

Review of the previous forecast

In Q1 2019, gross domestic product (GDP) maintained its pace with +0.3%, slightly less than forecast in the March 2019 issue of *Conjoncture in France* (+0.4%). Domestic demand excluding inventories sustained activity a little less than expected (+0.4 points against +0.5 points). Imports grew more strongly than forecast (+1.4% instead of +0.9%) and exports slowed, almost in line with the forecast (+0.4% instead of +0.6%). Therefore, foreign trade had a more negative impact on growth (-0.3 points against -0.1 points). At the same time, changes in inventories made a larger contribution than expected (+0.3 points). The growth forecast for Q2 2019 is slightly lower than that given in the March issue of *Conjoncture in France* (+0.3% against +0.4%).

In Q1 2019, market employment grew by 92,000, more strongly than expected (+35,000). Simultaneously, the unemployment rate fell slightly, to 8.7% of the French labour force (against the forecast for stability at 8.8%). In May 2019, according to the provisional estimate, headline inflation stood at +1.0%.

In Q1, activity grew more quickly than forecast

In Q1 2019, growth reached +0.3%, a slightly slower pace than forecast in the March 2019 issue of *Conjoncture in France* (+0.4%). Total output grew as forecast (+0.5%). Energy production surprisingly slowed (+0.5% against the +0.8% forecast), mainly on account of the unseasonably mild temperatures. The underestimation of manufacturing output (+0.6% compared to the +0.4% expected), caused by the output of coke and refined petroleum, capital goods and motor vehicles being more buoyant than expected, did not offset the slowdown in energy production.

Domestic demand sustained growth slightly less than forecast

The contribution of domestic demand excluding inventories to GDP growth was lower than forecast (+0.4 points against the +0.5 points initially forecast). Household consumption rebounded less than forecast (+0.4% against +0.5%), due mainly to the temperatures being warmer than normal for the period in question and to the consumption of manufactured goods being

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

Percentage changes from previous period in %

	Conjoncture in France March 2019		Conjoncture in France June 2019	
	Q1 2019	Q2 2019	Q2 2019	Q3 2019
Gross domestic product	0.4	0.4	0.3	0.3
Imports	0.9	0.6	1.4	-0.3
Household consumption expenditure	0.5	0.4	0.4	0.3
General government consumption expenditure*	0.5	0.4	0.2	0.3
Gross fixed capital formation	0.5	0.6	0.5	0.5
of which: Non financial enterprises	0.7	0.8	0.7	0.8
Households	-0.3	-0.2	0.0	-0.3
General government	0.7	0.7	0.7	0.6
Exports	0.6	0.2	0.4	-0.7
Contributions (in percentage points)				
Domestic demand excluding changes in inventories**	0.5	0.4	0.4	0.3
Changes in inventories**	0.1	0.1	0.3	0.0
Net foreign trade	-0.1	-0.1	-0.3	-0.1

■ Forecast

* General government and non-profit institutions serving households

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

Source: INSEE

French developments

lower than anticipated, despite the considerable rise in incomes in Q1. Total investment rose as forecast (+0.5%). Indeed, corporate investment grew as expected (+0.7%), due to an increase in investments in automobiles, in particular.

The external balance hampered growth more than forecast (-0.3 points, against -0.1 points). Exports were slightly below expectations (+0.4% against +0.6%), and imports rose more sharply than forecast (+1.4% against +0.9%).

Finally, due to lower exports and weaker than anticipated domestic demand, changes in inventories were more dynamic than forecast (+0.3 points against +0.1 points).

The labour market was much stronger than forecast

In Q1, 92,000 non-farm market-sector jobs were created, whereas the creation of only 35,000 net jobs had initially been forecast. Temporary

employment was surprising with a return to job creations (+8,000 against -5,000 anticipated), after four quarters of decline in this workforce in 2018, while job creations in construction accelerated (+16,000 after +10,000), whereas the creation of only 4,000 jobs had been initially expected. Meanwhile, unemployment fell by one-tenth of a point (to 8.7%), against the forecast for stability, with this new downturn following a notable reduction of 0.3 points in Q4 2018.

Core inflation is lower than forecast

In May 2019, according to the preliminary estimate, headline inflation stood at +1.0% year-on-year, as forecast in the March 2019 issue of *Conjoncture in France*. Core inflation would have been lower than expected (+0.5% in May against +0.9%), due mainly to a slowdown of services prices. For June 2019, headline inflation has been revised upwards (+1.3%, against +1.0% expected in March). This revision mainly stems from the upwards revision in oil prices. ■

2 - Activity by sector and labour market

	Conjoncture in France March 2019		Conjoncture in France June 2019	
	Q1 2019	Q2 2019	Q1 2019	Q2 2019
Agriculture	0.2	0.2	0.5	0.6
Manufacturing	0.3	0.2	0.5	0.0
Energy, water and waste	0.8	0.7	0.6	0.6
Construction	0,0	0,0	0.2	-0.1
Trade	0.3	0.3	0.4	0.0
Market services excluding trade	0.5	0.6	0.3	0.4
Non market services	0.4	0.3	0.1	0.2
Total	0.4	0.4	0.3	0.3
Employment, unemployment, prices				
Non-agricultural market sector employment	35	35	92	41
ILO* unemployment rate - Metropolitan France	8.8	8.7	8.7	8.5
Consumer price index ¹	1.2	1,0	1.1	1.3
Core inflation ¹	1,0	1.1	0.5	0.8

■ Forecast

* ILO unemployment: unemployment as defined by the International Labour Organisation

1. Year-on-year on the last month of the quarter

Source: INSEE