Output

Total output of goods and services slowed slightly in Q3 2019 (+0.3% after +0.4% during the two previous quarters), mainly due to a deceleration in market services excluding trade. Since the spring, the business climate in France has remained quite significantly above its long-term average.

Over the forecasting period, total output is expected to keep growing at between 0.2 and 0.3% per quarter. In Q4 2019, manufacturing activity is expected to remain stable after falling for two quarters. In H1 2020, total output should be driven by market services excluding trade. In construction, the end of the municipal electoral cycle is likely to lead to a slight slowdown in production. On average in 2019, the output of goods and services is expected to grow by 1.7%, after +2.0% in 2018. By mid-2020, its annual growth overhang should be +0.9%.

Output of goods and services is set to grow moderately through to mid-2020

In Q3 2019, the output of goods and services slowed down somewhat (+0.3%, after +0.4% in Q1 and Q2; *Table*).

Since April, the business climate has remained at around 105 – well above its long-term average (*Graph 1*) – as has the business climate in services. The business climate in industry, after improving slightly in August, has deteriorated and only just reached its long-term average in November. However, the climate in the construction sector remains at at very high level – above 110.

In this context, the total output of goods and services is expected to keep growing in Q4 2019 (+0.3%). After two quarters of decline, the

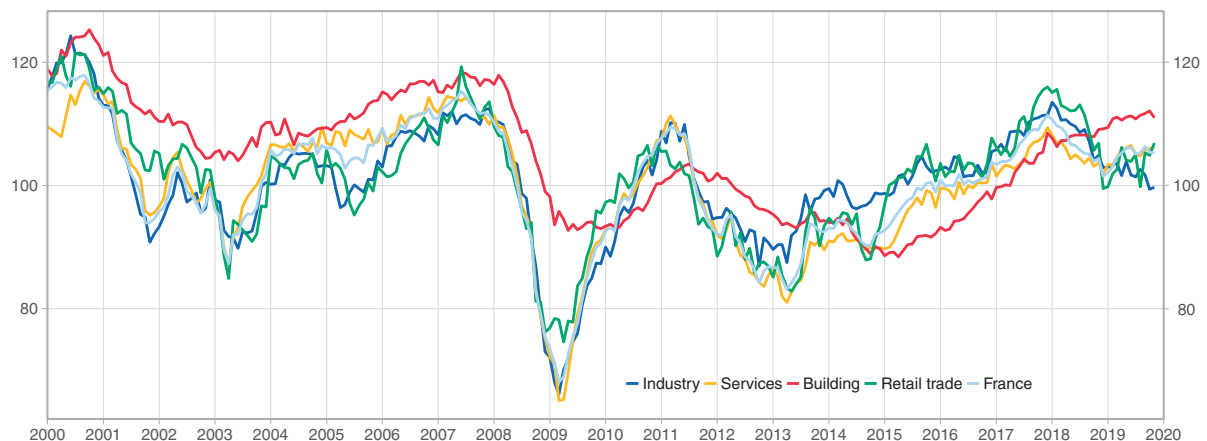## Output by branch at the previoux year's chain-linked prices
Q/Q–1 variations (as a %), SA-WDA data

| | Quarterly changes | | | | | | | | | | Annual changes | | |
| | 2018 | | | | 2019 | | | | 2020 | | 2018 | 2019 | 2020 |
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			ovhg
Agriculture (2%)	–0.1	–0.2	–0.3	–0.4	–0.4	–0.1	–0.3	0.1	0.0	0.0	1.1	–1.1	–0.1
Manufacturing industry (19%)	–1.5	0.0	0.7	0.2	0.4	–0.5	–0.6	0.0	–0.2	0.0	0.6	0.2	–0.6
Energy, water, waste (4%)	2.2	–3.7	0.9	0.4	0.0	1.3	–0.4	–0.4	0.3	0.2	0.4	0.4	0.2
Construction (7%)	–0.2	0.5	0.5	0.6	0.7	0.5	0.5	0.3	0.2	0.1	1.8	2.2	0.9
Trade (11%)	0.2	0.6	0.1	0.5	0.3	0.2	0.5	0.4	0.0	0.3	2.4	1.5	0.8
Market services excuding trade (43%)	0.7	0.5	0.8	0.8	0.5	0.8	0.7	0.5	0.4	0.5	3.2	2.7	1.7
Non-market services (14%)	0.0	0.2	0.1	0.5	0.3	0.4	0.4	0.3	0.2	0.2	0.8	1.3	0.9
Total (100 %)	**0.1**	**0.2**	**0.6**	**0.6**	**0.4**	**0.4**	**0.3**	**0.3**	**0.2**	**0.3**	**2.0**	**1.7**	**0.9**

■ Forecast
Source: INSEE

1 - Business climate in France: all sectors, in industry, services and construction, and retail trade
normalized to 100 with standard error of 10

Source: INSEE

stability of manufacturing output should indeed offset the slowdown in services and construction. In H1 2020, output is likely to maintain moderate growth (+0.2% in Q1, then +0.3% in Q2). The mid-year growth overhang for output in 2020 should be +0.9%.

Manufacturing output is expected to stabilise through to mid-2020

In Q3 2019, manufacturing output fell again (–0.6% after –0.5% in Q2), due to the contraction of activity in capital goods (–2.4% after +0.4%) and a further decline in the manufacture of coke and refined petroleum products (–3.6% after –6.3%), with refineries being shut down for maintenance. The drop in transport equipment output continued at a more moderate pace (–0.4% after –1.3%), despite a more pronounced drop in automotive activity (–5.5% after –2.3%).

Since August, the business climate in industry has deteriorated significantly (*Graph 1*), mainly due to the sharp decline in the climate for the agri-food sector (*Graph 2*). In November, the business climate improved marginally in capital goods and in the "other industries" sub-sector, and remained virtually stable in transport equipment. Manufacturing output is therefore expected to come to a standstill in Q4 (+0.0%).

Activity in capital goods should bounce back (+0.5% after –2.4%) and make a positive contribution to manufacturing output in Q4 2019. Output in transport equipment looks set to keep falling slightly (–0.3% after –0.4%). Activity is expected to deteriorate again in the manufacture of coke and refined petroleum products (–5.0%) due to the closure of the main French refinery in October.
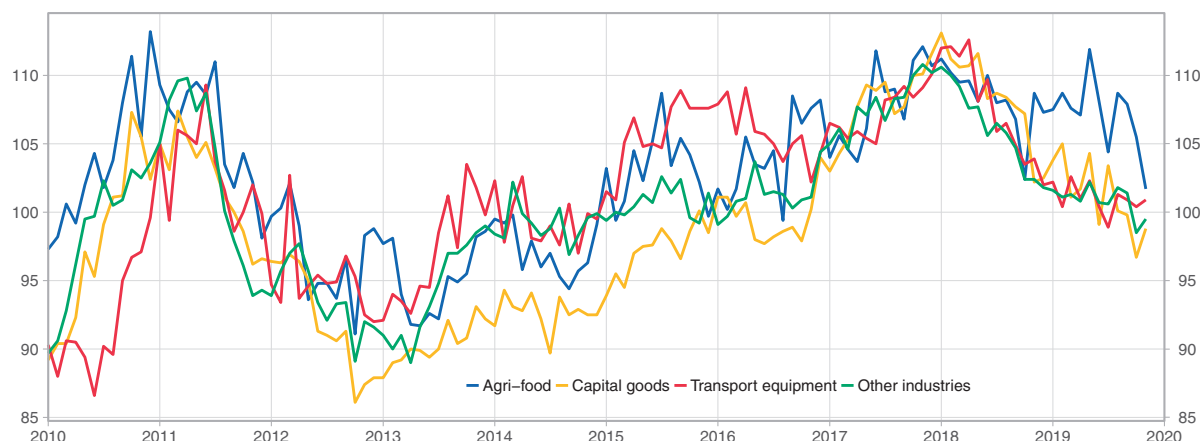
On an annual average basis, manufacturing output should slow to +0.2% in 2019, after +0.6% in 2018. In Q1 2020, activity is expected to decline again (–0.2%), before stabilising in Q2, driven by a slight upturn in exports. The growth overhang for 2020 is likely to be negative (–0.6%) at the end of H1.

Agricultural output looks set to remain virtually stable through to mid-2020

In Q3 2019, agricultural output fell (–0.3%). Cereal harvests were fairly favourable, but did not fully compensate for the poor grape crops. Assuming that weather conditions are normal, agricultural output is expected to stabilise through to mid-2020. Its annual growth overhang should then be –0.1%, after –1.1% for 2019 as a whole.

2 - Sub-sector business climates in industry
normalized to 100 with standard error of 10

Source: INSEE

Energy output should bounce back slightly through to mid-2020

In Q3 2019, energy output edged down (–0.4%) in reaction to the increase in the spring (+1.3%). Assuming that temperatures are seasonal in December, it is expected to decline at the same rate in Q4 2019 (–0.4%) and to rebound slightly in H1 (between +0.2 and +0.3% per quarter), in line with household energy consumption. On average throughout 2019, energy output is likely to increase marginally (+0.4%). By mid-2020, its annual growth overhang is expected to be +0.2%.

Activity is likely to slow down in construction

In Q3 2019, output in the construction sector continued to rise (+0.5%), after a dynamic H1 (+0.7% in Q1 and +0.5% in Q2). It was driven mainly by vigorous public works activity, especially in civil engineering. In the construction industry, the number of building permits for individual dwellings continued to rise in Q3 2019 (+5.5%), whereas those for collective housing fell sharply (–6.2%).

The business climate in the construction industry has remained at a very high level – above 110 – since February 2019. However, in November, the increase in activity expected by business leaders fell back sharply (*Graph 3*). In public works, the quarterly balances of opinion of these business leaders, based on their expected activity and views on their order books, have deteriorated since last July.
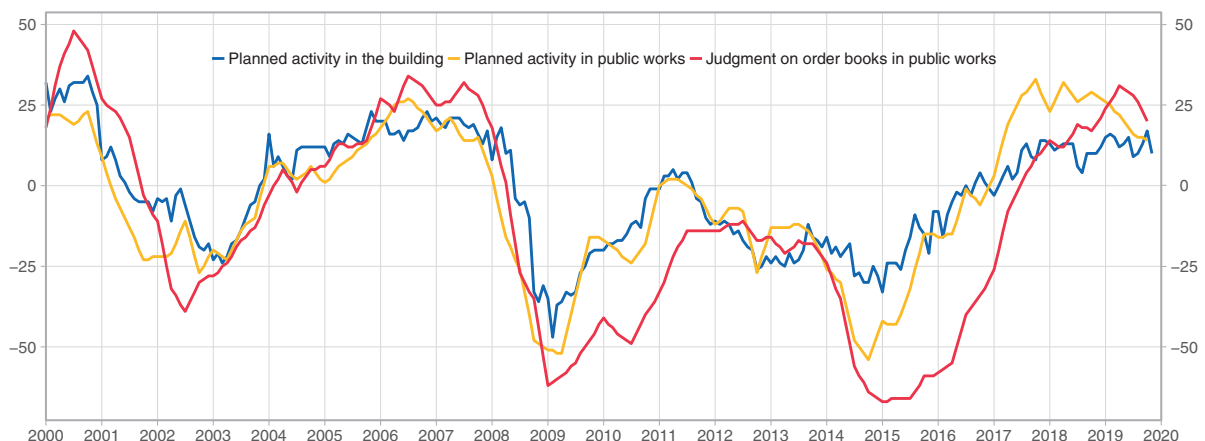
In this context, output in the construction sector should slow down in Q4 2019, to +0.3% and then to +0.2% in Q1 2020, before slowing again in Q2 (+0.1%): in particular, activity in public works is expected to slow down, in line with the end of the municipal election cycle (see *Special Analysis entitled «The municipal election cycle: what are the impacts on public investment, employment and output?"*).

On average over 2019, activity in construction is expected to have risen by +2.2% after +1.8% in 2018. In 2020, the mid-year growth overhang for the year should be 0.9%.

Trade activity should grow moderately through to mid-2020.

In Q3 2019, trade activity ramped up (+0.5%) after moderate growth in Q2 (+0.2%). It is likely to slow in Q4 2019 (+0.4%) and again in Q1 2020 (0.0%), in line with the slowdown in household consumption, before picking up a little momentum in Q2 (+0.3%).

3 - Expected activity in construction, judgment on order books in civil engineering
balances in %

Source: INSEE

Market services excluding trade: slight slowdown in H1 2020

In Q3 2019, the activity of market services excluding trade slowed slightly compared with the second quarter, but remained robust (+0.7% after +0.8%). In greater detail, activity stalled in the transport sector (0.0% after +1.3%) but remained robust in services to businesses (+0.6% after +0.6%). It also decelerated marginally in real estate activities (+0.4% after +0.5%), after real estate sales set a record over 12 months in the spring. Activity remained virtually stable in accommodation and food services (+0.1% after +0.7%): the summer season, in particular, was less favourable for hotel occupancy, which had been very dynamic in spring 2019. Activity was very vigorous in information-communication (+2.0% after +1.0%) and in financial activities (+1.1% after +1.2%). Activity grew at the same pace in other service activities (+0.4%).
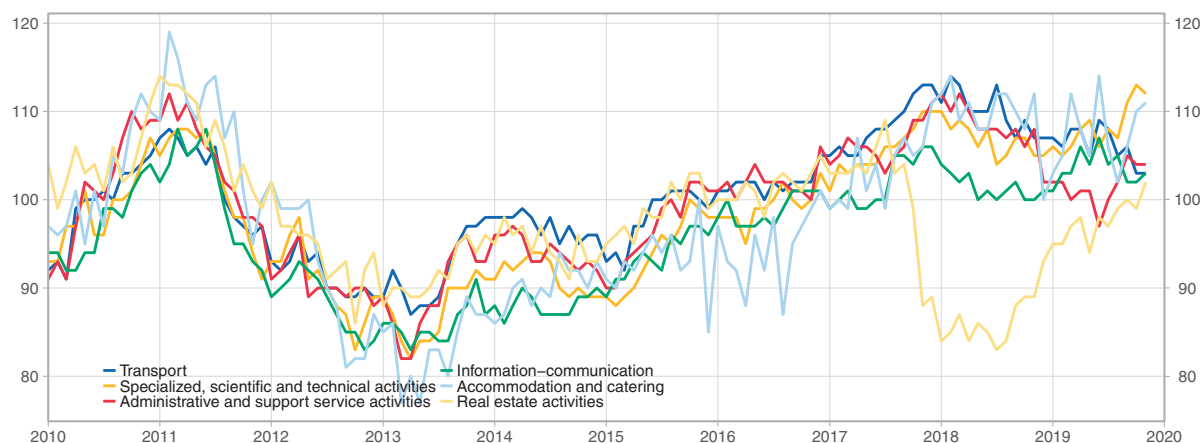
The business climate is above its long-term average in each service sub-sector (*Graph 4*). In November, it rose sharply in real estate activities, where it reached its highest level. It has increased slightly in accommodation and food services and also in information-communication. The business climate is weakening slightly but remains highly favourable in specialised scientific and technical activities. It is stable in goods transported by road and in administrative and support services.

In Q4 2019, growth in market services excluding trade is likely to remain brisk (+0.5%). The same should apply in H1 2020 (+0.4% to +0.5% per quarter).

Over 2019 as a whole, the output of market services excluding trade is expected to have been dynamic, although somewhat down on 2018: +2.7% after +3.2%. The mid-year growth overhang for 2020 should stand at +1.7%. ■

4 - Sub-sector business climates in services
normalized to 100 with stadard error of 10

Source: INSEE