

Output

Total output of goods and services accelerated in Q3 2018 (+0.6% after +0.3%), due to the rebound in activity in the manufacturing branches (+0.7%). Since January 2018, the business climate has slipped back regularly but has remained above its long-term average. In Q4 2018, output of goods and services looks set to slow down (+0.2%). Over the year as a whole, it should grow by 1.9%, after +2.6% in 2017. It is expected to accelerate slightly in H1 2019 (+0.3% to +0.4% per quarter). By mid-2019, the carry-over effect for output for the year is expected to be +1.1%.

Output of goods and services should grow moderately up to mid-2019

In Q3, the output of goods and services accelerated (+0.6% after +0.3%; *Table 1*). The business climate has faltered regularly since the beginning of 2018 (*Graph 1*). It was stable in November: at its April 2017 level, it was still above its long-term average. Since the beginning of the year, the climate indicator has dropped in all branches except building construction where it has stabilised at a fairly high level. In this context, total output of goods and services should increase moderately in Q4 2018 (+0.2%), with stability predicted in the manufacturing branches. The pace is likely to be only slightly more sustained in H1 2019 (+0.3% to +0.4% per quarter), due mainly to sluggish activity in manufacturing and less energetic growth expected in services. By mid-2019, the carry-over effect for output for the year is expected to be +1.1%.

Manufacturing output is expected to fall back slightly by mid-2019

After falling back significantly in H1 2018 (–0.1% in Q2 after –1.0% in Q1), manufacturing output rose again in Q3 (+0.7%), as a result of the significant rebound in the manufacture of coke and refined petroleum products (+11.6% after –9.6%). This was associated with the reopening of refineries that had been closed for maintenance. Activity also continued to grow at a sustained pace in transport equipment (+1.6%, scarcely less than in Q2 (+1.8%)) and picked up in capital goods (+0.7% after –0.8%). It remained sluggish in “other industries” (+0.1% after +0.2%) and decreased in agri-food (–0.4% after –0.2%).

In Q4 2018, manufacturing activity appears to be stable (0.0%). In October, the quarterly carry-over effect of growth in the industrial production index was stagnant (0.0%) while the business climate remained above its long-term average, despite slipping back since the beginning of the year, as was the case in all sectors (*Graph 2*). In November, the balances of opinion on past and expected activity improved, whereas those on order books were closer to their average levels. Activity in capital goods is likely to lose its momentum (+0.2% after +0.7%) and in transport equipment (0.0% after +1.6%).

Nevertheless, automobile production should rebound despite the introduction of the WLTP new antipollution standard. Since the refineries were reopened in Q3, activity is also expected to stabilise in the manufacture of coke and refined petroleum products (0.0% after +11.6%). It is

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

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

	Quarterly changes										Annual changes		
	2017				2018				2019		2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture (2%)	1.1	1.3	0.8	0.7	–0.2	0.1	0.2	0.1	0.1	0.0	2.3	1.2	0.4
Manufacturing industry (20%)	0.4	0.8	0.8	1.4	–1.0	–0.1	0.7	0.0	–0.2	0.0	2.4	0.8	0.1
Energy, water, waste (4%)	–1.5	1.0	1.4	0.2	0.7	–1.2	0.3	–0.9	0.7	0.3	1.4	0.8	0.1
Construction (8%)	1.2	1.2	0.4	0.5	–0.4	0.7	0.1	–0.1	–0.2	–0.2	3.5	1.0	–0.2
Trade (10%)	0.9	1.0	1.2	0.8	–0.1	0.5	0.5	0.2	0.6	0.5	3.0	1.9	1.5
Market services excluding trade (41%)	1.3	0.8	0.7	1.2	0.7	0.4	0.9	0.4	0.6	0.6	3.2	3.0	1.9
Non-market services (15%)	0.3	0.2	0.4	0.3	0.2	0.3	0.2	0.2	0.4	0.3	1.1	1.1	1.0
Total (100%)	0.8	0.8	0.7	0.9	0.1	0.3	0.6	0.2	0.3	0.4	2.6	1.9	1.1

Forecast

Source: INSEE

French developments

likely to be stable in “other industries” (0.0% after -0.1%) and should fall back a little more in agri-food (-0.1% after -0.4%).

On average, manufacturing output should slow sharply in 2018 (+0.8% after +2.4%). In Q1 2019, it is likely to decrease a little further (-0.2%), then stabilise in Q2 (0.0%). The carry-over effect for 2019 should stand at +0.1% at mid-year.

Agricultural output should grow slightly by mid-2019

In Q3 2018, agricultural output increased slightly (+0.2%). On the assumption that weather conditions are normal, it is expected to grow a little in Q4 2018

(+0.1%) and in H1 2019 (+0.0% to +0.1% per quarter). On average over 2018, agricultural output should increase moderately (+1.2%). By mid-2019, the annual carry-over effect is expected to stand at +0.4%.

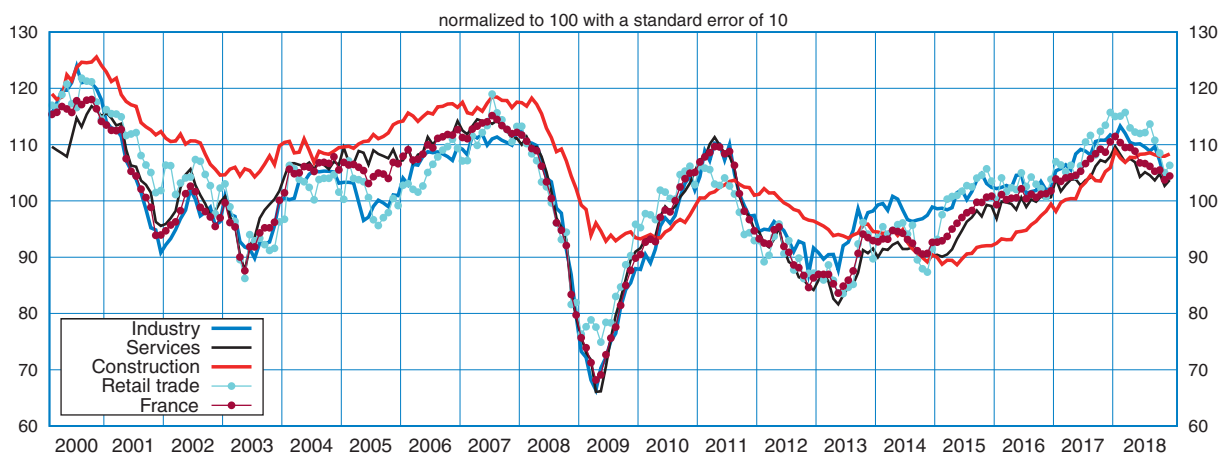
Energy output is likely to grow moderately by mid-2019

In Q3 2018, energy output bounced back (+0.3%) in reaction to the decline in the spring months (-1.2%). It is likely to fall back in Q4 2018 (-0.9%) due to the mild temperatures in October and the beginning of December. On the assumption that temperatures remain seasonal, it should increase by mid-2019 (+0.3% to +0.7% per quarter). On average over 2018, energy output should increase by 0.8%. By mid-2019, the annual carry-over effect should stand at 0.1%.

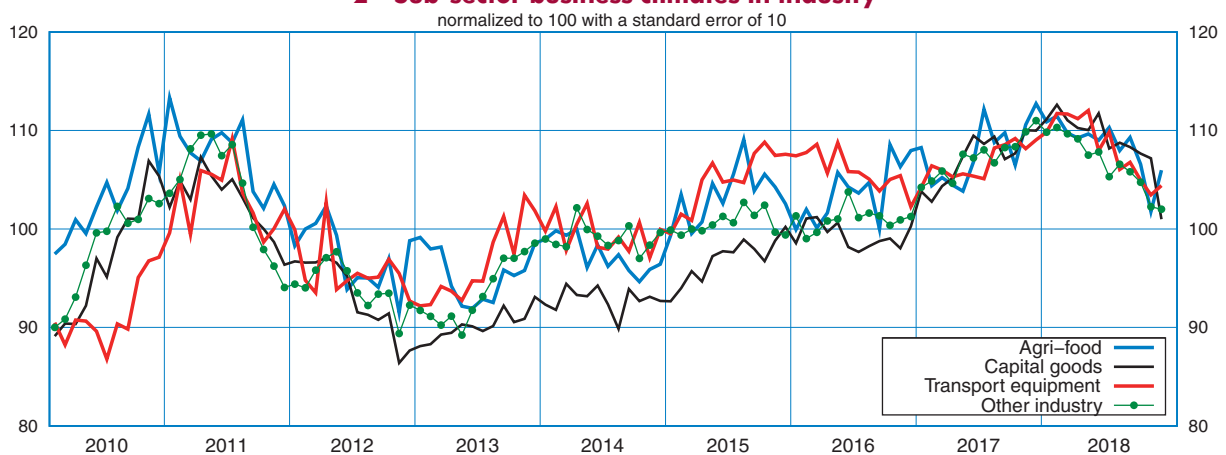
In construction, activity is set to fall back

After a dynamic Q2 2018 (+0.7%), output in Q3 in the construction sector was at a standstill (+0.1%) due to the slowdown in activity in building construction and especially the downturn in activity in civil engineering.

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



2 - Sub-sector business climates in industry



The number of building permits for individual dwellings bounced back in Q3 2018 (+4.1%) after falling back sharply the previous quarter (-8.0%). The number of permits for collective housing slipped back (-4.1%) after increasing over two quarters (+2.1% then +4.9%). In the November 2018 business tendency survey of business leaders in the building sector, the balance of opinion on expected activity increased and stood well above its long-term average.

The balance of opinion on past activity fell back slightly but still remained above its long-term average. Property developers again reported less demand for new housing and a deterioration in prospects for housing starts compared with the previous quarter. The corresponding balances are below their average. In Q3 2018, after reaching one of the highest levels since 2012, output is expected to slip back a little in Q4 2018, then again in H1 2019. In civil engineering, the opinion of business leaders about their expected activity has improved a little and their views on their order books remain the same. The corresponding balances remain significantly above their long-term average. Activity is expected to bounce back only very slightly in this sector. Total building output is likely to fall back slightly in Q4 2018 (-0.1% after +0.1%), then decline at a similar

pace in H1 2019 (-0.2% per quarter). On average across 2018, activity in the construction sector is expected to slow considerably (+1.0% after +3.5% in 2017). By mid-2019, the carry-over effect for the year is expected to be negative (-0.2%).

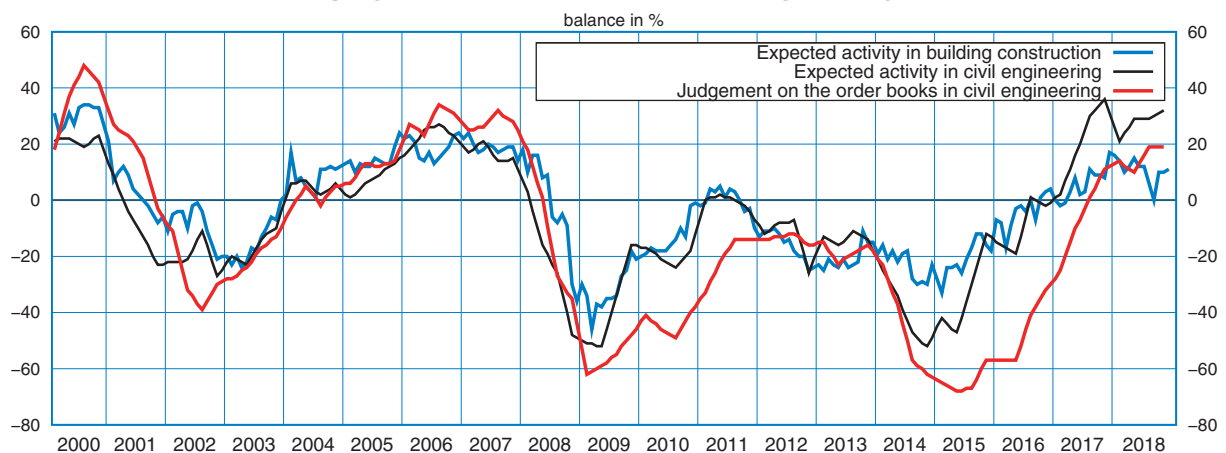
Trade activity should continue its solid growth until mid-2019

In Q3 2018, trade activity increased solidly (+0.5%), as it had in Q2, sustained mainly by dynamic investment by producers of manufactured goods.

In the retail trade and the wholesale trade, the business climate remained above its long-term average. In the retail trade, however, business leaders were clearly less optimistic than in the summer: the balances of opinion on their ordering intentions and expected sales have fallen back since July 2018.

Trade activity should continue to grow at the end of 2018 (+0.2%) but it could be weakened by social unrest. It is likely to accelerate in H1 2019 (+0.5% to +0.6% per quarter). As an annual average, it should increase by 1.9% in 2018, after +3.0% in 2017. By mid-2019, the annual carry-over effect should stand at +1.5%.

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



Source: INSEE

French developments

Market services excluding trade: growth remains sustained in 2018, as in 2017

In Q3 2018, activity in market services excluding trade accelerated at a sustained pace (+0.9% after +0.4%). Activity bounced back in transport after falling in Q2 2018 following industrial action (+1.8% after -0.7%) and in the other service activities (+0.5% after -0.5%). Output accelerated significantly in information-communication (+1.8% after +1.2%) and in financial activities (+1.3% after +0.8%). Activity in services to businesses increased solidly (+0.7%) and was virtually the same as in Q2. Finally, output in real estate activities continued to grow steadily (+0.3%, as in the previous quarter). However, output slowed in accommodation and food services (+0.2% after +0.4%).

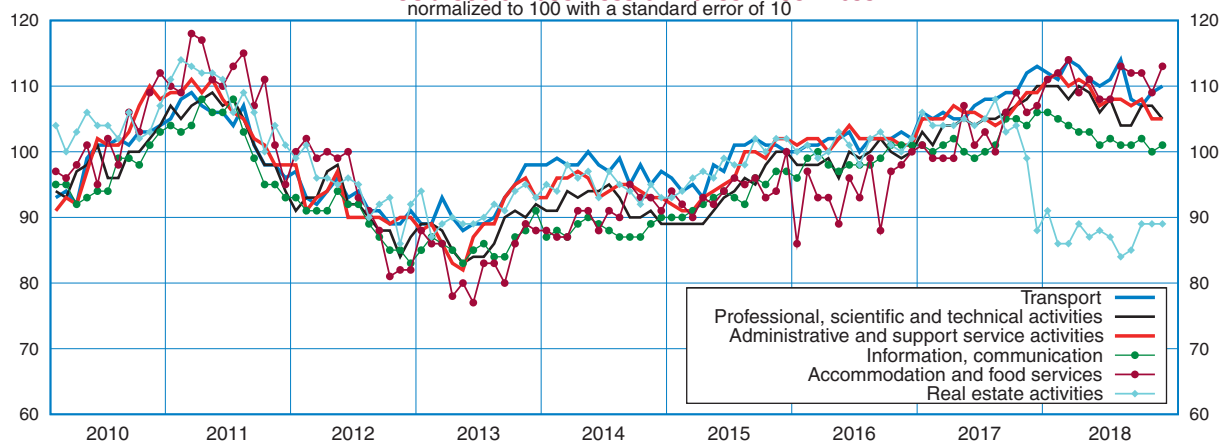
In November 2018, the business climate was unchanged in the services sector. The composite indicator was stable in information-communication (*Graph 4*) and in real estate

activities, where it was still deteriorating. It faltered in specialised, scientific and technical activities but improved in accommodation and food services, administration and support services and in goods transported by road. In Q4 2018, activity in market services excluding trade is set to slow (+0.4% after +0.9%). It should then accelerate a little in H1 2019 (+0.6% per quarter). Across the whole of 2018, output in market services excluding trade should grow by 3.0%, virtually the same as in 2017 (+3.2%). By mid-2019, the carry-over effect is expected to stand at +1.9%.

Mainly non-market services: activity is set to slow very slightly across 2018

Activity in mainly non-market services decelerated slightly in Q3 2018 (+0.2% after +0.3%). In Q4 2018, output is expected to grow at this pace (+0.2% in Q1 and +0.3% in Q2). On average over 2018, growth is expected to stand at +1.1%, the same as in 2017. By mid-2019, the carry-over effect should be +1.0%. ■

4 - Sub-sector business climates in services
normalized to 100 with a standard error of 10



Source: INSEE