Review of the previous forecast

In Q4 2016, gross domestic product (GDP) grew by 0.4%, as forecast in the December 2016 issue of Conjoncture in France. *Domestic demand excluding inventories contributed +0.5 points to this growth, as predicted: household consumption bounced back, almost as forecast, corporate investment showed a surprising increase and household investment grew as expected, while government investment unexpectedly contracted. Foreign trade made a small contribution to growth (+0.1 points) whereas none was expected. The contribution of changes in inventories was correctly anticipated (−0.1 points). The growth forecast for Q1 2017 remains unchanged from the December issue of* Conjoncture in France *(+0.3%), while that for Q2 has been revised slightly upwards (+0.5% instead +0.4% initially forecast).*

At the end of 2016, market-sector employment was more buoyant than expected: +64,000 compared to +29,000 forecast. At the same time, the unemployment rate fell by 0.1 points, as expected, to 10.0% of the French labour force. In February 2017, headline inflation stood at +1.2% according to the provisional estimate, as predicted, and the forecast for June is just slightly higher (+1.1% compared to +1.0%).

In Q4, activity increased as forecast

In Q4 2016, gross domestic product (GDP) picked up as forecast in the December 2016 issue of *Conjoncture in France* (+0.4% after +0.2%; *Table 1*). Output in all sectors increased a little more than expected (+0.6% compared to +0.4%; *Table 2*). There was a surprise increase in the manufacturing sector in particular (+0.8% compared to +0.1%), whilst value added in this sector rose almost as forecast (+0.2% compared +0.3%): the surprise increase in output stemmed mainly from the coke and refined petroleum sector, which grew again whereas a downturn had been expected. In addition, energy production increased unexpectedly in spite of several nuclear reactors bring to shut down in the autumn. Production in services was close to forecasts, whilst that in the construction sector was rather disappointing, due to a drop in civil engineering activity.

Domestic demand sustained growth, as forecast

The contribution of domestic demand excluding inventories to GDP growth was in line with forecasts (+0.5 points). Household consumption bounced back (+0.6%) after two quarters of near stagnation, only slightly more than expected (+0.5%), due to more vigorous spending on energy than anticipated. Corporate investment showed a surprising increase (+0.8% against +0.5%), due to higher spending on manufactured goods, mainly cars, and in spite of an unexpected downturn in corporate investments in services. Residential investment increased as expected (+0.7% against +0.6%). On the other hand, government investment contracted unexpectedly (−1.5% against +0.3%), especially in civil engineering.

Table 1
Gross domestic product and its main components in the expenditure approach
Percentage changes from previous period in %

	Conjoncture in France December 2016			Conjoncture in France March 2017		
	Q4 2016	Q1 2017	Q2 2017	Q4 2016	Q1 2017	Q2 2017
Gross domestic product	0.4	0.3	0.4	0.4	0.3	0.5
Imports	0.2	0.9	1.1	1.0	1.3	0.2
Household consumption expenditure	0.5	0.3	0.3	0.6	0.2	0.4
General government consumption expenditure*	0.3	0.3	0.4	0.4	0.3	0.3
Gross fixed capital formation	0.5	0.7	0.5	0.4	0.8	0.6
of which: Non financial enterprises	*0.5*	*0.8*	*0.5*	*0.8*	*0.9*	*0.5*
Households	*0.6*	*0.6*	*0.6*	*0.7*	*0.9*	*1.0*
General government	*0.3*	*0.1*	*0.2*	*−1.5*	*0.0*	*0.6*
Exports	0.3	1.1	1.1	1.3	0.2	1.4
Contributions (in percentage points)						
Domestic demand excluding changes in inventories**	0.5	0.4	0.4	0.5	0.4	0.4
Changes in inventories**	−0.1	−0.1	0.0	−0.1	0.3	−0.3
Net foreign trade	0.0	0.0	0.0	0.1	−0.4	0.4

Forecast

* General government and non-profit institutions serving households
** Changes in inventories include acquisitions net of sales of valuable
Source: INSEE

French developments

The trade balance made a small contribution to growth (+0.1 points) whereas none was expected. Driven by sales of manufactured goods, exports grew more than expected. At the same time, imports were more buoyant than predicted, due to energy purchases. Changes in inventories dampened growth slightly (–0.1 points), as forecast.

The growth forecast for Q1 2017 remains unchanged, while that for Q2 is revised upwards

Since December 2016, the business climate measured by business tendency surveys has improved, while it had been generally stable for the previous year. In industry, it reached 107 in February, its highest level since summer 2011. However, the indicators for manufacturing output and household consumption of consumer durables were disappointing in January. All in all, the GDP growth forecast for Q1 2017 remains unchanged from the December issue of *Conjoncture in France* (+0.3%).

Domestic demand is expected to fuel growth as forecast in December (+0.4 points). Household spending forecasts have been revised slightly downwards, while investment has been revised upwards for all the institutional sectors.

Foreign trade is likely to hamper growth (–0.4 points) whereas a zero contribution was forecast in the December issue. The exports forecast has indeed been revised downwards, especially for manufactured goods. At the same time, the forecast for imports has been revised upwards, mainly as a result of purchases of manufactured goods, pharmaceuticals in particular. However, changes in inventories are likely to contribute positively to growth (+0.3 points) whereas a negative contribution was

forecast in the December issue (–0.1 points). As a result of the favourable outlook for activity revealed in the business tendency surveys, the GDP growth forecast for Q2 has been revised upwards from that of the December issue of *Conjoncture in France* (+0.5% against +0.4%).

At the end of 2016 market-sector employment was more buoyant than expected

In Q4 2016 market-sector employment was more buoyant than expected: +64,000 compared to +29,000 forecast. This surprise is accounted for mainly by the vigour of the temporary employment sector: +38,000 whereas it had been expected to be stable. At the same time, the unemployment rate fell slightly (–0.1 point), as predicted, to 10.0% of the French labour force (against 9.9% forecast in the December scenario, as the Q3 unemployment rate was revised upwards by 0.1 point).

In Q1 2017, employment is expected to be a little more buoyant than forecast in the December issue of *Conjoncture in France* (+41,000 compared to +29,000). The unemployment rate should stand at 9.8%, compared to 9.9% forecast in the December issue.

By mid-2017, inflation is expected by be barely any higher than initially anticipated

In February 2017, headline inflation stood at +1.2.% according to the provisional estimate, as forecast in December. For June, the forecast is barely any higher than that of the December issue (+1.1% instead of +1.0%), due to the expected increase in the price of oil. The forecast for core inflation, however, remains unchanged (+0.7%). ■

Table 2

Activity by sector and labour market
Percentage changes from previous period in %

	Conjoncture in France December 2016			Conjoncture in France March 2017		
	Q4 2016	Q1 2017	Q2 2017	Q4 2016	Q1 2017	Q2 2017
Output by sector						
Agriculture	1.3	2.6	1.9	1.1	2.6	1.9
Manufacturing	0.1	–0.2	0.7	0.8	–0.3	1.0
Energy, water and waste	0.0	0.3	0.2	2.3	–0.1	0.7
Construction	0.4	0.3	0.4	0.2	0.4	0.8
Trade	0.5	0.4	0.5	0.5	0.2	0.6
Market services excluding trade	0.5	0.4	0.5	0.6	0.4	0.6
Non market services	0.3	0.3	0.3	0.3	0.3	0.3
Total	**0.4**	**0.3**	**0.5**	**0.6**	**0.3**	**0.7**
Employment, unemployment, prices						
Non-agricultural market sector employment	29	29	30	64	41	41
ILO* unemployment rate - Metropolitan France	9.9	9.9	9.8	10.0	9.8	9.8
Consumer price index[1]	0.7	1.2	1.0	0.6	1.3	1.1
Core inflation[1]	0.5	0.7	0.7	0.4	0.5	0.7

Forecast

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