

Review of the previous forecast

In Q3 2018, gross domestic product (GDP) grew by 0.4%, a little less than expected in the October 2018 issue of *Point de Conjoncture* (+0.5%). Domestic demand excluding inventory sustained GDP growth, but a little less than forecast (+0.5 points against +0.6 points). Foreign trade drove growth a little more than expected (+0.2 points against +0.1 points), and to match this, the contribution of changes in inventories was a little more negative (-0.3 points against -0.2 points). The growth forecast for Q4 2018 is lowered from that of the October *Point de Conjoncture* (+0.2% against +0.4% forecast previously).

In Q3 2018, market employment grew by 20,000 (against a forecast of +34,000). At the same time, the unemployment rate remained stable at 9.1% of the French labour force (against a forecast of 9.0%). In November 2018, headline inflation stood at +1.9%, as expected, and the forecast for the end of the year is +1.6%, against +1.8% forecast in October.

In Q3, activity increased a little less quickly than forecast

In Q3 2018, growth reached +0.4%, a slightly slower pace than that forecast in the *Point de Conjoncture* for October 2018 (+0.5%, [Table 1](#)). Output in all branches accelerated, as expected (+0.6% [Table 2](#)). Manufacturing output

rebounded a little less than anticipated (+0.7% against a forecast of +0.9%), output in the water-energy-waste branch picked up less than forecast (+0.3% against +1.3%) and construction was disappointing (+0.1% against +0.3%). Trade was less energetic than expected (+0.5% against +0.7%). Conversely, market services accelerated more than forecast (+0.9% against +0.4%), offsetting the forecasting error in the other branches.

Domestic demand sustained growth a little less than forecast

The contribution of domestic demand excluding inventory growth to GDP was slightly less than forecast (+0.5 points against a forecast of +0.6 points). Household consumption accelerated slightly less than expected (+0.4% against +0.7%). Total investment picked up more than expected (+0.9% against +0.6%): corporate investment was more dynamic than anticipated (+1.6% against +0.9%) but household investment fell back slightly whereas stability had been forecast (-0.1% against +0.0%).

The external balance buoyed up growth a little more than forecast (+0.2 points against +0.1 points). Exports increased less than expected (+0.4% against +0.8%) but imports declined unexpectedly (-0.3% against a forecast of +0.5%). In fact, purchases of manufactured goods declined much more than anticipated (-1.6% against

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

Percentage changes from previous period in %

	Conjoncture in France October 2018		Conjoncture in France December 2018	
	Q3 2018	Q4 2018	Q3 2018	Q4 2018
Gross domestic product	0.5	0.4	0.4	0.2
Imports	0.5	1.6	-0.3	1.4
Household consumption expenditure	0.7	0.5	0.4	0.2
General government consumption expenditure*	0.3	0.3	0.3	0.3
Gross fixed capital formation	0.6	0.6	0.9	0.0
of which: Non financial enterprises	0.9	0.9	1.6	0.1
Households	0.0	-0.1	-0.1	-0.5
General government	0.5	0.8	0.0	0.1
Exports	0.8	1.8	0.4	2.1
Contributions (in percentage points)				
Domestic demand excluding changes in inventories**	0.6	0.5	0.5	0.2
Changes in inventories**	-0.2	-0.1	-0.3	-0.2
Net foreign trade	0.1	0.0	0.2	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

–0.2%). In contrast to imports, sales of manufactured goods were disappointing (+0.3% against +1.2%). Finally, in contrast with the contribution of foreign trade, that of changes in inventories was a little more negative than expected (–0.3 points against –0.2 points).

The growth forecast for Q4 2018 is revised downwards

The growth forecast for Q4 2018 is revised downwards from that in the October 2018 issue of Point de Conjoncture (+0.2% against +0.4% forecast previously), taking into account both the deterioration in business climates and the probable effects on economic activity of the “yellow vests” social unrest.

In Q4, manufacturing output looks set to stabilise, where an increase was forecast in the October issue (+0.0% against +0.4%).

Domestic demand is likely to drive growth in Q4 a little less than forecast (+0.2 points against +0.5 points). The forecast for household consumption has also been revised downwards (+0.2% against +0.5%).

The forecast for household investment was also revised downwards (–0.5% against –0.1%), due to the slowdown in home construction. General government investment was revised downwards too (+0.1% against +0.8%).

Foreign trade is expected to make a positive contribution in Q4 rather than the zero contribution forecast in the October Point de conjoncture (+0.2 points). Exports will probably accelerate a little more than expected (+2.1% against +1.8%). Imports should be almost as dynamic as forecast (+1.4% against +1.6%). Forecasts for changes in inventories have been revised downwards, notably because of the delivery schedule for major aeronautical and shipbuilding contracts (–0.2 against –0.1 points).

Market employment increased slightly less than forecast

In Q3 2018, market employment increased less than anticipated (+20,000 job creations against 34,000 expected). However, the unemployment rate (including Overseas Departments) remained stable at 9.1% instead of the expected fall to 9.0%.

At the end of 2018, inflation is expected to stand at +1.6%, a little less than forecast in October

In November 2018, headline inflation stood at 1.9%, as forecast in the October issue of Point de conjoncture. This gives a forecast for headline inflation of +1.6% (against 1.8% anticipated in October) at the end of the year, whereas core inflation is expected to increase as forecast (+0.8%). ■

Table 2

	Conjoncture in France October 2018		Conjoncture in France December 2018	
	Q3 2018	Q4 2018	Q3 2018	Q4 2018
Output by sector				
Agriculture	0.2	0.3	0.2	0.1
Manufacturing	0.9	0.4	0.7	0.0
Energy, water and waste	1.3	0.2	0.3	–0.9
Construction	0.3	0.3	0.1	–0.1
Trade	0.7	0.5	0.5	0.2
Market services excluding trade	0.4	0.5	0.9	0.4
Non market services	0.3	0.2	0.2	0.2
Total	0.6	0.4	0.6	0.2
Employment, unemployment, prices				
Non-agricultural market sector employment	34	33	20	24
ILO* unemployment rate - Metropolitan France	9.0	8.9	9.1	9.1
Consumer price index ¹	2.2	1.8	2.2	1.6
Core inflation ¹	0.7	0.8	0.7	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