

Review of the previous forecast

In Q1 2017, gross domestic product (GDP) grew a little more than forecast in *Conjoncture in France* in March 2017 (+0.4% against +0.3%). The contribution of domestic demand excluding inventory to growth in GDP was in line with the forecasts (+0.4 points): household consumption slowed after a marked upturn at the end of 2016, almost as forecast (+0.1% against +0.2%), corporate investment was surprisingly strong (+1.9% against +0.9%), while that of households was almost in line with the forecast (+1.0% against +0.9%). Government investment, however, contracted unexpectedly (-1.2% against a forecast of stability). The negative contribution of foreign trade to growth was greater than expected (-0.7 points against -0.4 points). On the other hand, the contribution of changes in inventories was more favourable (+0.7 points) than expected (+0.3 points). The growth forecast for Q2 remains unchanged from that in March's issue of *Conjoncture in France* (+0.5%).

In Q1, market-sector employment was more dynamic than anticipated: +76,000 against a forecast of +41,000. At the same time, the unemployment rate fell to 9.6% of the French labour force, against a forecast of 9.8%. In May 2017, headline inflation stood at +0.8% according to the provisional estimate, and the forecast for June is lowered from +1.1% to +0.8%.

In Q1, activity progressed a little more than forecast

In Q1 2017, gross domestic product decelerated slightly, but less than expected in *Conjoncture in France* in March 2017 (+0.4% after +0.5% at the end of 2016; *Table 1*). Manufacturing output fell almost as expected (-0.2% against -0.3%; *Table 2*) and the value added of the branch increased by 0.2%, as forecast.

Energy production also decreased markedly (-1.3%) whereas it had been expected to be close to stable (-0.1%): household heating expenditure fell back in February and March due to mild weather conditions after a rather cold autumn. Finally, production in construction was slightly less dynamic than forecast (+0.3% against +0.4%), but market-sector services progressed more than expected (+0.9% against +0.4%).

The negative contribution of foreign trade to growth was greater than forecast

Exports were weaker than expected (-0.8% against +0.2% forecast), affected essentially by manufactured goods (-2.0% against -0.1%). Conversely, sales of agricultural products (+3.3%) and those of energy, water and waste, which rebounded strongly (+20.1%), increased when they had been expected to be stable. Exports of services progressed as forecast (+1.0%).

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

Percentage changes from previous period in %

	Conjoncture in France March 2017		Conjoncture in France June 2017	
	Q1 2017	Q2 2017	Q1 2017	Q2 2017
Gross domestic product	0.3	0.5	0.4	0.5
Imports	1.3	0.2	1.4	0.0
Household consumption expenditure	0.2	0.4	0.1	0.4
General government consumption expenditure*	0.3	0.3	0.3	0.3
Gross fixed capital formation	0.8	0.6	1.2	0.1
of which: Non financial enterprises	0.9	0.5	1.9	-0.2
Households	0.9	1.0	1.0	0.9
General government	0.0	0.6	-1.2	0.2
Exports	0.2	1.4	-0.8	2.2
Contributions (in percentage points)				
Domestic demand excluding changes in inventories**	0.4	0.4	0.4	0.3
Changes in inventories**	0.3	-0.3	0.7	-0.5
Net foreign trade	-0.4	0.4	-0.7	0.7

Forecast

* General government and non-profit institutions serving households

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

Source: INSEE

French developments

Imports increased a little more quickly than forecast (+1.4% against +1.3%). Purchases of manufactured goods were even more dynamic than expected (+3.0% against +1.9%). Energy purchases, on the other hand, fell significantly (-8.8% against a forecast of -3.0%). Imports of agricultural products fell back (-0.4%) whereas they had been expected to be stable.

Due to the fall in exports, the contribution of foreign trade to GDP growth was significantly more negative than forecast (-0.7 points against an expected -0.4 points). Conversely, that of changes in inventories was more favourable than expected (+0.7 points against +0.3 points).

The growth forecast for Q2 2017 is unchanged

The growth forecast for Q2 2017 is unchanged from that in *Conjoncture in France* in March (+0.5%).

In Q2, manufacturing production should rebound a little less than forecast in *Conjoncture in France* in March (+0.8% against +1.0%), as should the added value of the branch (+0.6% against +0.7%).

The forecast for total household consumption (+0.4%) remains unchanged. The forecast for investment by non-financial enterprises is lowered (-0.2% against +0.5%) due to the more pronounced calendar effects of the end of the one-off additional depreciation allowance measure. The rebound in government investment has been slightly attenuated (+0.2% against +0.6%).

Foreign trade should sustain activity more than expected in March's issue of *Conjoncture in France*

(+0.7 points against +0.4 points). The import forecasts have been slightly lowered (0.0% against +0.2%) and those for exports slightly raised (+2.2% against +1.4%): against a backdrop of a general recovery in world trade, French sales, in particular in aeronautics and shipbuilding, should rise again after a very poor Q1, especially as several major contracts are likely to be delivered. Conversely, the contribution of changes in inventories should be negative (-0.5 points), and a little more so than forecast in *Conjoncture in France* in March (-0.3 points).

Market-sector employment was more dynamic than expected

In Q1 2017, market-sector employment increased by +76,000, which was more than expected (+41,000; *Table 2*). At the same time, the unemployment rate fell to 9.6%, against a forecast of 9.8%, mainly due to the unexpected fall in the labour force participation rate.

In Q2 2017, the employment forecast (+45,000) is almost unchanged, while that for the unemployment rate is lowered (9.6% against 9.8%).

Headline inflation is a little lower than in the March forecast

In May 2017, headline inflation stood at +0.8%, according to the provisional estimate, less than was forecast in March. For June, headline inflation is revised downwards to +0.8% (against +1.1%). The core inflation forecast, meanwhile, is lowered slightly (+0.5% in June against an initial forecast of +0.7%), due to the fall observed in telephony service prices at the start of the year. ■

Table 2

Activity by sector and labour market

Percentage changes from previous period in %

	Conjoncture in France March 2017		Conjoncture in France June 2017	
	Q1 2017	Q2 2017	Q1 2017	Q2 2017
Output by sector				
Agriculture	2.6	1.9	2.4	1.7
Manufacturing	-0.3	1.0	-0.2	0.8
Energy, water and waste	-0.1	0.7	-1.3	0.7
Construction	0.4	0.8	0.3	0.7
Trade	0.2	0.6	0.6	0.5
Market services excluding trade	0.4	0.6	0.9	0.5
Non market services	0.3	0.3	0.3	0.2
Total	0.3	0.7	0.5	0.6
Employment, unemployment, prices				
Non-agricultural market sector employment	41	41	76	45
ILO* unemployment rate - Metropolitan France	9.8	9.8	9.6	9.6
Consumer price index ¹	1.3	1.1	1.1	0.8
Core inflation ¹	0.5	0.7	0.4	0.5

Forecast

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

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

Source: INSEE