

Foreign trade

In Q3 2018, foreign trade accelerated in the wake of US and Chinese imports, which had been boosted in the short term by expectations of a hardening of trade tensions between the two countries. By mid-2019, despite demand in the Eurozone holding up well, world trade is expected to slow significantly, from the effect of the increase in US customs duties and probable Chinese reprisals.

Despite a slowdown in world demand for French goods in Q3 (+0.5% after +0.9%), French exports picked up in the summer (+0.4% after -0.1%), especially in manufactured goods (+0.3% after -0.4%). In Q4, exports should take off once again (+2.1%) as a result of sales of military hardware, the continuing catch-up effect in civil aeronautical deliveries and the delivery of a liner. In H1 2019, they are likely to fall back, despite the delivery of a major naval contract. Imports declined in Q3 (-0.3% after +0.5%), mainly due to a downturn in manufactured goods (-1.6% after +2.0%). They should bounce back in Q4 2018 (+1.4%) then rise again more rapidly than domestic demand in H1 2019 (around +0.7% per quarter).

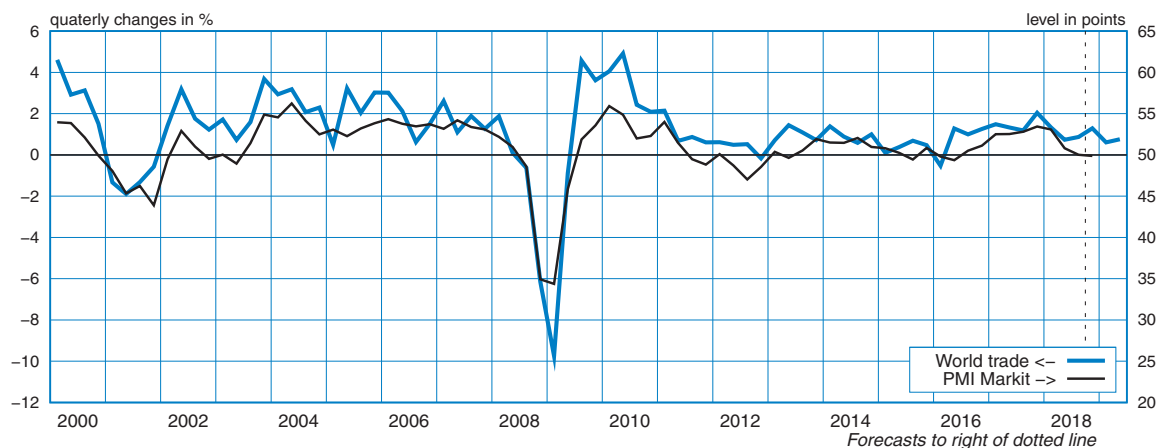
Foreign trade is set to make as large a contribution to growth in Q4 2018 as in Q3 (+0.2 points per quarter), but this contribution is expected to be negative again in H1 2019.

World trade set to slow by mid-2019

World trade was still vigorous in Q3 (+0.9% after +0.7%, Graph 1), after a dynamic H1 (+1.0% per quarter on average). Chinese imports did indeed accelerate strongly (+3.3% after +0.5%) in anticipation of reprisals associated with the increase in customs tariffs initially announced for January 2019 by Donald Trump. United States imports bounced back (+2.2% after -0.1%), mainly in reaction to the previous quarter. In Q4 2018, world trade is set to continue its acceleration (+1.3%), before increasing less vigorously in 2019, to +0.6% then +0.8% per quarter. Although imports in the Eurozone are doing well, world trade is largely expected to slow due to fewer imports into the United States and the emerging countries, China especially. On average across 2018, growth in world trade should remain almost as buoyant as in 2017 (+5.2% after +5.4%). However, in 2019, world trade is likely to slow sharply (+2.8% carry-over effect by mid-year).

World demand for French goods maintained its momentum into Q3 (+0.5% after +0.9%, Table 1), sustained by the imports of its main trading partners, Germany and Italy, who alone represent a quarter of French exports. By mid-2019, demand for French goods should rise by a little less than world trade (+1.0% in Q4 2018

1 - World trade and new export orders



Source : DG Trésor, PMI, INSEE forecast

French developments

then +0.8% on average per quarter by mid-2019, *Table 2 and Graph 2*), driven mainly by demand from the country's European partners.

After a strong acceleration at the close of 2018, exports are expected to be at a standstill in spring 2019

In Q3 2018, French exports bounced back (+0.4% after -0.1%). Exports of manufactured goods increased (+0.3% after -0.4%) following the good performance in sales of other industrial goods (+1.4% after +0.7%) attributable to pharmaceutical goods and as a result of exports of refined petroleum products (+7.8% after -11.4%) which recovered after the reopening of some refineries in France. In addition, the decline in exports of transport equipment was halted (+0.1% after -3.1%) due to the start of a catch-up following aeronautical deliveries. However, exports of agri-food products fell back (-1.8% after +0.7%), as they did for capital goods (-1.3% after +1.9%).

In Q4 2018, exports of manufactured goods are expected to increase strongly (+3.1%, *Graph 3*). Aeronautical and shipbuilding exports should accelerate at the end of the year, as a result of the combined effects of the catch-up in civil aeronautical deliveries, further deliveries of military hardware and the sale of a liner. Exports of energy products are likely to contract (-3.0%), while agricultural products should accelerate again (+3.0%). Exports of services are expected to slow (+0.3%), returning to their long-term trend. All in all, exports of goods and services should accelerate sharply (+2.1%).

In H1 2019, despite the relative dynamism of demand for French goods and the slight depreciation of the euro, exports are expected to suffer after the return to normal of aeronautical deliveries. They are likely to decline in Q1 despite the delivery of a major naval contract (-0.3%) and should stabilise in spring (-0.0%, *Graph 3*). As an annual average, exports are expected to slow in

Table 1

World trade and world demand for French products

levels; percentage changes from previous period

	2018				2019		2017	2018	2019 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
World trade	1.3	0.7	0.9	1.3	0.6	0.8	5.4	5.2	2.8
Imports of advanced economies	0.5	0.7	0.4	1.3	0.3	0.6	5.1	3.7	2.2
Imports of emerging economies	3.1	0.7	1.8	1.3	1.2	1.0	6.2	8.3	4.0
World demand for French products	0.6	0.9	0.5	1.0	0.7	0.9	5.3	4.2	2.7

Forecast

Table 2

Foreign trade growth forecast

variations in % at chain-linked previous year prices, contributions in points

	Variations trimestrielles						Annual changes		
	2018				2019		2017	2018	2019 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Exports									
All goods and services	-0.6	-0.1	0.4	2.1	-0.3	-0.0	4.7	2.9	1.4
Manufactured products (68%)*	-1.1	-0.4	0.3	3.1	-0.7	-0.6	5.0	3.2	1.2
Imports									
All goods and services	-0.7	0.5	-0.3	1.4	0.8	0.7	4.1	1.0	2.3
Manufactured products (68%)*	-0.5	2.0	-1.6	1.8	0.7	0.5	5.5	2.2	2.1
Contribution of foreign trade to GDP	0.0	-0.2	0.2	0.2	-0.3	-0.2	0.1	0.6	-0.3

Forecast

*Part of exports (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2017.

Source: DG Trésor, INSEE

2018 (+2.9% after +4.7% in 2016) and at the beginning of 2019 (+1.4% carry-over effect at the end of H1 2019), mainly as a result of manufactured goods.

After being strongly positive in 2018, the contribution of foreign trade to growth is expected to become negative again in mid-2019

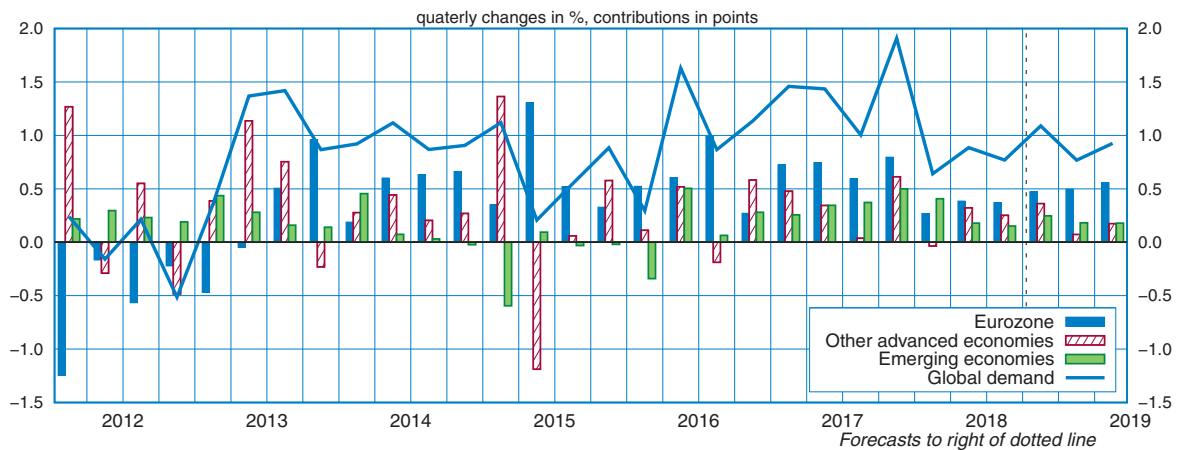
In Q3 2018, French imports were at a standstill (-0.3% after +0.5%). Purchases of manufactured goods had indeed slipped back (-1.6% after +2.0%), especially transport equipment (-3.9% after +2.5%). Imports of refined petroleum products fell back sharply since production had resumed in France. Imports of agricultural products also declined (-2.0% after +0.7%) due to a drop in sourcing of fruit and vegetables. Only energy and services imports bounced back.

In Q4 2018, imports should once again regain their momentum (+1.4%) then increase at the start of 2019 by about +0.7% per quarter, a pace that is consistent with the change in domestic demand.

As an annual average, imports should slow more sharply than exports in 2018 (+1.0% after +4.1% in 2017). As a result, foreign trade should once again make a positive contribution to growth in 2018, more strongly than in 2017 (+0.6 points after +0.1 points). For 2019, however, the contribution of foreign trade to the carry-over effect at mid-year is likely to be negative due to manufactured goods and energy (-0.3 points).

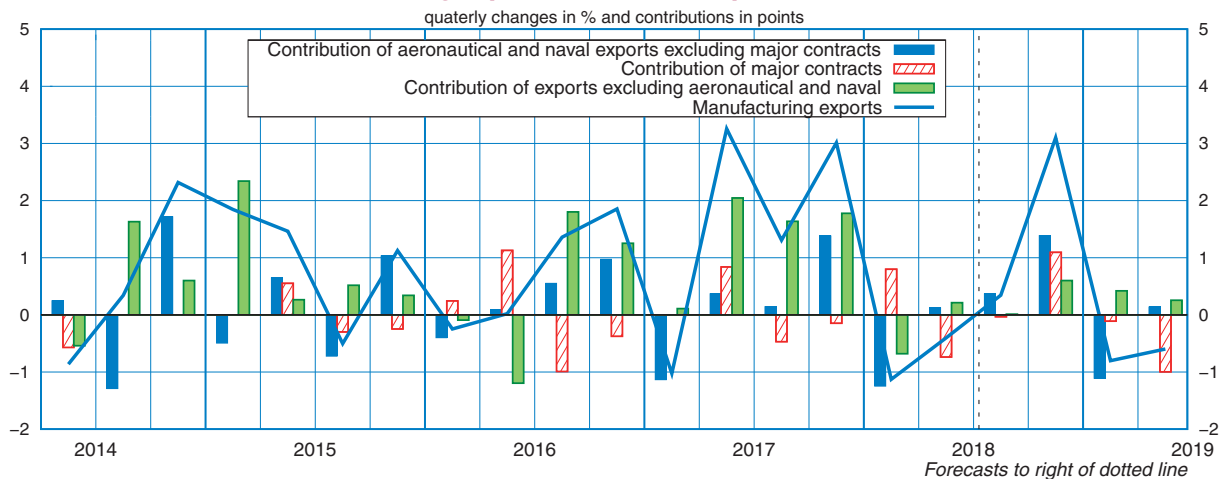
In H1 2018, the balance of trade in goods and services deteriorated substantially. This balance is likely to deteriorate more strongly until mid-2019, because of the widening deficit in manufactured goods. ■

2 - World demand for French products and contributions of the main partners



Sources: DG Trésor, INSEE forecast

3 - Manufacturing exports and main components contributions



Source: INSEE