

Review of the previous forecast

In Q4 2017, gross domestic product (GDP) grew by 0.6%, as forecast in the December 2017 issue of *Conjoncture in France*. Domestic demand excluding inventory sustained growth in GDP a little more than expected (+0.5 points against +0.4 points). Foreign trade also made a larger contribution than expected (+0.6 points against +0.5 points), offset by the contribution of changes in inventories which was weaker than expected (-0.4 points against -0.3 points). The growth forecast for Q1 2018 has been lowered slightly from that in December's *Conjoncture in France* (+0.4% against an initial forecast of +0.5%) but remains unchanged for Q2 (+0.4%).

Market employment progressed more than had been forecast (79,000 creations in Q4, against a forecast of 60,000). At the same time, the unemployment rate fell to 8.9% of the French labour force (against a forecast of 9.5%). In February 2018, headline inflation stood at +1.2% according to the provisional estimate, a little higher than forecast, due to the rise in oil prices, and the forecast for mid-2018 remains unchanged at +1.6%.

In Q4, activity increased as forecast

In Q4 2017, growth stood at +0.6%, as forecast in the December 2017 issue of *Conjoncture in France* (Table 1). Output in all branches increased almost as expected (+0.9% compared to +0.8%; Table 2). Manufacturing output progressed as forecast (+1.5%) while other variations offset each other: construction disappointed slightly (+0.5% against +0.8%) and trade was a little more dynamic than expected (+0.8% against +0.7%), as were market services excluding trade (+1.0% against +0.8%). Production of the water-energy-waste branch, meanwhile, fell back as forecast (-0.2%).

Domestic demand sustained growth, as forecast

The contribution of domestic demand excluding inventory to growth in GDP was slightly greater than forecast (+0.5 points against +0.4 points). Household consumption slowed a little more than forecast (+0.2% against +0.3%). Total investment increased a little more than forecast (+1.2% against a forecast of +1.1%): corporate investment was more robust (+1.6%) than expected (+1.2%), but household investment progressed less than had been forecast (+0.6% against +1.0%).

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

Percentage changes from previous period in %

	Conjoncture in France December 2017			Conjoncture in France March 2018		
	Q4 2017	Q1 2018	Q2 2018	Q4 2017	Q1 2018	Q2 2018
Gross domestic product	0.6	0.5	0.4	0.6	0.4	0.4
Imports	0.2	0.8	0.8	0.3	1.1	1.2
Household consumption expenditure	0.3	0.3	0.3	0.2	0.3	0.4
General government consumption expenditure*	0.2	0.4	0.3	0.3	0.3	0.1
Gross fixed capital formation	1.1	1.0	0.8	1.2	1.0	0.9
of which: Non financial enterprises	1.2	1.1	0.9	1.6	1.1	1.2
Households	1.0	0.8	0.6	0.6	0.5	0.2
General government	0.7	1.1	0.9	0.6	1.2	1.0
Exports	1.8	0.7	0.2	2.4	1.0	0.5
Contributions (in percentage points)						
Domestic demand excluding changes in inventories**	0.4	0.5	0.4	0.5	0.4	0.4
Changes in inventories**	-0.3	0.0	0.2	-0.4	0.0	0.2
Net foreign trade	0.5	0.0	-0.2	0.6	-0.1	-0.2

Forecast

* General government and non-profit institutions serving households

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

Source: INSEE

French developments

The external balance buoyed up growth (+0.6 points) more than expected (+0.5 points). Exports progressed much more than anticipated (+2.4% against an expected figure of +1.8%) and imports were a little more dynamic than expected (+0.3% against +0.2%). Purchases of energy products progressed strongly when a slight fall had been expected (+13.4% against -2.0%) while purchases of manufactured goods showed a surprising fall (-0.7% against +0.2%). However, sales of manufactured goods were more dynamic than expected (+3.1% against +2.3%). On the other hand, the contribution of changes in inventories was slightly less than expected (-0.4 points against -0.3 points).

The growth forecast for Q1 2018 is revised downwards slightly

The growth forecast for Q1 2018 has been revised downwards slightly from that in the December 2017 issue of *Conjoncture in France* (+0.5%): +0.4% against an initial forecast of +0.5%.

In Q1, growth in manufacturing production should be a little less than forecast in *Conjoncture in France* in December (+0.2% against +0.6%), but more than expected in Q2 (+0.6% against +0.3%).

Domestic demand is likely to drive growth a little less than forecast in Q1 (+0.4 points against +0.5 points), but its contribution should be unchanged in Q2 (+0.4 points). The forecast for household consumption remains unchanged for Q1 (+0.3%) and has been revised upwards slightly for Q2 (+0.4%). The forecast for household investment, meanwhile, has been adjusted downwards (+0.5% and +0.2% in Q1 and Q2, against initial forecasts of +0.8% and +0.6%) due to the slowdown in home construction. Investment

by general government, meanwhile, remains almost unchanged (+1.2% then +1.0% in Q1 and Q2). Foreign trade is likely to make no contribution to growth in Q1 and then a slightly negative contribution in Q2, as forecast in December's *Conjoncture in France* (+0.0 then -0.2 points). Exports are set to be more buoyant in Q1 (+1.0% against an initial forecast of +0.7%) and should increase a little further in Q2 (+0.5% against an initial forecast of +0.2%). Imports should also be a little more dynamic than forecast (+1.1% in Q1 then +1.2% in Q2, against +0.8% per quarter). The forecasts of contributions of changes in inventories remain unchanged for Q1 (0.0 points) and Q2 (+0.2 points).

Market employment progressed slightly more than expected

In Q4 2017, market employment progressed more than expected (79,000 jobs created, against a forecast of 60,000). The scale of the fall in the unemployment rate (Overseas Departments included) was also a surprise (-0.7 points), giving a rate of 8.9%, against a forecast of 9.5%.

By mid-2018, inflation is likely to stand at +1.6%, as forecast in December

In February 2018, headline inflation stood at +1.2% according to the provisional estimate, a little higher than forecast due to the upswing in oil prices. However, the headline inflation forecast for mid-2018 remains unchanged (+1.6%): the price forecast for fresh products has been revised upwards, but that for core inflation has been lowered (+0.8% against +1.0%). ■

Table 2

Activity by sector and labour market

Percentage changes from previous period in %

	Conjoncture in France December 2017			Conjoncture in France March 2018		
	Q4 2017	Q1 2018	Q2 2018	Q4 2017	Q1 2018	Q2 2018
Output by sector						
Agriculture	0.4	0.1	0.0	0.5	-0.2	-0.1
Manufacturing	1.5	0.6	0.3	1.5	0.2	0.6
Energy, water and waste	-0.2	0.3	0.3	-0.2	0.3	0.2
Construction	0.8	0.7	0.5	0.5	0.8	0.6
Trade	0.7	0.6	0.5	0.8	0.3	0.6
Market services excluding trade	0.8	0.6	0.6	1.0	0.5	0.5
Non market services	0.2	0.3	0.2	0.4	0.4	0.2
Total	0.8	0.6	0.4	0.9	0.4	0.5
Employment, unemployment, prices						
Non-agricultural market sector employment	60	55	45	79	70	59
ILO* unemployment rate - Metropolitan France	9.5	9.5	9.4	8.9	9.0	8.9
Consumer price index ¹	1.2	1.4	1.6	1.2	1.5	1.6
Core inflation ¹	0.6	0.8	1.0	0.6	0.8	0.8

Forecast

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

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

Source: INSEE