

Output

Total output of goods and services increased by 0.3% in Q4 2018, a slight slowdown compared with Q3 (+0.5%) but an increase over H1 2018. The business climate faltered throughout 2018 but the decline seems to have been contained at the start of 2019: the climate indicator was stable in February, above its long-term average. In H1 2019, the output of goods and services should retain a steady pace of growth (+0.5% per quarter). By mid-2019, the annual carry-over effect for output is expected to be +1.4%.

Output of goods and services should grow steadily in H1 2019

In Q4, the output of goods and services decelerated slightly (+0.3% after +0.5%; *Table*). As an annual average, it slowed in 2018 (+1.9% after +2.6%), with only a slight increase in activity in the manufacturing industry, most notably. The business climate was virtually stable in February 2019 (*Graph 1*), slightly above its long-term average. Since the beginning of 2018, it has fallen in all branches overall, dropping below its average in wholesale trade and retail trade at the end of the forecasting period. Building construction was an exception since the business climate here remained at a high level and even improved further at the start of 2019. In this context, total

output of goods and services should continue to grow in H1 (+0.5% per quarter), accelerating slightly compared with Q4 2018, due to persistently vigorous activity in services and the expected improvement in the manufacturing industry. By mid-2019, the annual carry-over effect for output is likely to be +1.4%.

In H1 2019, manufacturing output should recover its dynamism

In Q4 2018, manufacturing activity stagnated (0.0% after +0.7%), penalised by the downturn in the manufacture of coke and refined petroleum products (-5.3%) as a result of the social movements in the refineries in November.

In Q1 2019, manufacturing activity should be more vigorous (+0.4%). In January, the quarterly carry-over effect of growth in the industrial production index was up (+0.9%). In February, the business climate remained stable, slightly above its long-term average for the period (*Graph 2*). However, when looked at in more detail, it can be seen that the business climates in the sub-sectors diverge. There was a decline in transport equipment but an increase in capital goods. Manufacturing output looks set to continue to increase moderately in Q2 2019 (+0.2%). The carry-over effect for 2019 should stand at +0.8% at the end of H1, compared with +0.7% over 2018 as a whole.

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 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture (2%)	1.1	1.3	0.8	0.8	-0.2	0.1	-0.1	0.0	0.0	0.0	2.3	1.1	0.0
Manufacturing industry (20%)	0.4	0.8	0.8	1.3	-1.1	-0.1	0.7	0.0	0.4	0.2	2.4	0.7	0.8
Energy, water, waste (4%)	-1.5	1.1	1.5	0.1	0.7	-1.1	0.3	0.1	0.8	0.7	1.4	1.2	1.3
Construction (8%)	1.3	1.1	0.5	0.3	-0.3	0.6	0.2	0.1	0.2	0.2	3.5	1.1	0.7
Trade (10%)	1.0	1.0	1.1	0.7	-0.1	0.4	0.4	0.1	0.4	0.5	3.0	1.8	1.2
Market services excluding trade (41%)	1.4	0.7	0.7	1.2	0.7	0.4	0.7	0.6	0.6	0.7	3.2	3.0	2.0
Non-market services (15%)	0.1	0.4	0.5	0.3	0.1	0.3	0.1	0.4	0.4	0.3	1.1	1.0	1.1
Total (100%)	0.8	0.8	0.7	0.9	0.1	0.3	0.5	0.3	0.5	0.5	2.6	1.9	1.4

Forecast

Source: INSEE

French developments

Agricultural output is expected to be at a standstill in H1 2019

In Q4 2018, agricultural output was stable. It slowed across the whole of 2018, (+1.1% after +2.3% in 2017). In H1 2019, it is likely to remain stable, assuming that weather conditions are normal. By mid-2019, the annual carry-over effect is expected to be zero.

Energy output is likely to gather pace in H1 2019

In Q4 2018, energy output increased slightly (+0.1%). It is likely to be more vigorous in H1 2019 (+0.7% to +0.8% per quarter). By mid-2019, the annual carry-over effect should stand at +1.3%.

In construction, activity should remain moderate in H1 2019

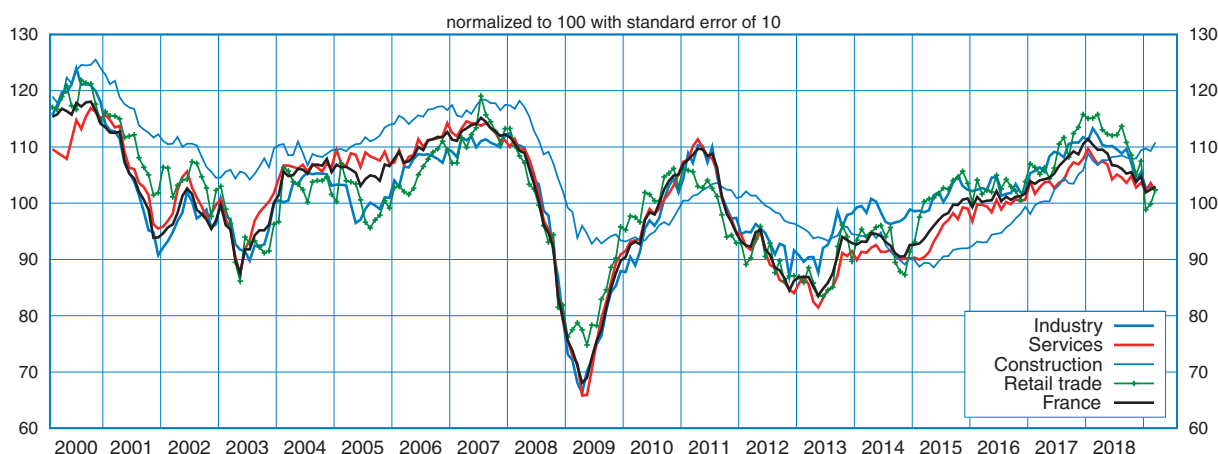
In Q4 2018, output in the construction sector grew moderately (+0.1% after +0.2%), thanks to the marked rebound in civil engineering, but was offset

by the decline in activity in building construction. During 2018, construction output grew by 1.1%, a sharp slowdown compared with 2017 (+3.5%).

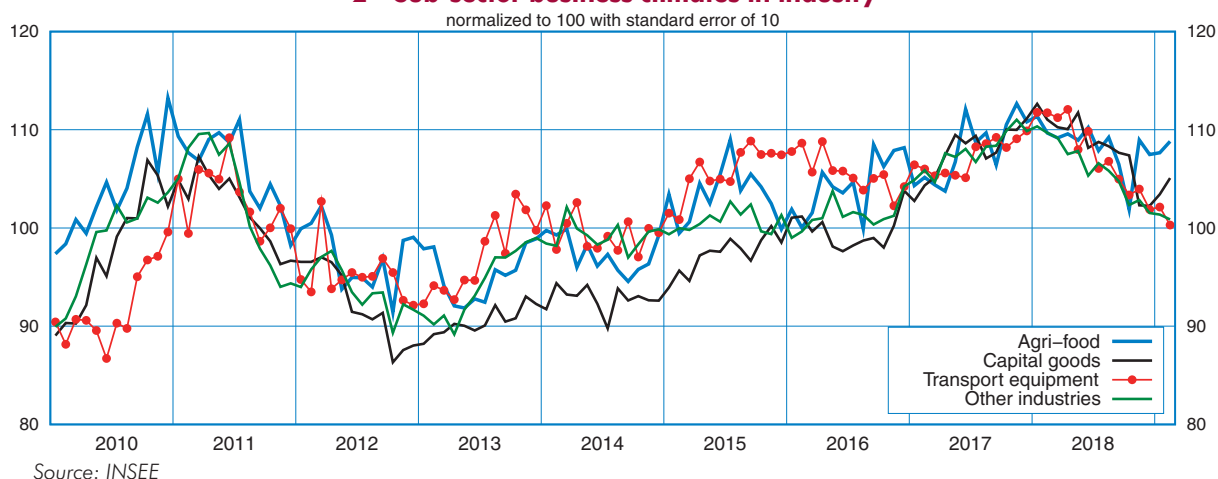
The number of building permits for individual dwellings increased once again in Q4 2018 (+3.3%) after a similar rise in the previous quarter (+3.6%). On the other hand, the number of building permits for collective housing fell sharply (-6.8%), after falling back by 4.0% in Q3. In the February 2019 business tendency survey of business leaders in the building sector, the balance of opinion on past activity increased, while the balance for expected activity slipped back, although both remained well above their long-term average (*Graph 3*).

In January, property developers again reported reduced demand for new housing and the prospects for housing starts were worse than in the previous quarter, standing below their long-term average. Output in the building construction sector looks set to remain virtually stable in H1 2019.

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



2 - Sub-sector business climates in industry



In civil engineering, the opinion of business leaders about their expected activity fell back, but their views on their order books improved. The corresponding balances remained well above their long-term average. Activity is expected to maintain a steady pace in this sector, as government demand in particular has been boosted by the ramping up of work related to the Greater Paris development project.

Thus, total building output looks set to increase moderately in H1 2019 (+0.2% per quarter). By mid-2019, the annual carry-over effect is expected to be +0.7%.

Trade activity should continue its solid growth until mid-2019

In Q4 2018, trade activity slowed (+0.1% after +0.4%), due mainly to the drop in household consumption of manufactured goods (-0.6%) and the decline in investment in manufactured goods by non-financial enterprises (-1.9%).

In December 2018, the business climate in retail trade deteriorated significantly, probably linked to the Yellow Vest movement. It regained some of its momentum at the start of 2019, moving above its long-term average in February. In January in wholesale trade, the business climate dropped below its average for the first time in the last year.

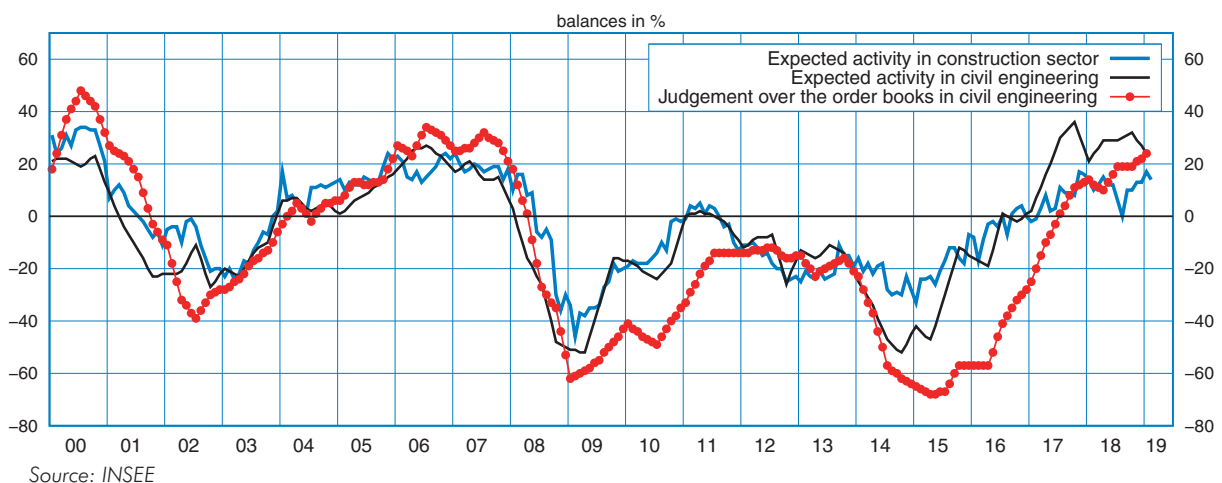
In H1 2019, trade activity should regain its vigour (+0.4% to +0.5% per quarter), as a result of the rebound in household consumption, despite somewhat mixed opinions in the business tendency surveys. By mid-2019, the annual carry-over effect of trade is expected to stand at +1.2%, a slowdown from the annual increase in 2018 (+1.8%).

Market services excluding trade: activity should continue to be sustained in H1 2019

In Q4 2018, activity in market services excluding trade remained robust, growing a little less than in the previous quarter (+0.6% after +0.7%). At sub-sector level, activity gathered pace in accommodation and food services, despite the effect of the Yellow Vests, especially in Paris (+1.0% after +0.1%); it also picked up in services to businesses (+0.9% after +0.4%) and in other service activities (+1.0% after +0.5%). It continued to improve in information-communication, but less briskly than in the previous quarter, (+1.3% after +1.7%). It remained moderate in real estate activities (+0.3%). It slowed in financial activities (+0.6% after +1.0%) and fell back in transport (-0.5% after +1.1%). All in all, over 2018, output in the market services excluding trade branch grew by 3.0%, almost the same as in 2017 (+3.2%).

In February 2019, the business climate weakened across the entire sector, although it did remain above the long-term average (*Graph 4*). In the sub-sectors, the business climate in real estate activities and in administration and support services was below the average. It was above the average in accommodation and food services (after falling sharply in December, which was certainly linked to the Yellow Vests social movement), information-communication and goods

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



French developments

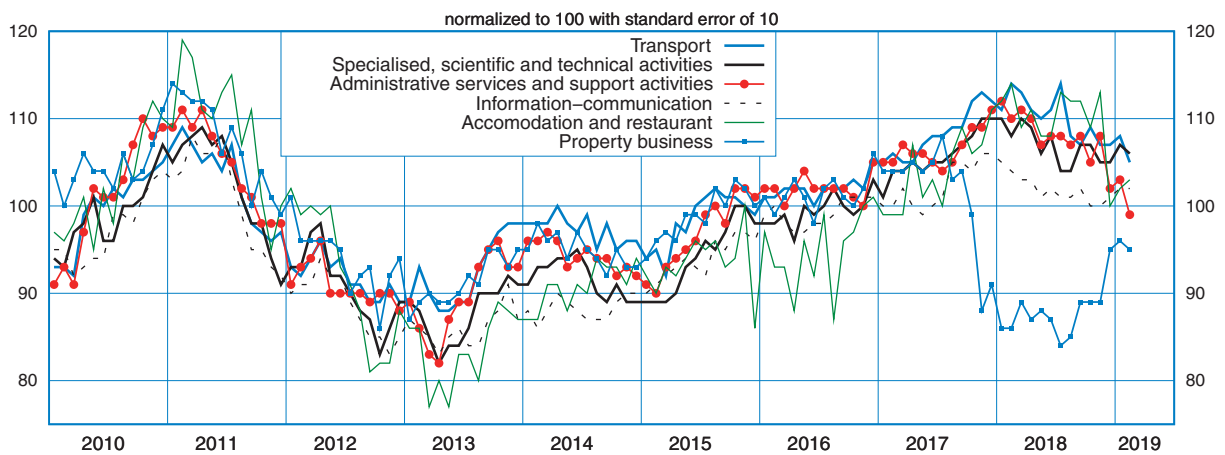
transported by road. The climate was relatively favourable in specialised scientific and technical activities.

In H1 2019, activity in market services excluding trade should remain solid, as buoyant as at the end of 2018 (+0.6% in Q1 then +0.7% in Q2). By mid-2019, the annual carry-over effect is expected to be +2.0%.

Mainly non-market services: activity should pick up a little by June 2019

Mainly non-market activity picked up in Q4 2018 (+0.4% after +0.1% in Q3). Growth is also expected to be sustained at the beginning of 2019 (+0.4%), then slow slightly in Q2 (+0.3%). Across 2018, output rose by 1.0%, after +1.1% in 2017. By mid-2019, the annual carry-over effect should be +1.1%. ■

4 – Sub-sector business climates in services



Source: INSEE