

Output

In Q1 2019, total output of goods and services grew at the same pace as in the previous two quarters (+0.5%). After dropping to its lowest level since the end of 2016 in December, the business climate recovered a little and returned to its July 2018 level, above its long-term average. In Q2 2019, the output of goods and services is expected to slow (+0.2%), then accelerate slightly in H2 (+0.3% to +0.4% per quarter). As an annual average, output should increase by 1.6% in 2019.

Output of goods and services is expected to grow steadily through to the end of 2019

In Q1 2019, the output of goods and services grew as it had done during the previous two quarters (+0.5%; *Table*). After slipping back more or less continually in 2018, the business climate picked up at the beginning of 2019; it has been relatively stable since April, above its long-term average (*Graph 1*). In May, it stood at its July 2018 level. The business climate in industry has fluctuated a little above its average since December 2018. In services, the business climate has rallied since December 2018 and remains relatively high. In retail and wholesale trade it has recovered after a slower pace at the end of 2018 – beginning of 2019. For building construction, the business climate remains high. Given this context, total output of goods and services should increase moderately by the end of 2019, slowing in Q2 (+0.2%) before accelerating a little in H2 (+0.3% to +0.4% per quarter), suffering from the sluggishness of manufacturing output.

Manufacturing output is expected to fall back in Q2 2019 and should scarcely move in H2

In Q1 2019, manufacturing activity increased significantly (+0.6%) as a result of the rebound in the manufacture of coke and refined petroleum (+3.2% after -4.2%) and the buoyancy in capital goods (+0.9% after +0.7%) and automobiles (+2.8% after +2.7%).

Manufacturing output is expected to fall back in Q2 2019 (-0.2%). In May, the quarterly carry-over effect of the industrial production index for Q2 was negative (-0.5%) while the business climate improved, and was above its long-term average (*Graph 2*).

The balance of opinion on inventory once again fell below its average, after increasing strongly during Q1 2019. Looked at in detail, activity is expected to remain dynamic in capital goods (+1.0% after +0.9%). Given that refineries reopened in Q1 and there were announcements of temporary closures in Q2, activity looks set to decline in the manufacture of coke and refined petroleum products (-4.0% after +3.2%). It is likely to remain sluggish in "other industries" (+0.1% after +0.4%) and in agri-food (+0.2% after +0.5%) while it will probably edge down again in transport equipment (-1.2% after +0.4%).

In H2 2019, manufacturing output should increase slightly (+0.3% in Q3 and +0.2% in Q4). As an annual average, it is expected to accelerate compared with 2018 (+1.0% after +0.6%).

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 | Q3 | Q4 | | | |
| Agriculture (%) | 1.8 | 1.7 | 1.0 | 0.7 | -0.2 | -0.1 | -0.1 | 0.3 | 0.4 | 0.4 | 0.2 | 0.1 | 3.8 | 1.1 | 1.0 |
| Manufacturing industry (%) | 0.4 | 0.8 | 0.9 | 1.4 | -1.3 | -0.2 | 0.7 | 0.2 | 0.6 | -0.2 | 0.3 | 0.2 | 2.4 | 0.6 | 1.0 |
| Energy, water, waste (%) | -1.1 | 0.0 | 1.2 | -0.4 | 2.1 | -3.4 | 0.9 | 0.4 | 0.5 | 0.6 | 0.2 | 0.2 | 0.3 | 0.4 | 0.9 |
| Construction (%) | 1.4 | 1.6 | 0.9 | 0.4 | -0.2 | 0.8 | 0.1 | 0.4 | 0.4 | 0.1 | 0.2 | 0.2 | 4.8 | 1.8 | 1.2 |
| Trade (%) | 0.7 | 1.0 | 1.2 | 1.0 | 0.1 | 0.6 | 0.2 | 0.6 | 0.6 | 0.1 | 0.3 | 0.3 | 3.2 | 2.4 | 1.5 |
| Market services excluding trade (%) | 1.7 | 1.0 | 0.7 | 1.2 | 0.9 | 0.5 | 0.6 | 0.8 | 0.5 | 0.5 | 0.5 | 0.5 | 3.9 | 3.2 | 2.3 |
| Non-market services (%) | 0.1 | 0.4 | 0.5 | 0.3 | 0.1 | 0.2 | 0.1 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 1.1 | 0.8 | 1.0 |
| Total (100 %) | 1.0 | 0.9 | 0.8 | 0.9 | 0.2 | 0.2 | 0.5 | 0.5 | 0.5 | 0.2 | 0.3 | 0.4 | 3.0 | 2.0 | 1.6 |

■ Forecast
Source: INSEE

French developments

Agricultural output is expected to increase slightly in 2019

In Q1 2019, agricultural output rose slightly (+0.4%). Assuming that weather conditions are normal, it is likely to slow by the end of the year (+0.4% in Q2 then +0.2% and +0.1% in Q3 and Q4). As an annual average, agricultural output should increase slightly in 2019 (+1.0%).

Energy output is likely to gather pace a little in 2019

In Q1 2019, energy output picked up slightly (+0.5%). On the assumption that temperatures are seasonal, it should continue to gather pace again slightly in Q2 (+0.6%) then slow in H2 (+0.2% per quarter). Its annual average for 2019 is expected to increase by 0.9%.

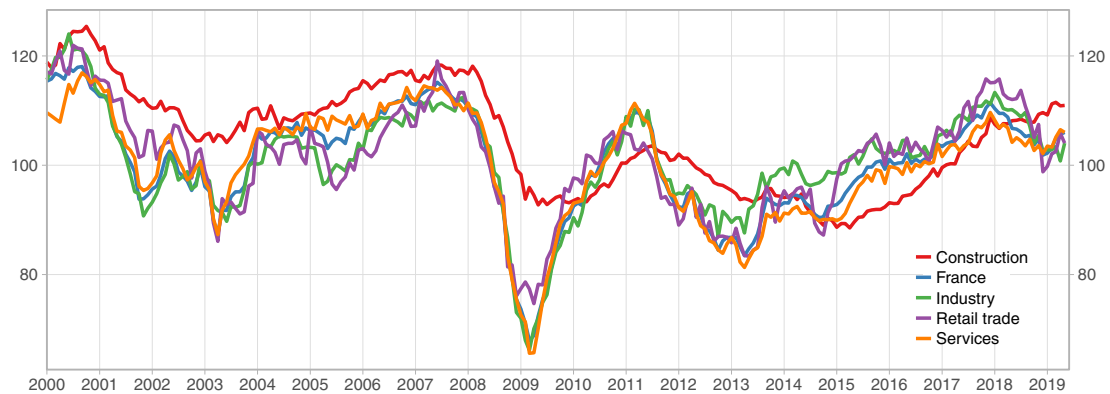
In construction, activity is likely to increase slightly until the end of 2019

In Q1 2019, output in the construction sector kept up its Q4 pace of solid growth (+0.4%) as a result of the sustained growth in activity in civil engineering, and despite activity being stable in building construction.

The number of building permits for individual dwellings fell back in Q1 2019 (-5.2%) after a rise in the previous two quarters. The number of building permits for collective housing remained almost unchanged (+0.3%) after a sharp decline in H2 2018. In the business tendency survey of business leaders in the building sector, the balance of opinion on past activity fell significantly although it remained above its long-term average. Business leaders in the building industry remain optimistic about their

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

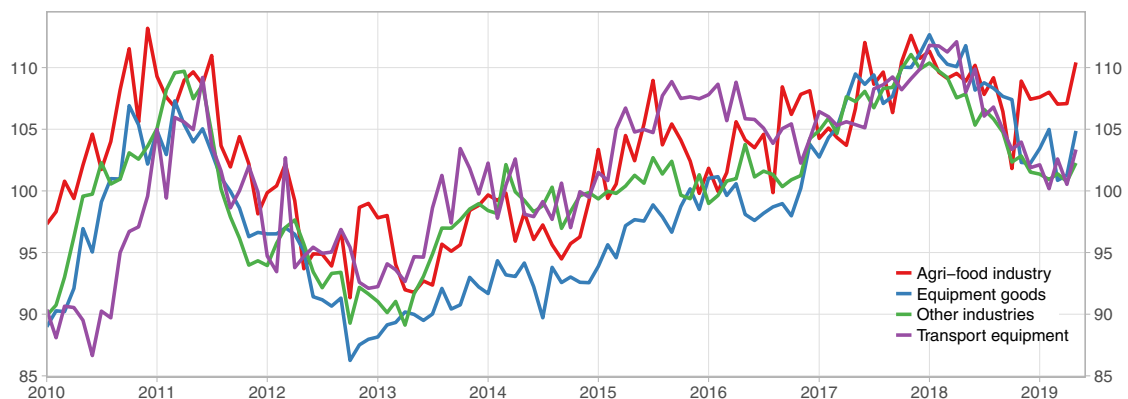
normalized to 100 with standard error of 10



Source: INSEE

2 - Sub-sector business climates in industry

normalized to 100 with standard error of 10



Source: INSEE

personal prospects for future activity (*Graph 3*). The corresponding balance declined but still remained well above its long-term average.

In addition, property developers report demand for new housing, which is picking up, and prospects for housing starts are more favourable than in the previous quarter. However, the corresponding balances remain below their average. Output in the building sector is therefore likely to fall a little in Q2 2019, then remain stable in Q3 before increasing slightly in Q4. In civil engineering, the opinion of business leaders about their expected activity declined further, but their views on their order books improved again, as the corresponding balances remained well above their long-term average. Activity should continue to grow steadily 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 should grow a little in Q2 (+0.1%), then again in H2 2019 (+0.2% per quarter). As an annual average, activity in the construction sector is likely

to slow in 2019, to +1.2% after +1.8% in 2018, a much lower growth rate than in 2017 (+4.8%).

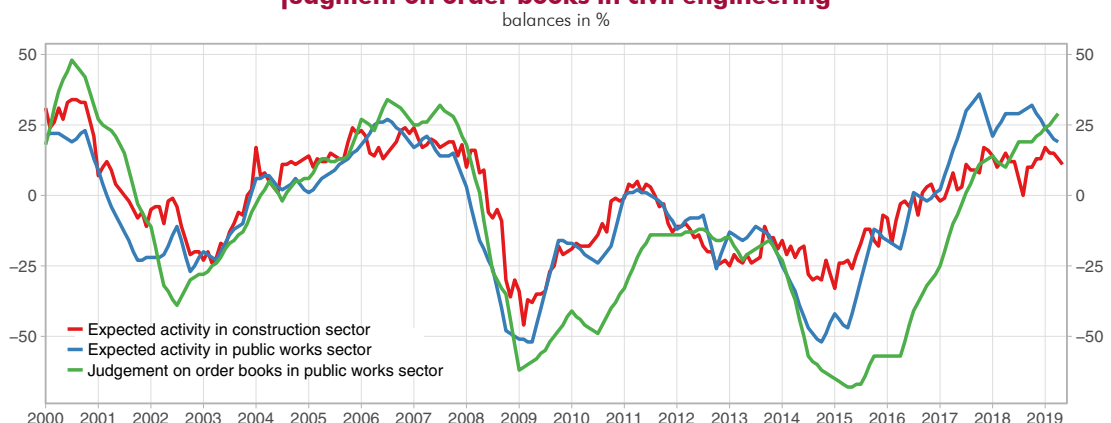
Trade activity is likely to slow in 2019

In Q1 2019, trade activity increased solidly (+0.6% as in the previous quarter), affected mainly by the rebound in corporate investment in manufactured goods.

After having deteriorated significantly in December 2018 in retail trade, and in January 2019 in wholesale trade, the business climate has picked up since: timidly in the retail sector and more markedly in wholesale.

In Q2, trade activity is likely to slow (+0.1%), still sustained by corporate investment in manufactured goods and despite the expected decline in exports. Trade activity is expected to pick up moderately in H2 (+0.3% per quarter). As an annual average, it should increase by 1.5% in 2019, slowing a little compared with 2018 (+2.4%).

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



Source: INSEE

French developments

Market services excluding trade: activity should continue to be sustained until the end of 2019

In Q1 2019, activity in market services excluding trade slowed (+0.5%), after vigorous growth in Q4 2018 (+0.8%).

At subsector level, output in transport gathered pace (+0.7% after +0.1%). Output continued to increase in accommodation and food services, a little more vigorously than in the previous quarter (+1.3% after +1.1%). Activity remained moderate in financial activities (+0.5%). It slowed in real estate activities (+0.3% after +0.4%), in services to businesses (+0.5% after +1.2%) and in "other service activities" (+0.7% after +0.9%). Activity in information-communication decelerated sharply (+0.1% after +1.3% in Q4 2018).

In May 2019, the business climate in services was weakened by one point. It stood at 106, which was nevertheless above its long-term

average. The business climate is deteriorating in goods transported by road, accommodation and food services, information-communication, specialised scientific and technical activities and in real estate activities where it remains below its average (Graph 4). It is stable in administrative and support services.

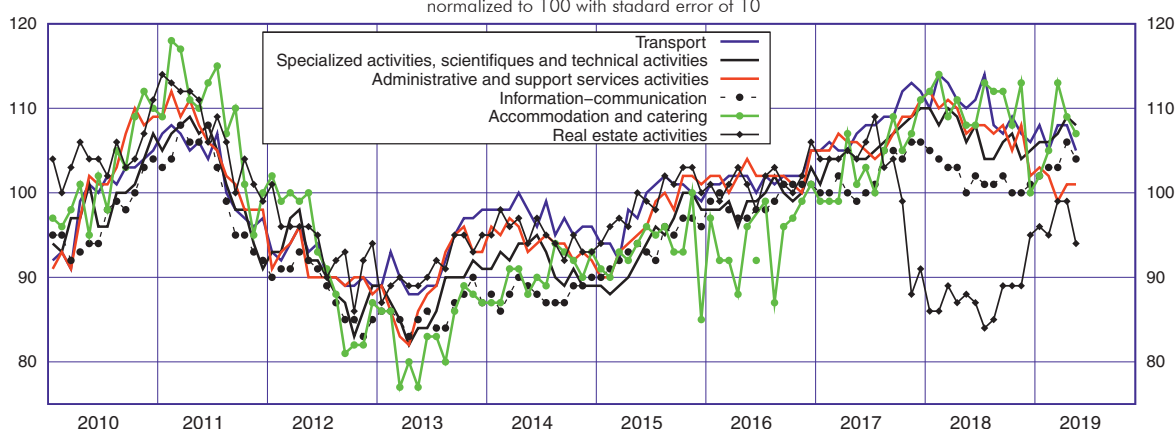
Activity in market services excluding trade should increase solidly by the end of 2019 (+0.5% each quarter). Over the entire year, it is expected to grow by 2.3%, less than in 2018 (+3.2%).

Mainly non-market services: steady growth during 2019

Mainly non-market activity maintained its pace of growth in Q1 2019 (+0.3%). Output is likely to continue to grow at a similar pace (+0.2% to +0.3%) by the end of 2019. As an annual average for 2019, growth is expected to be slightly higher than in 2018 (+1.0% after +0.8%). ■

4 - Sub-sector business climates in services

normalized to 100 with standard error of 10



Source: INSEE