

Output

Gross domestic product gathered pace in Q4 (+0.4% after +0.2%), taking economic growth over the year to +1.1% in 2016, i.e. almost the same as in 2015 (+1.2%). The production of goods and services increased faster than GDP in H2 2016 (+0.5% in Q3, +0.6% in Q4), reflecting the greater buoyancy of sectors in which output has a lower value-added content.

The business climate has improved since December, rising to 104 in February 2017 after 18 months of oscillating just above its long-term average (100). It has risen even higher in industry (to 107). In construction, it has maintained a steady improvement, almost reaching its long-term average. It is above its average level in services.

Total production of goods and services should continue to increase strongly in H1 2017, albeit with a slight dip in Q1 (+0.3%, followed by +0.7% in Q2), driven by the manufacturing sectors.

Production of goods and services should progress steadily through to mid-2017

After recovering in Q3 2016 (+0.5%), production of goods and services accelerated a little in Q4 (+0.6%; *Table 1*). Over this period, it increased faster than gross domestic product (GDP; +0.2% in Q3, +0.4% in Q4), reflecting the greater buoyancy of sectors in which production has a lower value-added content.

In Q4 activity consequently gathered pace in trade (+0.5% after +0.3%) and bounced back in energy, water and waste (+2.3% after -2.3%). Production continued to rise strongly in the manufacturing sectors (+0.8% after +0.7%) and market services excluding trade (+0.6% after +0.7%).

Whereas it had been hovering just above its average since mid-2015, the business climate in France improved significantly in December, standing at its highest level since the summer of 2011 (105). It lost one point in January, however, and maintained this level in February (*Graph 1*). The business climate was particularly bright in industry: in February 2017, the business climate in this sector reached 107 – its highest level since the summer of 2011. In construction, the business climate – maintaining an upturn that began in early 2015 – has been on the verge of its long-term average since the beginning of the year.

Total production of goods and services should record another strong increase in H1 2017, although with a slight dip at the beginning of the year (+0.3% in Q1, +0.7% in Q2). Indeed, manufacturing output is expected to fall back a little in Q1 2017 (-0.3% after +0.8%) due to the refinery shutdowns, before bouncing back (+1.0%) after they reopen. Activity in trade (+0.2% in Q1, +0.6% in Q2) and services (+0.5% in Q1, +0.6% in Q2) should continue to progress steadily in H1 2017, whilst construction activity is expected to gather pace, up to +0.8% by mid-2017.

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		
	2015				2016				2017		2015	2016	2017 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture (2%)	-0.9	-1.2	-1.4	-2.0	-2.5	-1.2	-0.3	1.1	2.6	1.9	-2.2	-5.7	4.5
Manufacturing industry (20%)	1.0	-0.2	0.5	0.4	0.3	-1.0	0.7	0.8	-0.3	1.0	1.5	0.6	1.1
Energy, water, waste (4%)	3.8	-1.7	1.3	-0.4	1.2	0.9	-2.3	2.3	-0.1	0.7	1.8	1.2	1.2
Construction (8%)	-0.4	-0.2	-0.7	0.5	0.4	-0.3	0.9	0.2	0.4	0.8	-2.2	0.7	1.6
Trade (10%)	1.1	0.4	0.8	0.3	1.3	-0.3	0.3	0.5	0.2	0.6	3.0	2.1	1.1
Market services excluding trade (41%)	0.6	0.2	0.4	0.6	1.0	0.0	0.7	0.6	0.4	0.6	1.6	2.3	1.7
Non-market services (15%)	0.3	0.2	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	1.0	1.3	0.9
Total (100%)	0.7	0.0	0.4	0.4	0.7	-0.2	0.5	0.6	0.3	0.7	1.3	1.4	1.4

Forecast

Weights constructed from the annual production value in 2015.

Source: INSEE

French developments

By mid-2017, the growth overhang for the production of goods and services should stand at +1.4%, as it was over 2016 as a whole.

In H1 2017, growth in manufacturing output should be conditioned by the pace of activity in refineries

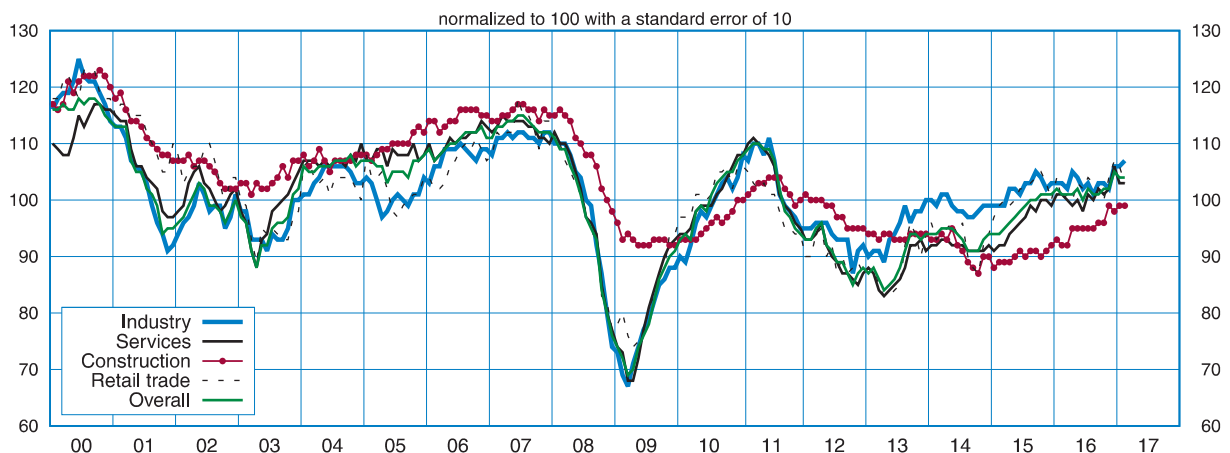
After recovering strongly in Q3 2016 (+0.7%), manufacturing output remained buoyant in Q4 (+0.8%). The rise at the end of 2016 was above all due to a rebound in the production of transport equipment (+4.0% after -3.1%), which was nevertheless mitigated by a downturn in food products and beverages (-0.4% after +0.2%) and "other manufacturing" (-0.3% after +0.7%).

Manufacturing output is expected to stall in Q1 2017 (-0.3%) before bouncing back in Q2 (+1.0%). With the permanent closure of one refinery at the end of 2016 and the shutdown of another for maintenance, coke and refined petroleum production should plummet in Q1 (-9.6%), reducing overall growth by 0.5 points.

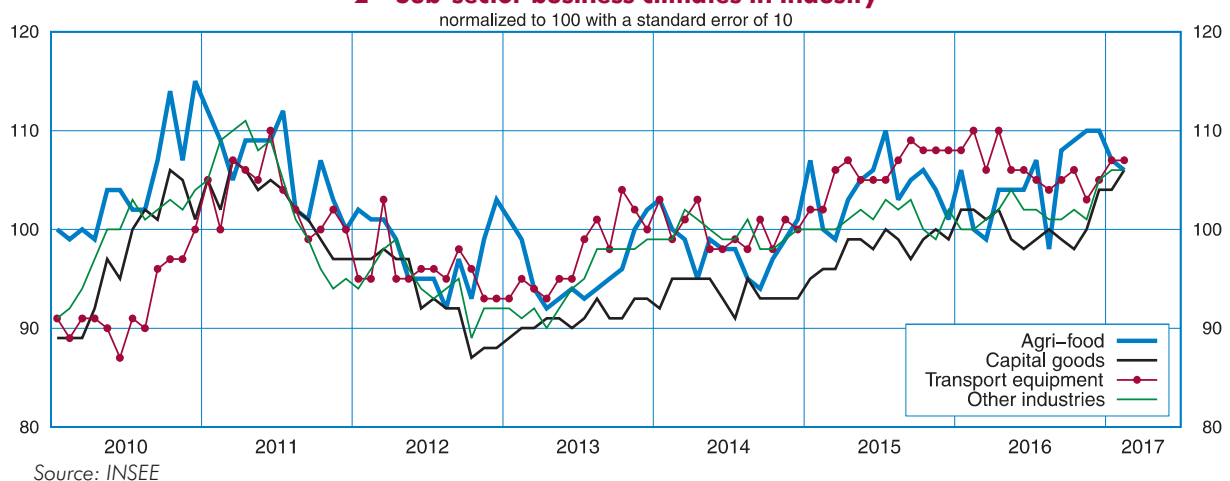
Production of food products and beverages is expected to fall (-1.1%), as reflected by the decline in the business climate for this sector since January. However, activity is likely to remain buoyant in transport equipment (+1.7% after +4.0%) and should increase moderately in "other manufacturing" (+0.2% after -0.3%) and in machinery and equipment (+0.3% after +0.7%), with the business climate remaining favourable in these sectors (*Graph 2*). Manufacturing value added is barely affected by the coke and refined petroleum branch, in which production creates little value added. It should progressively become more dynamic in H1 (+0.2% in Q1, +0.7% in Q2; *Table 2*), in line with the high level of the business climate in February.

All in all, the growth overhang for manufacturing value added is expected to stand at +0.7% at the end of Q2 2017, significantly above growth over 2016 as a whole (+0.3%).

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



2 - Sub-sector business climates in industry



Agricultural production is likely to bounce back in 2017, contributing strongly to GDP growth

In 2016, agricultural production slumped (–5.7% after –2.2% in 2015), reducing GDP growth by 0.2 points. The cereal and grape harvests were hit hard by exceptionally poor spring and summer weather conditions.¹

Assuming a return to normal weather conditions in H1 2017, agricultural production should pick up strongly and return to close to its average level. Its mid-year annual growth overhang is expected to make a +0.2-point contribution to annual GDP growth.

Construction activity should gather pace

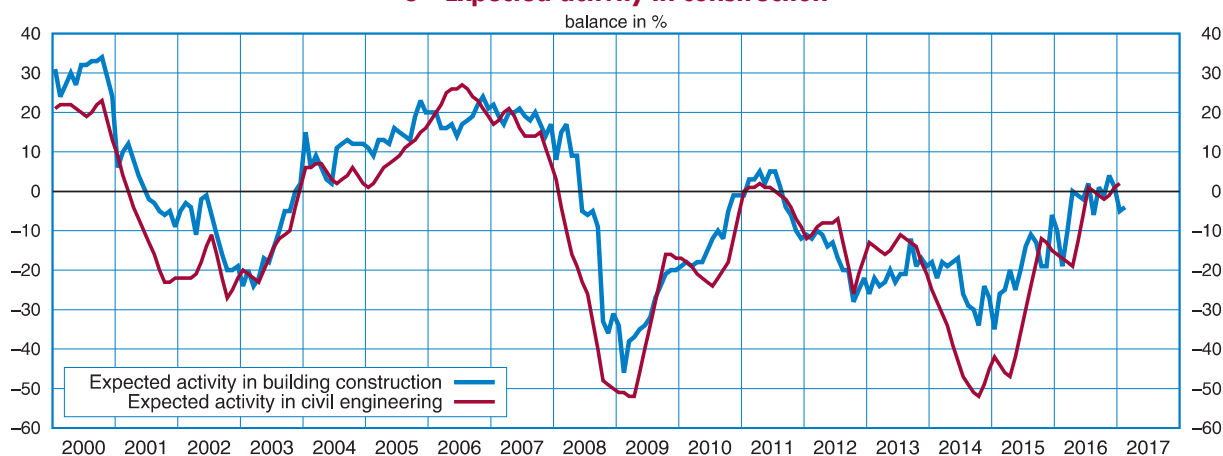
In Q4 2016, production in construction slowed down (+0.2% after +0.9%) despite dynamic growth in building construction, because activity declined in civil engineering.

1. "Poor harvests could bring down annual growth by 0.2 points in 2016", *Conjoncture in France*, December 2016, p. 69-70.

At the end of 2016, the number of building permits gathered pace for individual dwelling units and fell for collective accommodation, both of these indicators having followed an upward trend since the beginning of 2015. The business tendency surveys are putting out mixed signals. In building construction, the business climate in the sector has continued to improve, although it remains below its long-term average. Admittedly, the balance of opinion on activity forecasts has slipped back in early 2017, and is below its long-term average (*Graph 3*). However, a greater number of entrepreneurs are feeling optimistic about filling their order books. In addition, activity prospects for the building crafts sector are improving. Consequently, activity in building construction is expected to accelerate slightly in H1 2017.

In civil engineering, entrepreneurs' balance of opinion concerning their activity forecasts has been improving continuously since late 2014 and is now clearly above its long-term average. However, lower-than-average temperatures adversely affected building projects at the end of 2016 and again in January 2017, and production in civil engineering is likely to decline in Q1 before bouncing back in Q2.

3 - Expected activity in construction



Source: INSEE

Table 2 - Value added by branch

Q/Q-1 variations (as a %), SA-WDA data

	Quarterly changes										Annual changes		
	2015				2016				2017		2015	2016	2017 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture (2%)	-1.7	-2.4	-3.1	-4.2	-4.6	-2.8	-1.1	1.2	4.9	3.5	-4.4	-11.8	7.3
Manufacturing industry (11%)	1.1	0.8	0.6	0.2	0.0	-0.6	0.0	0.2	0.2	0.7	2.4	0.3	0.7
Energy, water, waste (3%)	3.5	-2.3	1.3	-0.6	1.6	0.6	-2.7	2.0	-0.1	0.7	1.3	0.8	0.7
Construction (5%)	-0.9	-0.6	-0.6	0.3	0.2	-0.1	0.3	0.0	0.3	0.6	-2.9	0.1	0.9
Trade (10%)	1.1	0.2	0.7	0.2	1.1	-0.4	0.2	0.3	0.0	0.5	2.6	1.4	0.6
Market services excluding trade (46%)	0.6	0.0	0.3	0.5	1.0	-0.1	0.6	0.5	0.4	0.5	1.2	1.9	1.4
Non-market services (23%)	0.1	0.2	0.2	0.2	0.3	0.2	0.1	0.2	0.2	0.3	0.8	0.9	0.7
Total (100%)	0.5	0.0	0.3	0.3	0.6	-0.2	0.2	0.4	0.3	0.5	1.1	1.1	1.1

Forecast

Weights constructed from the annual production value in 2015.

Source: INSEE

French developments

All in all, production in construction should gather pace in H1 2017 (+0.4% in Q1, +0.8% in Q2).

Over 2016 as a whole, production in construction bounced back (+0.7%) after two consecutive years of decline (-2.2% in 2015 and -2.7% in 2014). The growth overhang for 2017 should reach +1.6% by mid-year.

In market services excluding trade, activity should slow down slightly

In Q4 2016, production in market services excluding trade continued to grow steadily (+0.6% after +0.7%). Activity in services to businesses slowed down slightly, while remaining solid (+0.6% after +0.8%). It slowed to a much greater extent in information-communication (+0.5% after +1.1%) and accommodation and food services (+0.1% after +0.9%). However, it accelerated in transport (+1.0% after +0.5%), in "other service activities" (+0.5% after +0.2%) and financial activities (+1.2% after +0.9%).

In market services, the business climate improved significantly in December, reaching its highest level since mid-2011 (106). It has stabilised at a slightly lower level since the beginning of 2017 (103). In February, virtually all the sub-sector business climates were equal to or higher than their average levels (*Graph 4*). The composite indicator is particularly high in transport (108) and in administrative and support services (106). In H1 2017, activity in market services excluding trade is expected to remain robust (+0.4% in Q1, +0.6%

in Q2). By mid-2017, the annual growth overhang should be +1.7%, after +2.3% throughout 2016 as a whole.

Trade activity to rise again in H1 2017

Trade activity accelerated a little in Q4 2016 (+0.5% after +0.3% in Q3), as household consumption of manufactured goods recovered at the end of the year (+0.5% after -0.1%), particularly automobile purchases.

In January 2017, the composite indicator for the wholesale trade business climate (102) edged back above its long-term average; in February, that for retail trade and automobiles (103) slipped back but remains above its average. In H1 2017, trade activity is expected to rise again (+0.2% in Q1, +0.6% in Q2), in the wake of the household consumption of manufactured goods (+0.2% in Q1, +0.4% in Q2). By mid-2017, the annual growth overhang for production in trade should stand at +1.1%, after an average of +2.1% in 2016.

Mainly non-market service activity should continue to increase moderately

In Q4 2016, activity in mainly non-market services grew at the same rate as in the previous quarter (+0.3%). In H1 2017, activity should continue to increase at the same moderate rate (+0.3% per quarter). By mid-2017, the annual growth overhang should be +0.9%, after +1.3% over 2016 as a whole. ■

4 – Sub-sector business climates in services

