

Household consumption and investment

In Q4 2017 household consumption expenditure slowed (+0.2% after +0.6%): although consumption of services remained relatively buoyant (+0.5% after +0.6%), consumption of goods fell back (-0.2% after +0.6%), in particular spending on energy and textiles. On average over 2017, household consumption increased at a far lower rate than in 2016 (+1.3% after +2.1%).

In Q1 2018 consumption should continue to grow at a moderate pace (+0.3%), with households offsetting the temporary sag in their purchasing power by a reduction in their savings ratio. Spending on services should remain vigorous (+0.7% after +0.5%) while the consumption of goods is expected to slip back again (-0.2% after -0.2%).

In Q2 2018 consumption should pick up slightly (+0.4%), assuming there is a rebound in expenditure on goods (+0.4% after -0.2%), food in particular. The savings ratio is expected to stand at 13.7% in Q1, before rising to 14.1% by mid-2018.

Household investment accelerated sharply as an annual average in 2017 (+5.4%), after a rebound in 2016 (+2.4% after -2.1%). However, it is expected to slow in H1 2018, with the slowdown in sales of new-build housing.

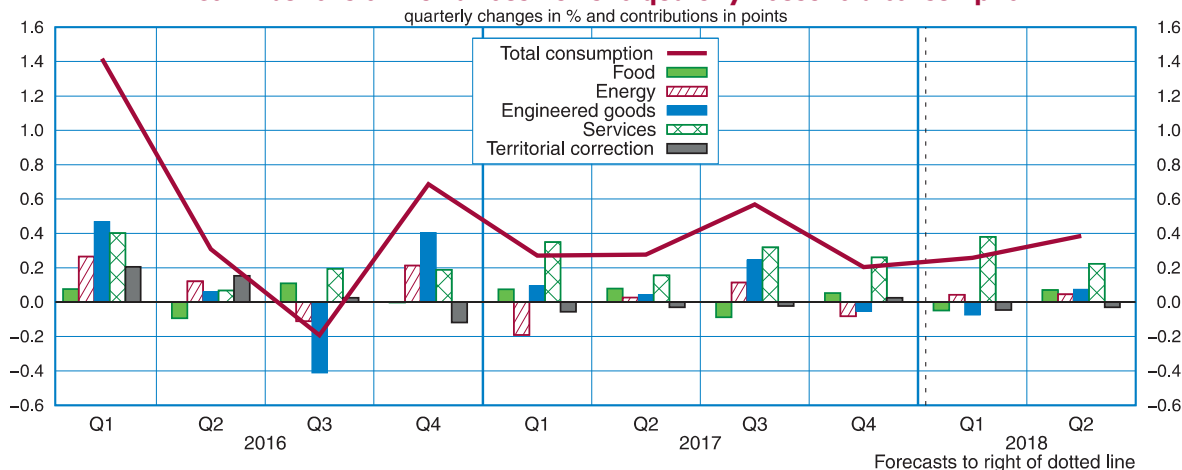
Consumption slowed in Q4 2017

In Q4 2017, total household consumption slowed markedly (+0.2% after +0.6% in Q3; *Graph 1*). Consumption of goods declined slightly (-0.2% after +0.6%), while consumption of services remained vigorous (+0.5% after +0.6%).

Consumption of manufactured goods fell back (-0.3% after +1.2%): indeed, buoyant spending on cars (+0.8% after +0.0%) and other consumer durables (+0.7% after +1.0%) was not enough to make up for sluggish consumption of household durables (+0.0% after +2.8%) and a very marked downturn in consumption of clothing and textiles (-2.1% after +2.0%). In addition, spending on energy fell (-1.0% after +1.4%), dampening household consumption in spite of a rebound in food consumption (+0.3% after -0.5%).

In services, household consumption of transport services bounced back strongly (+1.7% after +0.1%), in accordance with the return of tourists to France in 2017.

1 - Contributions of the various items to quarterly household consumption



Source: INSEE

In H1 2018, consumption should continue to grow at a moderate rate

In Q1 2018 total household consumption is expected to rise by 0.3%, the drop in the consumption of goods (-0.2% after -0.2%) being offset by an acceleration in the consumption of services (+0.7% after +0.5%). Household consumption should therefore remain relatively steady, with households smoothing the effects of the temporary dip in their purchasing power.

Spending on energy is expected to be up slightly (+0.5% after -1.0%): indeed, gas and electricity consumption is expected to bounce back (+0.6% after -0.6%) as is that of fuel (+0.5% after -1.6%). However, consumption of consumer durables is likely to experience a substantial downturn (-0.9% after +0.5%), as the slight recovery in the consumption of household durables (+0.2% after +0.0%) is insufficient to make up for the sharp slowdown in the consumption of other consumer durables (+0.1% after +0.7%) as well as the marked drop in cars spending (-1.8% after +0.8%). Across all manufactured goods, household consumption is therefore expected to decline (-0.4% after -0.3%) even though spending on clothing and textiles should bounce back slightly (+0.4% after -2.1%). Food consumption is also likely to fall in Q1 2018 (-0.3% after +0.3%). All in all, consumption of manufactured goods is

expected to be down slightly (-0.2% after 0.0%). However, consumption of services should pick up considerably (+0.7% after +0.5%), mainly driven by transport, accommodation and food and leisure services, which should benefit from the staggering of the 2017-2018 winter holidays.

In Q2 2018, consumption is expected to gather pace slightly (+0.4% after +0.3%), carried by the recovery in goods consumption (+0.4% after -0.2%) and in spite of a slowdown in spending on services (+0.4% after +0.7%). In particular, spending on automobile-related goods and food is expected to recover in the spring.

The savings ratio is expected to fall to 14.1% by mid-2018

Over the whole of 2017, the savings ratio stood at 14.3%, a slight increase on 2016 (*Graph 2*). In Q1 2018, households are likely to compensate for the slight sag in their purchasing power and the savings ratio should experience a clear dip (to 13.7%), before recovering to reach 14.1% by mid-2018. This smoothing behaviour is all the more logical since households are expecting an improvement in their gross disposable income, as a result of the second phase of reductions in social security contributions and the reduction in local residence tax to come in H2 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)	1.4	0.3	-0.2	0.7	0.3	0.3	0.6	0.2	0.3	0.4	1.3	2.1	1.3	1.1
Services (1)	0.7	0.1	0.4	0.4	0.7	0.3	0.6	0.5	0.7	0.4	0.8	1.6	1.8	1.8
Goods (2)	1.7	0.2	-0.9	1.3	0.0	0.3	0.6	-0.2	-0.2	0.4	1.9	1.8	1.0	0.4
including:														
Food	0.4	-0.5	0.6	0.0	0.4	0.4	-0.5	0.3	-0.3	0.4	1.1	0.9	0.8	0.1
Agriculture goods (AZ)	2.7	-1.4	-0.6	0.5	-1.8	3.1	-1.3	-1.3	-0.6	0.4	-0.4	2.2	-0.8	-1.1
Agri-food products (C1)	0.0	-0.4	0.9	-0.1	0.9	-0.1	-0.3	0.6	-0.2	0.4	1.4	0.6	1.1	0.4
Energy	3.2	1.5	-1.4	2.6	-2.3	0.3	1.4	-1.0	0.5	0.6	1.4	2.1	0.0	1.0
Energy, water and waste (DE)	4.6	3.4	-3.3	3.9	-3.6	0.1	1.7	-0.6	0.6	0.5	2.0	2.8	-0.9	1.4
Coke and refined petroleum (C2)	1.7	-1.0	1.3	1.0	-0.6	0.7	1.1	-1.6	0.5	0.7	0.9	1.3	1.2	0.5
Engineered goods (C3 to C5)	2.2	0.3	-2.0	2.0	0.5	0.2	1.2	-0.3	-0.4	0.4	2.6	2.4	1.7	0.4
Manufactured goods (C1 to C5)	1.3	-0.1	-0.6	1.1	0.5	0.1	0.6	0.0	-0.2	0.4	2.0	1.6	1.4	0.4
Territorial correction (3) = (4)-(5)	-49.6	-74.1	-47.1	416.9	39.0	14.3	9.7	-10.3	19.7	10.6	-2.0	-78.6	111.5	28.6
Imports of touristic services (4)	3.5	2.0	0.5	-1.5	0.2	0.7	0.7	0.9	0.8	1.0	-5.2	5.2	0.9	2.8
Exports of touristic services (5)	-2.9	-2.7	-0.3	2.2	1.9	1.6	1.3	0.1	2.0	1.7	-4.7	-6.9	4.6	4.6
Investment expenditure	0.6	0.7	1.1	1.5	1.8	1.4	0.9	0.6	0.5	0.2	-2.1	2.4	5.4	1.9

Forecast

Source: INSEE

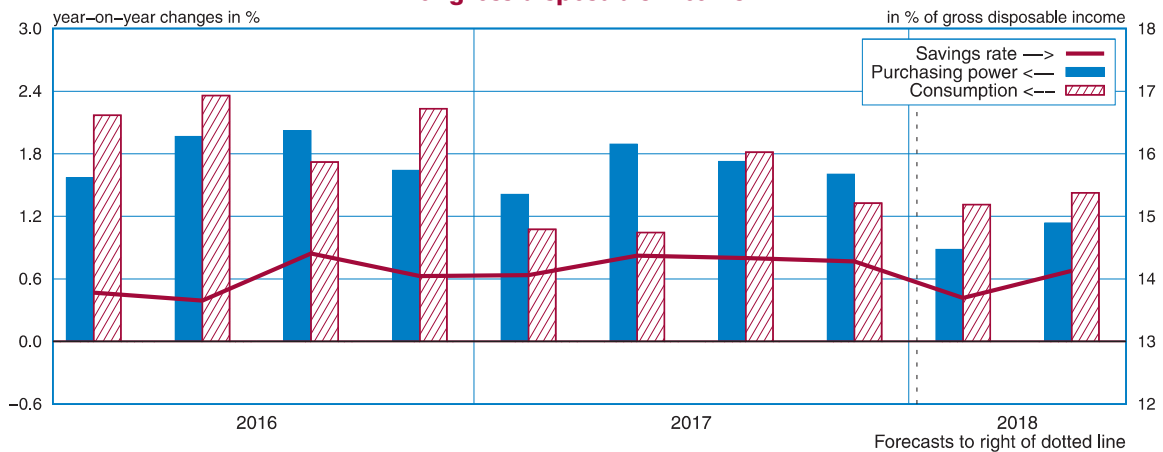
French developments

Household investment is expected to slow in 2018, after exceptional growth in 2017

In Q4 2017 household investment slowed slightly, although it remained dynamic (+0.6% after +0.9%). After two years of strong growth, sales of new-build housing have been tailing off since the beginning of 2017, which has had a knock-on effect on building permits (*Graph 3*). Given the usual time lag between permits being granted and actual construction, household investment is

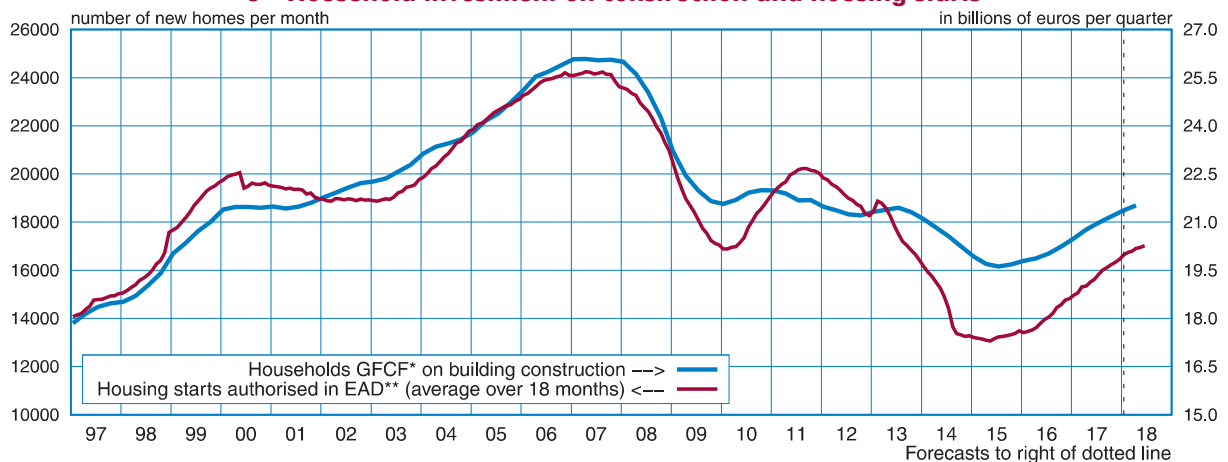
expected to slow gradually until mid-2018. Furthermore, the number of real estate transactions reached a record level in 2017 and is not expected to grow any further in 2018, which will logically lead to a slowdown in household investments in services (mainly agency and notary's fees). As an annual average, the rate of household investment, after an exceptional year of growth in 2017 (+5.4% after +2.4%), is expected to fall back in H1 2018: by mid-2018 the annual growth overhang of household investment is expected to stand at +1.9%. ■

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