

Household consumption and investment

Household consumption picked up slightly in Q3 2017 (+0.6% after +0.3%), with increased expenditure on goods, particularly manufactured goods and energy, as well as services.

In Q4 2017 consumption is expected to slow down (+0.3% after +0.6%), largely due to a major reduction in expenditure on goods (0.0% after +0.6%). Energy consumption should fall, as should spending on clothing. Nevertheless, consumption of services should continue to grow at a steady rate (+0.5%, after +0.6% in Q3). In H1 2018 household consumption should continue to grow at a reduced rate (+0.3% per quarter), as a result of the dip in household purchasing power.

On average in 2017, household consumption expenditure should experience a sharp slowdown in comparison with 2016 (+1.2% after +2.1%); more so than purchasing power (+1.6% after +1.8%), with the savings ratio standing at 14.3%. By mid-2018, the savings ratio should fall to 13.9%, as households should compensate for the effects of the temporary slowdown in their purchasing power.

Household investment should accelerate sharply in 2017 (+5.2%), after a first rebound in 2016 (+2.4% after -2.1%). However it is expected to slow down in H1 2018, due to the delayed impact of the stabilisation in the number of new housing sales.

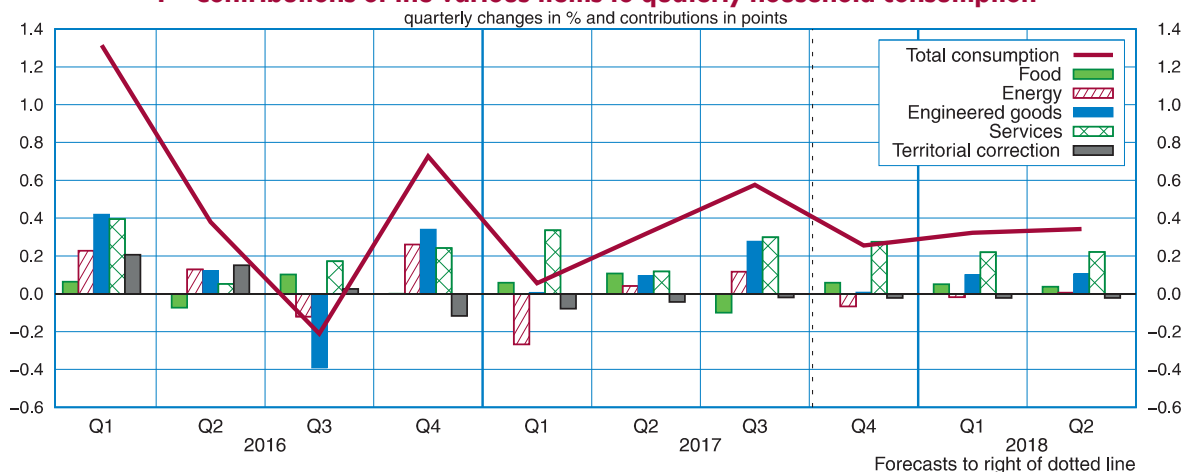
Consumption accelerated again in Q3 2017

Household consumption accelerated again in Q3 2017 (+0.6% after +0.3% in Q2 and +0.1% in Q1; *Graph 1*). Consumption of goods remained buoyant (+0.6% after +0.5%), while consumption of services increased sharply (+0.6% after +0.2%).

The decline in food consumption (-0.6% after +0.6%) was offset by the dynamism of expenditure on manufactured goods (+1.3% after +0.5%). In particular, expenditure on household durables other than cars and on clothing increased, as a result of the change in the dates of the summer sales. Automobile purchases remained solid (+0.6% after +1.3%), while the consumption of other durable goods also bounced back (+1.0% after -0.1%). Finally, energy consumption experienced a sharp acceleration (+1.5% after +0.5%), as temperatures in September were relatively low for the time of year.

Consumption of services has picked up sharply (+0.6% after +0.2%), in particular due to the rebound in consumption of accommodation and food services and the dynamic consumption of leisure services.

1 - Contributions of the various items to quarterly household consumption



Source: INSEE

French developments

In Q4 2017, consumption should slow down along with purchasing power

Total household consumption is expected to slow down sharply in Q4 2017 (+0.3%; *Table*), just like the purchasing power (+0.1% after +0.5%).

Consumption of goods should stabilize (0.0% after +0.6%): energy expenditure is likely to decrease (-0.8% after +1.5%), particularly spending on gas and electricity, in reaction to the preceding quarter and the fact that temperatures in October were well above the seasonal average. Purchases of durables should slow down (+0.7% after +1.5%). On the one hand, expenditure on automobiles should be very vigorous. On the other hand, consumption of household durables other than cars is expected to decrease (-0.4% after +3.1%) as an after-effect of the later summer sales period. Similarly, spending on clothing should decline sharply. Nevertheless, food consumption is expected to rebound after dropping off in Q3. All in all, consumption of manufactured goods is expected to stall in Q4 (+0.1% after +0.6%). Consumption of services should remain buoyant (+0.5% after +0.6%): indeed the upturn in consumption of transport services (+0.8% after 0.0%) should offset the slowdown in consumption of food and accommodation services (+0.7% after +1.1%).

Consumption should continue to grow at a reduced rate in H1 2018

The growth rate of household consumption should remain moderate in H1 2018 (+0.3% per quarter), albeit higher than the one of the purchasing power (-0.3% in Q1 2018 and +0.4% in Q2). Household consumption of goods should recover (+0.3% after +0.0%), whereas consumption of services should slow down slightly, to +0.4% per quarter, sustained by the accommodation and food services sector and by the consumption of leisure services.

The savings ratio is expected to fall to 13.9% by mid-2018, returning to its level of early 2016

In the final months of 2017 and the first half of 2018, households are expected to reduce their savings ratio in order to compensate for the slowdown in their purchasing power. The ratio should stand at 13.9% in Q2 2018, after 14.4% in Q3 2017 (*Graph 2*). This smoothing behaviour is natural when households face a slowdown in their purchasing power. This behaviour seems all the more logical since households should expect an upturn in income next year in relation with the second phase of reductions in social security contributions and the reduction of local taxes scheduled for late 2018.

Household consumption and investment expenditure

at chain-link previous year prices, SA-WDA

	Quarterly changes in %										Annual changes in %			
	2016				2017				2018		2015	2016	2017	2018 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Total household consumption expenditures (1)+(2)+(3)	1.3	0.4	-0.2	0.7	0.1	0.3	0.6	0.3	0.3	0.3	1.3	2.1	1.2	1.1
Services (1)	0.7	0.1	0.3	0.5	0.6	0.2	0.6	0.5	0.4	0.4	0.8	1.6	1.7	1.4
Goods (2)	1.5	0.4	-0.9	1.3	-0.4	0.5	0.6	0.0	0.3	0.3	1.9	1.8	0.9	1.0
including:														
Food	0.4	-0.4	0.6	0.0	0.3	0.6	-0.6	0.3	0.3	0.2	1.1	0.9	0.8	0.6
Agriculture goods (AZ)	2.6	-1.2	-0.6	0.4	-2.0	3.4	-1.3	-0.5	0.3	0.3	-0.4	2.2	-0.6	0.3
Agri-food products (C1)	-0.1	-0.3	0.8	-0.1	0.8	0.0	-0.4	0.5	0.3	0.2	1.4	0.6	1.1	0.6
Energy	2.8	1.6	-1.5	3.2	-3.3	0.5	1.5	-0.8	-0.2	0.1	1.4	2.1	-0.4	0.1
Energy, water and waste (DE)	4.1	3.5	-3.5	4.5	-4.8	0.2	1.9	-0.5	0.0	0.0	2.0	2.8	-1.5	0.6
Coke and refined petroleum (C2)	1.3	-0.9	1.2	1.6	-1.2	0.9	1.0	-1.4	-0.5	0.2	0.9	1.3	1.2	-0.7
Engineered goods (C3 to C5)	2.0	0.6	-1.9	1.6	0.0	0.5	1.3	0.0	0.5	0.5	2.6	2.4	1.5	1.6
Manufactured goods (C1 to C5)	1.2	0.1	-0.6	1.0	0.2	0.3	0.6	0.1	0.3	0.3	2.0	1.6	1.3	1.0
Territorial correction (3) = (4)-(5)	-49.8	-73.2	-48.4	408.3	54.8	19.6	6.9	7.4	7.0	6.6	-2.0	-78.6	150.3	27.2
Imports of touristic services (4)	3.4	2.1	0.6	-1.4	-0.3	0.7	0.5	0.2	0.2	0.2	-5.2	5.2	0.2	0.9
Exports of touristic services (5)	-3.0	-2.6	-0.2	2.2	2.1	1.9	1.0	0.8	0.8	0.8	-4.7	-6.9	5.2	3.0
Investment expenditure	0.7	0.7	1.0	1.3	1.6	1.4	1.1	1.0	0.8	0.6	-2.1	2.4	5.2	2.9

Forecast

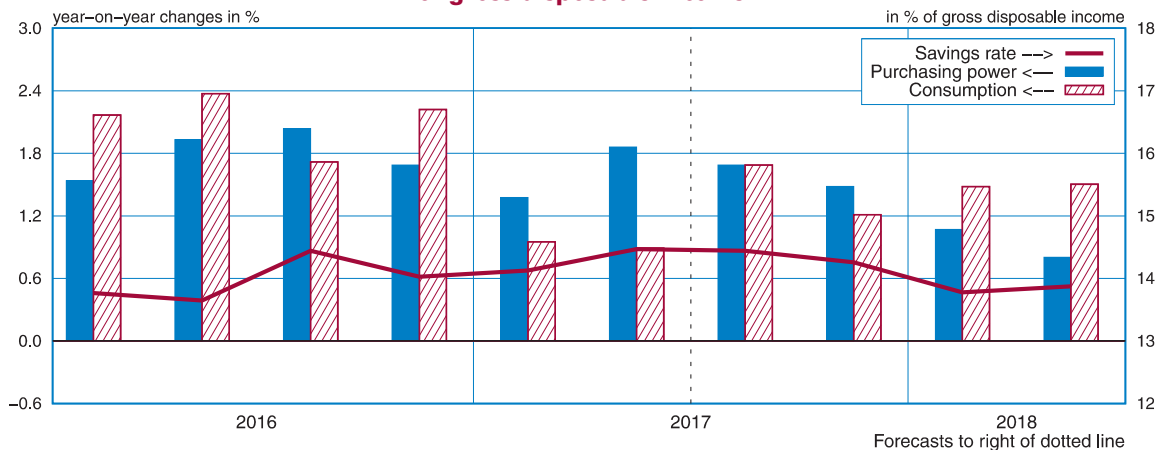
Source: INSEE

Household investment should slow in 2018, after exceptional growth in 2017

Household investment was slightly down in Q3 2017, although it remained dynamic (+1.1%, after +1.4%). Sales of new homes have stopped growing since the beginning of the year (after two years of substantial increase): this has had a knock-on effect on building permits, which have stabilised over the past six months. Given the usual time lags between permits being granted and construction work actually starting, household

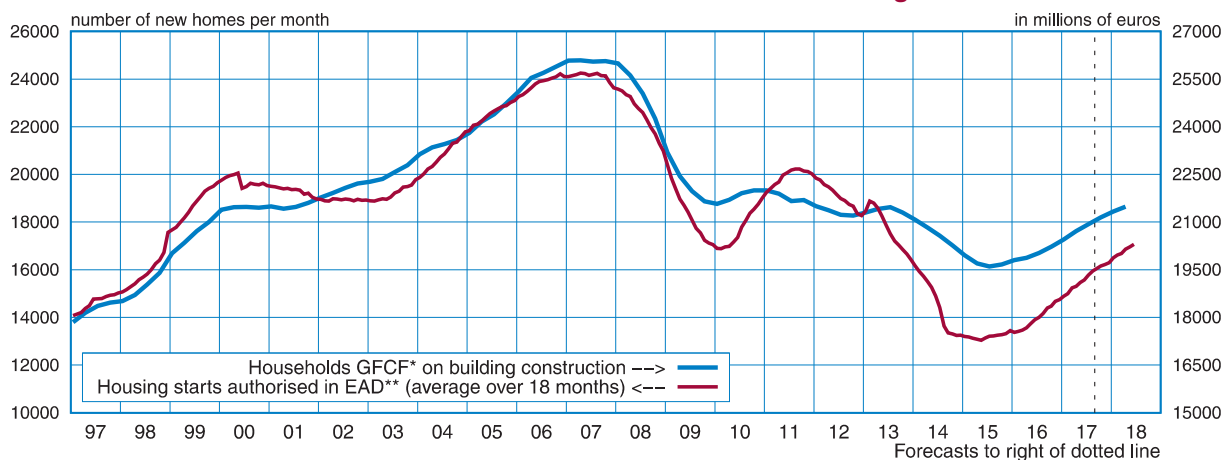
investment is expected to slow down gradually until mid-2018 (*Graph 3*). Furthermore, household investment in services (primarily agency fees and notarial costs) is expected to diminish from Q4 2017 onwards. The number of property transactions hit record levels in 2017, and should not increase any further in 2018. On average, household investment should rise in 2017 (+5.2% after +2.4%) and decline the following year: by mid-2018, the annual growth overhang of household investment should be +2.9%. ■

2 - Savings ratio and variations in consumption and in purchasing power of gross disposable income



Source: INSEE

3 - Household investment on construction and housing starts



*GFCF: gross fixed capital formation
 **EAD+: estimated actual dates

Sources: INSEE, SDES