Household consumption and investment

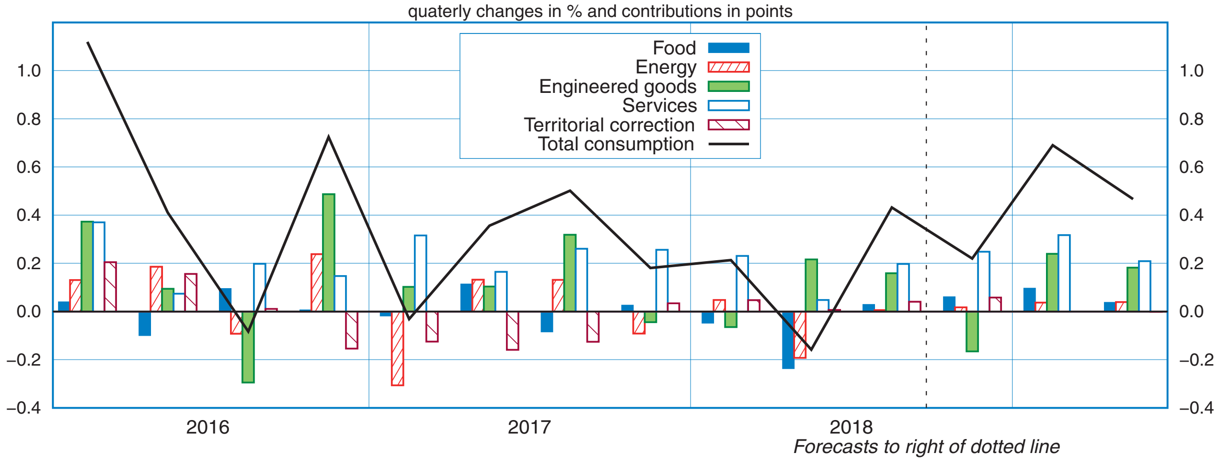
In Q3 2018, household consumption expenditure bounced back (+0.4% after –0.2%), especially spending on energy and food. The consumption of services accelerated (+0.4% after +0.1%), driven – after the strikes in the spring – by the rebound in consumption of transport services. In Q4 2018, consumption is likely to slow (+0.3% after +0.4%), largely due to the downturn in expenditure on goods (–0.2% after +0.4%). Energy consumption is expected to be up but spending on goods produced by the automotive industry is likely fall back sharply. The consumption of services is expected to rise (+0.5% after +0.4%). In H1 2019, household consumption should bounce back (+0.7% in Q1) and then remain solid in the spring (+0.5%). On average over the year, household consumption is set to increase in 2018 at almost exactly the same rate as in 2017 (+0.9% after +1.1%). Meanwhile, purchasing power looks likely to grow by +1.4%, as in 2017, despite a slight pick-up in prices. The savings ratio should be slightly higher than that measured last year (14.7% against 14.2% in 2017). Household investment, after exceptional growth in 2017 (+5.6% after +2.8%), should slow down significantly in 2018 with a drop in the rate of new-build housing sales. On average over the year, it is set to rise by 1.5% in 2018. It is expected to decline in H1 2019. The annual carry-over effect for household investment should stand at –1.0% by mid-2019.

Consumption bounced back in Q3 2018

In Q3 2018, total household consumption bounced back significantly (+0.4% after –0.2% in Q2; Graph 1). Indeed, consumption of goods picked up (+0.4% after –0.4%), while consumption of services accelerated slightly (+0.4% after +0.1%). In particular, consumer durables were very buoyant for the second consecutive quarter (+1.6% after +1.6%), driven by the acceleration in the consumption of furnishings (+1.4% after +0,6 %) and a rebound in the consumption of other consumer durables (+0.8% after –0.5%). The consumption of goods produced by the automotive industry increased in momentum (+1.8% after +2.6%), buoyed by the exceptional level of new car sales in August, in anticipation of the introduction of stricter approval tests for new cars in Europe on 1st September. Textile consumption slipped back (–0.6% after +0.8%) and the consumption of other manufactured goods held steady (+0.2%, as in the previous quarter). Food consumption stopped declining (+0.2% after –1.3%), while gas and electricity consumption picked up (+1.4% after –3.9%). However, fuel consumption edged down again (–1.5% after –0.2%).

Consumption of services accelerated (+0.4% after +0.1%), driven by the rebound in transport services after the strikes in the spring (+3.4% after –2.9%) and despite the slight downturn in the consumption of accommodation and food services (–0.3% after +0.3%).

1 - Contributions of the various items to quaterly household consumption



Source: INSEE

Consumption should slow slightly Q4 2018, despite the acceleration of purchasing power

In Q4 2018, total household consumption is expected to increase by 0.2% (*Table*), slowed by the drop in the consumption of cars in particular, in reaction to the previous quarter. In this way, households are likely to smooth the effects of the acceleration in their purchasing power forecast for this quarter (+1.3% after +0.4%) on their consumption. This forecast is consistent with the findings of the Household Economic Outlook Survey in November 2018, which does not point towards an acceleration of consumption in the short term (*Focus*).

After a significant rebound in Q3 (+0.4%), the consumption of goods looks set to drop (–0.2%). Energy expenditure should increase (+0.2% after +0.1%), despite a downturn in gas and electricity consumption (–1.3% after +1.4%). Indeed, spending on fuel is expected to bounce back strongly (+2.1% after –1.5%). Purchases of consumer durables should also slip back (–1.1% after +1.6%), due to the drop in the production of goods produced by the automotive industry (–2.9% after +1.8%) and the slowdown in the consumption of other consumer durables. The consumption of household durables is likely to remain very vigorous (+1.4% after +1.4%). However, expenditure on clothing looks set to drop again in Q4 (–0.6% after –0.6%). Food consumption is expected to accelerate slightly (+0.3% after +0.2%). All in all, consumption of manufactured goods is expected to edge down in Q4 (–0.1% after +0.5%).

The consumption of services should rise again (+0.5% after +0.4%), driven by the rebound in accommodation and food services (+0.6% after –0.3%) and despite the substantial slowdown in transport services (+0.2% after +3.4%). However, the consumption of services should suffer from the social unrest associated with the "yellow vests" movement (*Focus*).

Consumption is set to rebound in Q1 2019

Household consumption is expected to bounce back in Q1 2019 (+0.7%) in reaction to and as a result of the purchasing power support measures, even though households are partially smoothing the effects of the quarterly variations in their income. It is likely to remain solid in Q2 (+0.5%).

Household consumption and investment expenditure
at chain-link previous year prices, SA-WDA

	Quarterly changes in %										Annual changes in %			
	2017				**2018**				**2019**		**2016**	**2017**	**2018**	**2019 ovhg**
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**				
Total household consumption expenditures (1)+(2)+(3)	0	0.4	0.5	0.2	0.2	–0.2	0.4	0.2	0.7	0.5	2.0	1.1	0.8	1.4
Services (1)	0.6	0.3	0.5	0.5	0.4	0.1	0.4	0.5	0.5	0.5	1.5	1.6	1.5	1.4
Goods (2)	–0.5	0.7	0.8	–0.2	–0.1	–0.4	0.4	–0.2	0.8	0.6	1.6	1.3	0.1	1.2
including:														
Food	**–0.1**	**0.6**	**–0.5**	**0.1**	**–0.3**	**–1.3**	**0.2**	0.3	0.6	0.2	**0.5**	**0.3**	–1.1	0.8
Agriculture goods (AZ)	–2.3	3.0	–0.9	–1.3	–0.3	–1.3	–2.1	0.6	1.1	0.4	1.0	–1.2	–2.9	0.4
Agri-food products (C1)	0.3	0.2	–0.4	0.4	–0.3	–1.3	0.6	0.3	0.5	0.2	0.4	0.6	–0.7	0.8
Energy	**–3.7**	**1.7**	**1.6**	**–1.1**	**0.6**	**–2.3**	**0.1**	0.2	0.5	0.6	**2.1**	**0.1**	–0.7	0.5
Energy, water and waste (DE)	–5.9	2.3	1.5	0.5	0.2	–3.9	1.4	–1.3	1.5	0.6	2.4	–0.6	–0.8	0.7
Coke and refined petroleum (C2)	**–0.7**	**0.9**	**1.8**	**–3.2**	**1.2**	**–0.2**	**–1.5**	2.1	–0.7	0.5	**1.8**	**1.2**	–0.6	0.4
Engineered goods (C3 to C5)	**0.5**	**0.5**	**1.5**	**–0.2**	**–0.3**	**1.0**	**0.7**	–0.8	1.1	0.8	**2.4**	**2.6**	1.3	1.7
Manufactured goods (C1 to C5)	**0.3**	**0.4**	**0.8**	**–0.2**	**–0.2**	**0.0**	**0.5**	–0.1	0.7	0.6	**1.6**	**1.8**	0.4	1.3
Territorial correction (3) = (4)–(5)	**10.9**	**12.5**	**8.8**	**–2.2**	**–3.2**	**–0.4**	**–2.8**	–4.2	–4.1	4.8	**–25.2**	**34.4**	–0.8	–5.3
Imports of touristic services (4)	–1.1	–0.1	0.7	3.1	2.4	1.2	1.2	0.2	0.2	0.2	3.3	–0.8	6.7	1.4
Exports of touristic services (5)	2.2	3.6	3.3	1.3	0.6	0.7	0.0	–1.1	–1.0	1.5	–5.9	8.2	4.3	–0.6
Investment expenditure	**1.9**	**1.4**	**1.0**	**0.8**	**0.2**	**0.1**	**–0.1**	–0.5	–0.4	–0.3	**2.8**	**5.6**	1.5	–1.0

Forecast

Source: INSEE

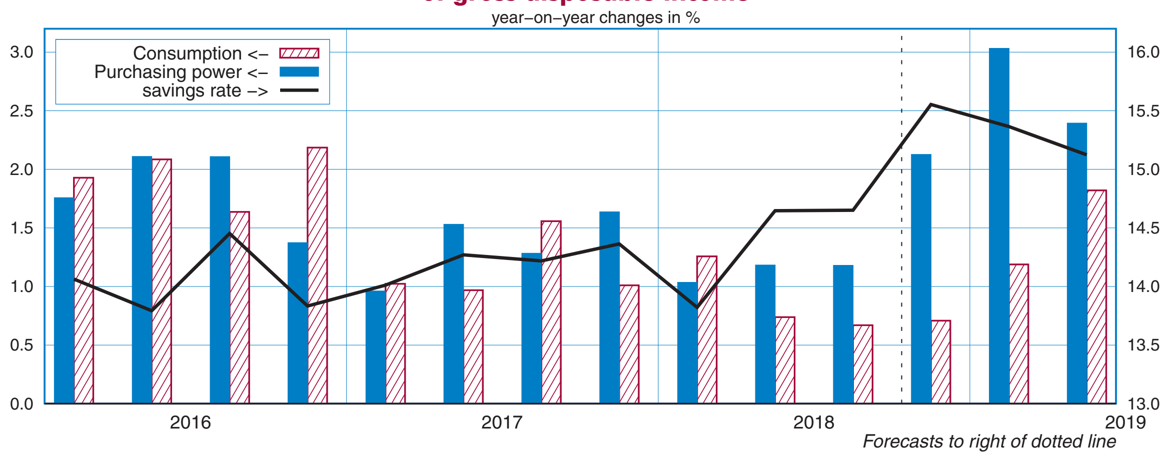
The savings ratio is expected to increase in Q4 2018, before falling in H1 2019

At the end of 2018, the household savings ratio should increase from 14.7% in Q3 to 15.6% in Q4 (*Graph 2*), due to the acceleration of purchasing power and a much more moderate rise in consumption. Over 2018 as a whole, the savings ratio should be slightly higher than in 2017 (14.7% against 14.2% in 2017). Conversely, it is likely to drop in H1 2019, from 15.4% to 15.1% by mid-2019), with the weakening of purchasing power. Nevertheless, the uncertainty over these forecasts has been heightened by the introduction of the collection of income tax at source at the beginning of 2019. The liquidity effects of this scheme will be structurally neutralised by seasonal adjustments, but they could still drive consumer behaviour either upwards (with the part payment of 60% of tax credits in January) or downwards (based on the assumption of households adopting a wait-and-see attitude in response to this change).

Household investment is expected to slow in 2018 and decline in 2019

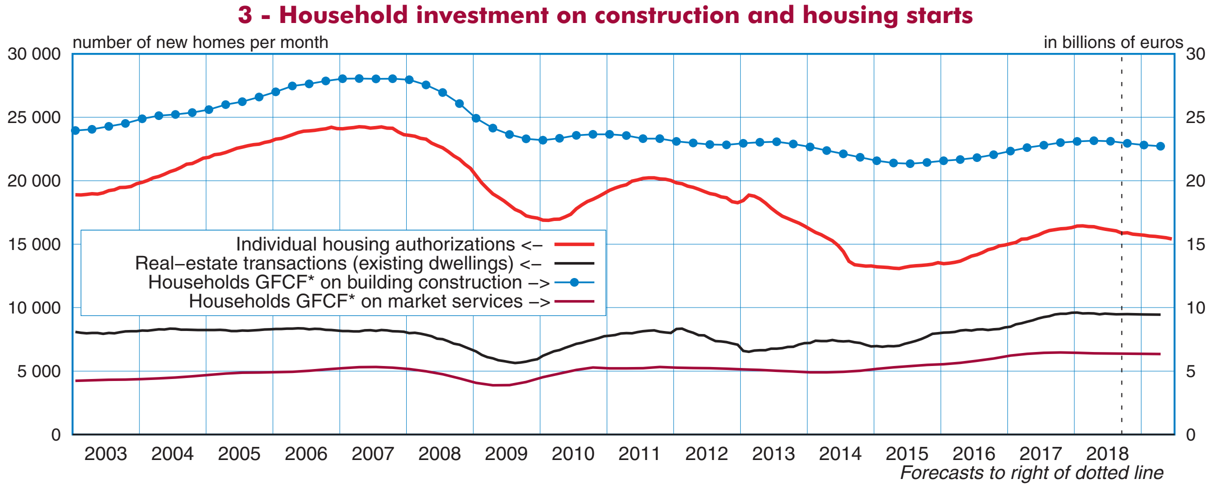
In Q3 2018, household investment slipped back for the first time since Q3 2015 (–0.1% after 0.1%). It is likely to edge down again in Q4 (–0.5%). Indeed, the nosedive in new house sales at the end of 2017 led to a drop in the number of building permits for one-family dwellings, which is likely to be reflected by a decline in the production of one-family dwellings at the end of the year. In addition, after hitting record levels in 2017, the number of property transactions should not increase any further in 2018 and 2019. On an annual average basis, household investment is expected to slow down significantly in 2018 (+1.5% after +5.6%) and decline in H1 2019: the annual carry-over effect for household investment should stand at –1.0% by mid-2019. ■

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