

Output

Total production of goods and services was buoyant in the last quarter of 2017 (+0.9%), driven notably by a significant rise in the manufacturing branches (+1.5%). In January and February 2018, the business climate faltered slightly but remained favourable, well above its long-term average. In H1 2018, production of goods and services should decelerate (+0.4% in Q1 and then +0.5% in Q2), particularly under the effect of a slowdown in manufacturing industry and in market services excluding trade. By mid-2018, the output overhang for the year is expected to be +2.0%.

Production of goods and services is set to decelerate in H1 2018

Production of goods and services accelerated slightly in Q4 2017 (+0.9% after +0.7%; *Table*). On an annual average basis, it increased by 2.4% in 2017, a pace not seen since 2011, reflecting greater momentum in all branches of activity.

The business climate in France slipped back slightly in January and February 2018, after reaching a ten-year high in December 2017 (*Graph 1*). It does remain very positive in all branches, however, and well above its long-term average.

Total production of goods and services should grow moderately in H1 2018, (+0.4% then +0.5%), slowing down from its pace at the end of 2017, mainly due to market services excluding trade and the manufacturing branches.

By mid-2018, the growth overhang for output should be +2.0% for the year.

In H1 2018, manufacturing output is likely to slow down

In Q4 2017, manufacturing activity increased significantly (+1.5% after +0.8%) driven by dynamic production in transport equipment (+4.3%) and in "other industries" (+1.1%). Over the year as a whole, manufacturing output progressed by 2.0%, a rate not seen since 2012.

In Q1 2018, manufacturing activity is set to slow down significantly by reaction (+0.2%). In January 2018, the growth overhang of the industrial production index for Q1 was down sharply (-1.4%). However, the business climate in February remained very positive in all sub-sectors (*Graph 2*). The balances of opinion on expected activity and order books are substantially above their average levels. Activity should slow down, while remaining strong, in transport equipment (+1.3%) and in capital goods (+1.5%). It is likely to fall back a little in agri-food (-0.1%) and in the "other industries" (-0.5%). However, output is likely to rise again slightly in manufacture of coke and refined petroleum products (+1.3% after -0.8%). Manufacturing output should accelerate in Q2 2018 (+0.6%), despite stoppages in two refineries for maintenance work. The growth overhang for 2018 is expected to stand at +2.4% at the end of Q2, after +2.0% across the whole of 2017.

Output by branch at the previous year's chain-linked prices

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

	Quarterly changes										Annual changes		
	2016				2017				2018		2016	2017	2018 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture (2%)	-2.3	-1.3	-0.6	0.5	1.1	1.3	0.8	0.5	-0.2	-0.1	-5.6	2.4	0.8
Manufacturing industry (20%)	0.5	-0.8	0.8	0.4	0.1	0.8	0.8	1.5	0.2	0.6	0.8	2.0	2.4
Energy, water, waste (4%)	1.5	1.1	-2.4	2.2	-0.4	0.4	1.6	-0.2	0.3	0.2	0.8	1.4	1.2
Construction (8%)	0.0	-0.3	0.3	0.9	0.6	1.1	0.4	0.5	0.8	0.6	0.1	2.6	2.1
Trade (10%)	1.1	-0.5	-0.2	0.7	0.6	0.8	0.9	0.8	0.3	0.6	1.6	2.1	2.0
Market services excluding trade (41%)	0.5	-0.2	0.4	0.5	1.2	0.8	0.7	1.0	0.5	0.5	1.3	3.0	2.2
Non-market services (15%)	0.3	0.2	0.2	0.3	0.3	0.5	0.6	0.4	0.4	0.2	1.0	1.4	1.3
Total (100%)	0.5	-0.3	0.3	0.6	0.7	0.8	0.7	0.9	0.4	0.5	0.9	2.4	2.0

Forecast

Source: INSEE

French developments

Agricultural output is at a standstill in H1 2018

In Q4 2017, agricultural output slowed down slightly while remaining strong (+0.5% after +0.8%). Over 2017 as a whole, it bounced back (+2.4%) after two consecutive years of poor harvests (-5.6% in 2016 and -1.4% in 2015).

In H1 2018, agricultural output should again be at a level close to that in 2017 (-0.2% then -0.1% in Q1 and Q2 2018), on the assumption that the harvests are no longer affected by the poor weather conditions in 2015 and 2016.

Energy output is likely to grow moderately in H1 2018

In Q4 2017, energy production fell back slightly (-0.2%, after +1.6%). It should return to a regular growth rate in Q1 2018 (+0.3%) with both a very mild month of January and a cold spell in February. On the assumption that temperatures are seasonal for the following months, it should continue to grow

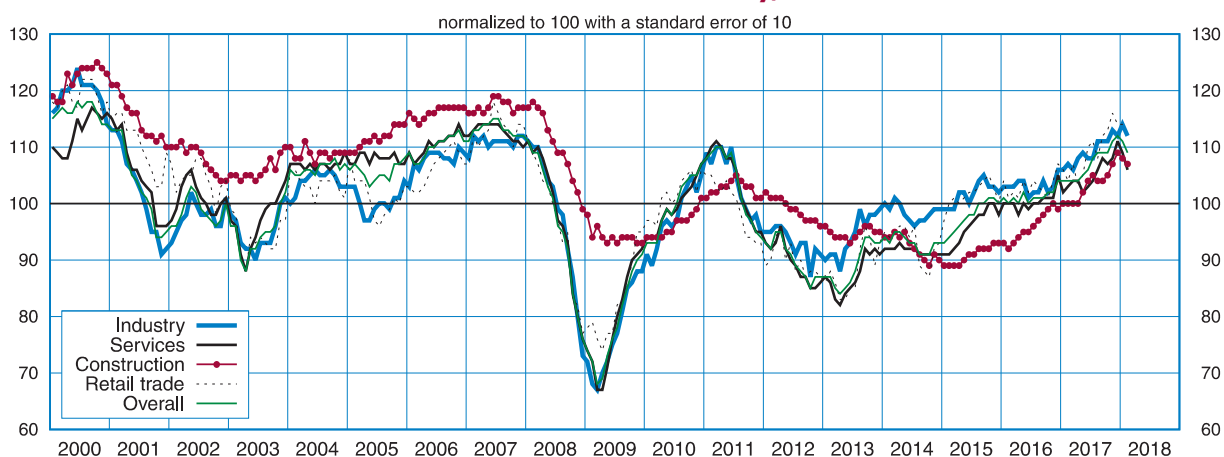
at this pace (+0.2%). By mid-2018, the annual growth overhang should stand at +1.2%, after +1.4% in 2017.

In construction, activity is set to accelerate in Q1 2018, then slow down in Q2

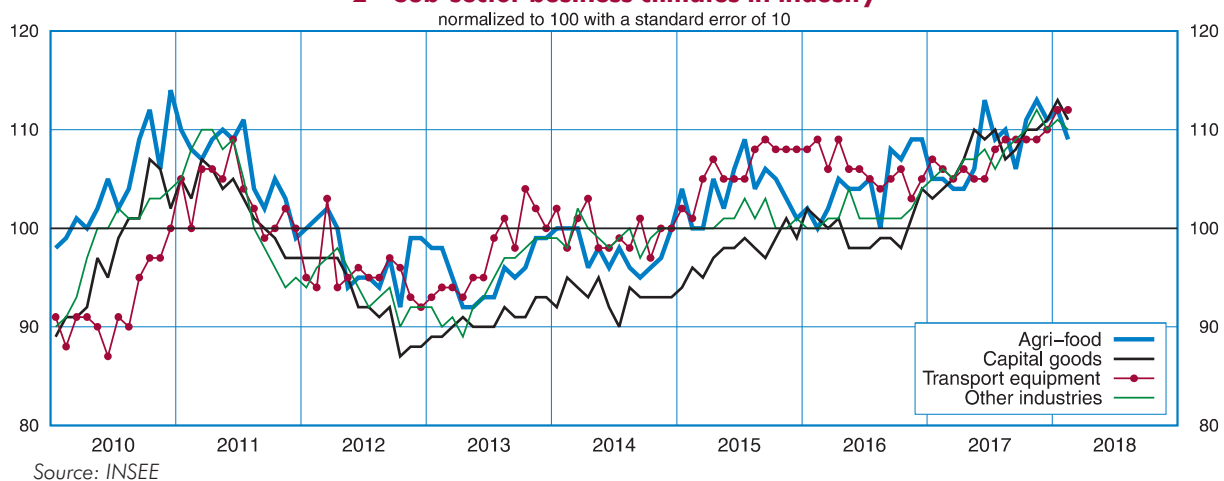
In Q4 2017, production in the construction branch increased by 0.5%, driven by an acceleration in activity in building and despite a further decline in civil engineering. Over the year, production in construction grew by 2.6%, a pace not seen since 2008.

The number of building permits for individual homes accelerated in Q4 2017, after rebounding moderately in Q3. The number of permits for collective housing fell, meanwhile, after rising sharply for two consecutive quarters. In the business tendency survey of business leaders in the building sector, the balance of opinion on past activity was almost stable in February 2018, at a level well above its long-term average. For the third

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



2 - Sub-sector business climates in industry



consecutive month, however, business leaders in the building industry are anticipating a fall in their activity over the coming three months (*Graph 3*). The corresponding balance does still remain significantly above its long-term average, however. Finally, property developers are once again reporting lower demand for new homes and less favourable prospects for housing starts than in the previous quarter. The corresponding balances have just dipped under their average. Despite the slight downturn in the opinions of building entrepreneurs, steady housing starts in previous months should enable output in building to progress solidly in Q1 2018 before slowing down in Q2.

In civil engineering, business leaders are less optimistic about their activity, although the majority of them report higher-than-normal order books. The corresponding balances remain significantly above their long-term averages. Activity is expected to bounce back in this sector, with public demand being given a particularly strong boost by the ramping up of work on the Greater Paris Express.

Total building output should therefore accelerate in Q1 2018 (+0.8%) then slow down slightly in Q2 (+0.6%). By mid-2018, the growth overhang for the year should be +2.1%.

Trade activity is likely to decelerate gradually through to mid-2018

In Q4 2017, trade activity was brisk (+0.8% after +0.9%), driven by the rebound in household consumption expenditure (+1.5% in Q4 after -0.3% in Q3) and notably due to the recovery in their automobile purchases (+0.8% after +0.0%).

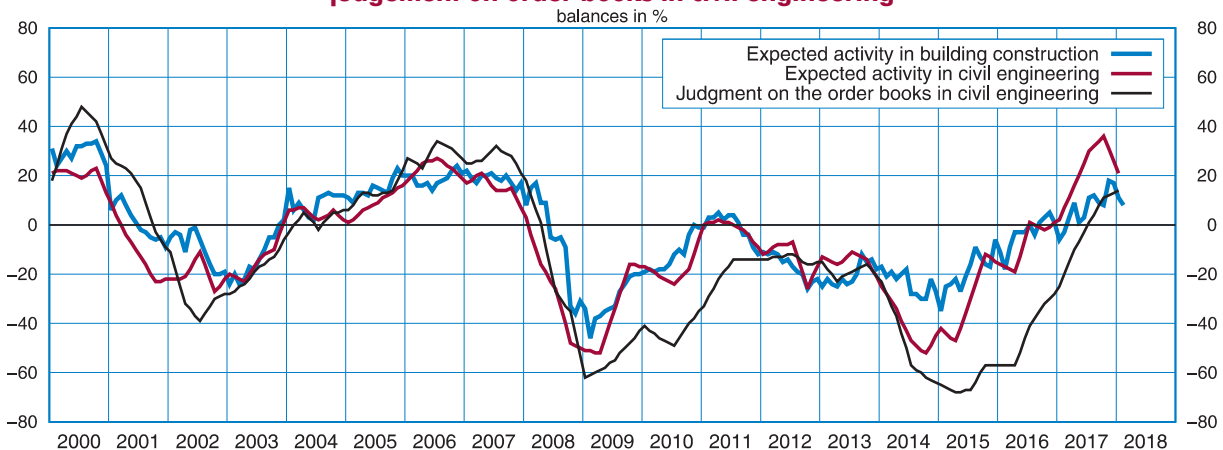
After reaching a ten-year high at the end of 2017, the business climate in the retail trade has slipped back slightly since, although remaining well above its long-term average. The business climate in the wholesale trade slipped in January 2018, but still remained at a high level.

In H1 2018, trade activity is likely to slow down (+0.3% in Q1, then +0.6% in Q2). By mid-2018, the annual growth overhang for production in trade should stand at +2.0%, close to the annual progression for 2017.

Market services excluding trade: activity is expected to slow down a little but remain dynamic through to June 2018

In Q4 2017, activity in market services excluding trade was sustained (+1.0% after +0.7%). This dynamic performance was driven by all the

3 - Expected activity in construction, judgement on order books in civil engineering



Source: INSEE

French developments

sub-sectors. Production accelerated in transport (+1.1% after +0.3%) due to the rebound in air transport, in information-communication (+1.6% after +1.3%), in financial activities (+1.1% after +0.7%), in business services (+1.3% after +0.8%) and in "other service activities" (+1.2% after +0.9%). Only production in accommodation and food services slowed down, although remaining buoyant (+0.6% after +1.2%). Over 2017 as a whole, production in the market services branch excluding trade grew by 3.0%, a pace not seen since 2011.

After reaching its highest level since 2011 in December 2017, the business climate in services has slipped back since, while remaining positive (*Graph 4*). In February 2018, the composite indicator was above its long-term average in all sub-sectors except real estate activities where it continued to decline due to housing rental companies.

In this context, the activity of market services excluding trade should slow down a little in H1 2018 (+0.5% per quarter). By mid-2018, the growth overhang for the year should be +2.2%.

Mainly non-market services: activity is set to decelerate gradually in H1 2018

Mainly non-market activity decelerated slightly in Q4 2017 (+0.4% after +0.6%). It is set to slow down further in H1 2018 (+0.4% in Q1 followed by +0.2% in Q2). By mid-2018, the growth overhang is expected to be +1.3%, after +1.4% in 2017. ■

