Activity is expected to start rising again in capital goods (+3.2% after -1.0%) and in agri-foods (+0.5% after -0.3%), in line with the business climate in November. It should pick up sharply in "other industries" (+1.6% after +0.8%). Activity is likely to slow in transport equipment (+1.4% after +3.6%), in reaction to the sharp rise in Q3, but it should remain vigorous.

In Q1 2018, manufacturing activity should rise again steadily (+0.6%), before slowing down in Q2 (+0.3%), due to scheduled maintenance shutdowns in refineries, in particular. On average,

a brisk rise in manufacturing output is expected in 2017 (+1.9%). The growth overhang for 2018 should stand at +2.5% by mid-year.

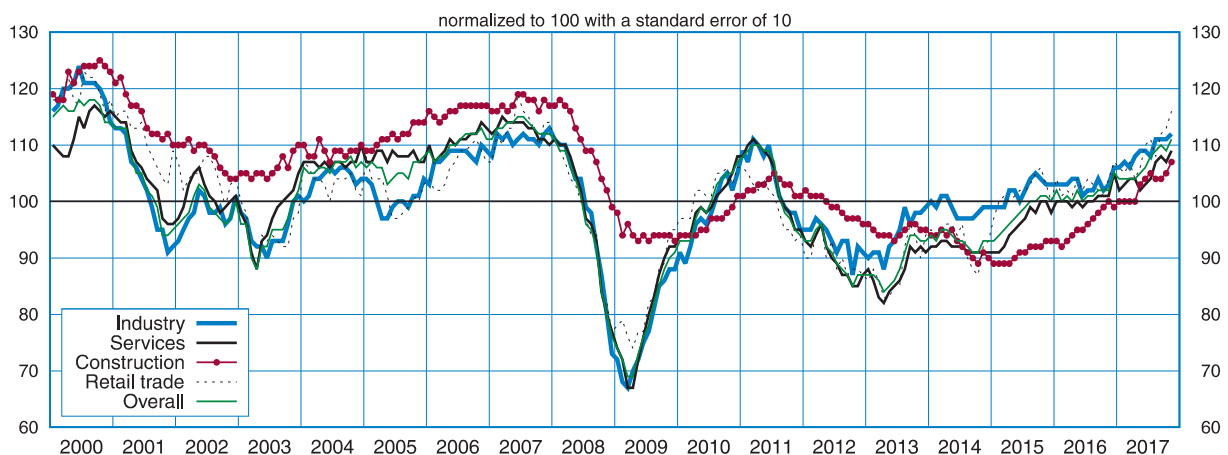
Agricultural output is likely to slow down gradually through to mid-2018

Agricultural output continued to rise steadily in Q3 2017 (+0.8%). It is expected to slow down in Q4 (+0.4%) and should remain almost stable in H1 2018. Over 2017 as a whole, due to the rebound in cereal harvests, agricultural output is set to rise again (+2.3%) after two years of pronounced decline. By mid-2018, the annual growth overhang should stand at +1.1%, driven by the recovery of wine production.

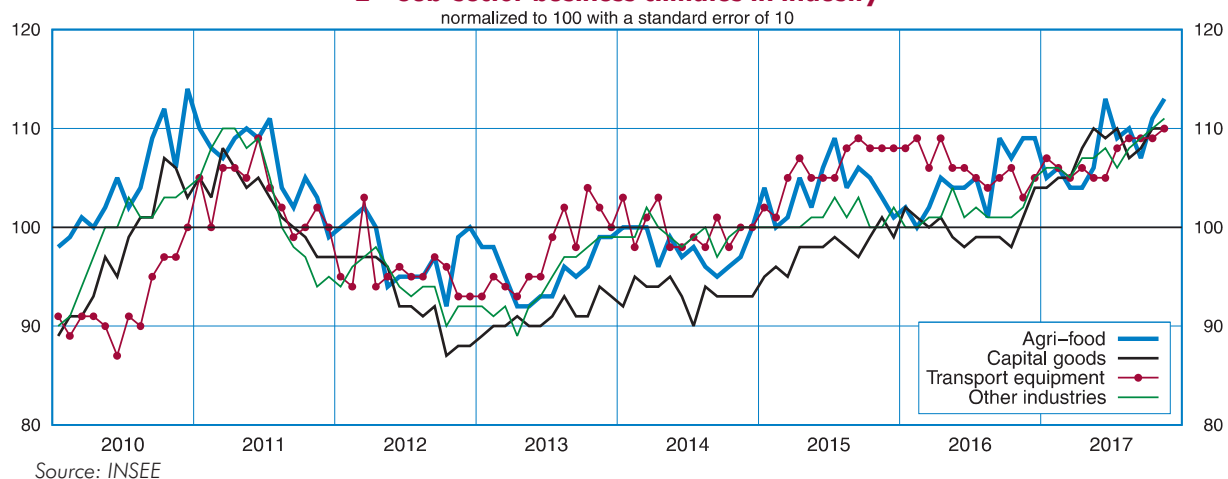
Energy production should accelerate slightly in 2017

After a dynamic Q3 2017 (+1.7%) due to abnormally low temperatures in September, energy production – in reaction – should edge down slightly in Q4 (-0.2%). Driven by the electricity demand from industry, it is expected to rise in H1

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



2 - Sub-sector business climates in industry



2018 (+0.3% per quarter) assuming that temperatures are seasonal. Over the year as a whole, production should accelerate slightly in 2017 (+1.2% after +0.8%). By mid-2018, the growth overhang for the year should be +1.2%.

In construction, activity is set to gather pace at the end of 2017 before slipping back slightly in early 2018

In Q3 2017, output in the construction sector decelerated significantly (+0.3% after +1.2%), held back by the slowdown in the building industry and the decline in civil engineering.

The number of building permits for individuals dwellings bounced back slightly in Q3 after a sharp downturn in Q2. The number of building permits for collective accommodation slowed but the growth rate remains vigorous. In the business tendency survey on business leaders in the building sector, the balances of opinion on past and expected activity have increased sharply and are significantly above their long-term average (*Graph 3*). Although property developers are reporting a drop in demand for new dwellings and less favourable prospects for housing starts than in the previous quarter, the associated balances remain higher than average. Output in the building industry is therefore expected to remain solid but should slacken gradually through to mid-2018. In civil engineering, contractors' balances of opinion have reached a record level for their activity forecasts and are at their highest level since 2008 for their order books, pointing to a new rise in

output in Q4 2017. Activity is expected to bounce back in this sector, with public demand being given a particularly strong boost by the ramping up of work on the Greater Paris development project. Consequently, total construction output should speed up sharply in late 2017 (+0.8%) and then continue at this rate at the start of 2018 (+0.7%) before slowing down in Q2 (+0.5%). Over 2017 as a whole, output in the construction sector is expected to accelerate quite considerably (+2.6% after +0.1% in 2016). By mid-2018, the growth overhang for the year should be +2.2%.

Trade activity is likely to remain buoyant through to June 2018

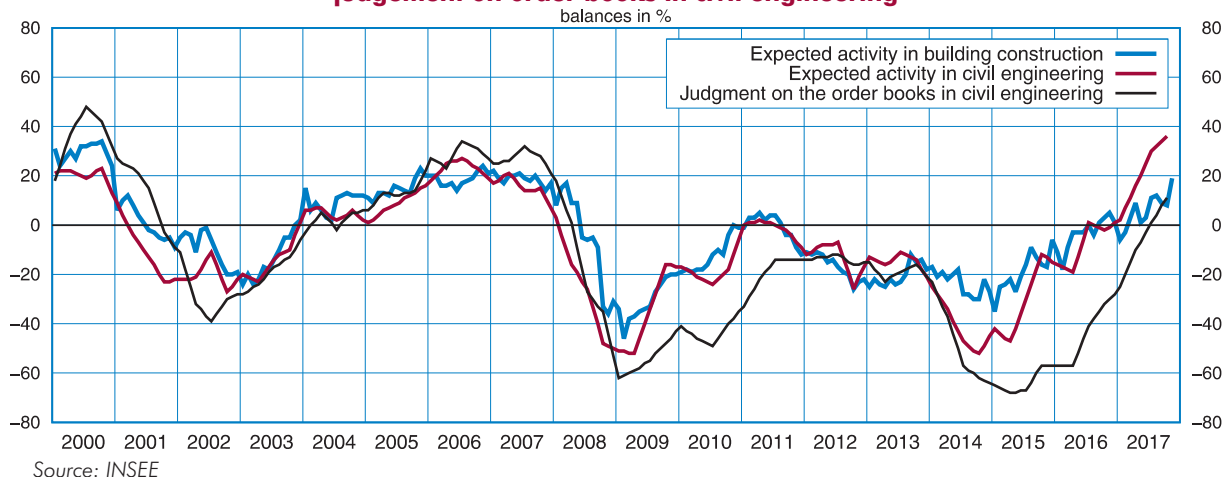
In Q3 2017 trade activity remained lively (+0.9%), driven by household consumption expenditure on manufactured products (+0.6%).

In November, the business climate improved in wholesale trade, retail trade and the automobile sector. Wholesalers and retailers remain optimistic: the balances of opinion relating to general business prospects and ordering intentions are high.

Consequently, activity in trade is likely to remain high at the end of 2017 (+0.7%) and should continue to grow steadily in H1 2018 (+0.6% in Q1 followed by +0.5% in Q2).

All in all, the growth overhang for output in trade for 2018 should stand at +2.2% by mid-year, after an annual average of +2.2% in 2017.

3 - Expected activity in construction, judgement on order books in civil engineering



French developments

Market services excluding trade: activity is expected to remain vigorous through to mid-2018

In Q3 2017, activity in market services excluding trade increased at a sustained rate (+0.7%), as in the previous quarter. It accelerated sharply in accommodation and food services (+1.2% after +0.2%), boosted by the return of foreign tourists, and continued to grow at a sustained pace in "other service activities" (+0.8%), financial activities (+0.9%) and in services to businesses (+0.8%). It decelerated in information-communication (+0.9% after +1.7%), while remaining buoyant. Output in transport remained virtually unchanged (+0.1%), due to a one-off downturn in air transport.

In November, the business climate in services reached its highest level since May 2011 and remains high in virtually all sectors, particularly for goods transported by road (*Graph 4*). Real estate activity is the only sector with a deteriorating climate, due to the performance of housing rental companies.

In this context, the activity of market services excluding trade should continue to rise steadily in late 2017 (+0.8%) and in H1 2018 (+0.6% per quarter). Over 2017 as a whole, the output of market services excluding trade is expected to increase by 2.8%. By mid-2018, the growth overhang for the year should be +2.2%.

Mainly non-market services: activity is set to decelerate slightly through to June 2018

In Q3 2017, mainly non-market activity grew at almost the same rate as in Q2 (+0.5%). It should continue to grow through to mid-2018 (+0.2% to +0.3% per quarter) but at a slower rate, due to the expected slowdown in public spending. Over 2017 as a whole, output is expected to pick up slightly (+1.3% after +1.0% in 2016). By mid-2018, the growth overhang is expected to be +1.0%. ■

4 – Sub-sector business climates in services

