

Overview

Private consumption and investment remain the key drivers of growth, but net trade has remained relatively weak. Quarterly GDP growth was 0.6% quarter in Q1 - the fastest rate of growth in a year – but the economy has lost some steam since then, partly due to ongoing strikes over unpopular labour market reforms.

Rebound in private consumption

Consumer confidence hit a nine year high in May, with households increasingly optimistic about their future earnings and job prospects. Real disposable incomes continue to be supported by limited inflationary pressures, while job growth has been steady in the first half of 2016. The ILO unemployment rate was 10.1% in Q1, the lowest level since Q1 2013. Consumer spending growth is forecast to accelerate to 2.0% in 2016, from 1.5% in 2015.

Healthy growth in business investment

The combination of rising corporate profitability, favourable financing conditions and supportive government initiatives drove business investment growth to a robust 2.2% in Q1. Despite the Brexit vote, this strong momentum is expected to continue in the second half of 2016, driven by healthy domestic demand. External demand is expected to remain relatively subdued, however, at least in the short term.

Government committed to reform efforts

Despite facing strong public protests and low approval ratings, the government has continued to move ahead with its reform agenda. The “El Khomri” labour market reform bill is currently awaiting approval in the upper house of parliament and, if passed, should further boost firms’ competitiveness. Reform progress is likely to remain slow, however, given the government’s weak majority in parliament, and this is not expected to change until the next presidential elections in 2017.

Outlook

GDP growth is forecast to reach a five year high of 1.6% in 2016, driven mainly by domestic demand. The short term effects of the Brexit vote are not expected to be significant, although medium term growth prospects could be undermined by a prolonged period of uncertainty and financial market volatility.

MARKET INDICATORS

Market Outlook

GDP:	Accelerating to 1.6% in 2016, with strong contributions from consumers and investment.	▼
Inflation:	Limited inflation in 2016, but rising more strongly from 2017, due to rising domestic demand.	▼
Interest rate:	The ECB is expected to continue with its ultra-loose monetary policy and may cut interest rates further.	▲
Employment:	Steady job growth to continue. The labour market reforms are not likely to take effect until 2017.	▼

Economic Summary

ECONOMIC INDICATORS	2013	2014	2015 ^E	2016 ^F	2017 ^F
GDP Growth	0.6	0.7	1.2	1.6	1.6
Consumer Spending	0.6	0.7	1.5	2.0	1.5
Industrial Production	-0.3	-0.8	1.8	1.3	2.1
Investment	-0.7	-0.4	0.9	3.6	2.7
Unemployment rate (ILO%)	10.3	10.3	10.4	9.9	9.7
Inflation	0.9	0.5	0.0	0.3	1.4
USD/EUR (average)	1.33	1.33	1.11	1.10	1.06
USD/EUR (end-period)	1.32	1.38	1.21	1.09	1.05
Interest Rates: 3-month (%)	0.3	0.1	-0.1	-0.3	-0.2
Interest Rates: 10-year (%)	2.4	0.8	1.0	0.5	1.4

NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	66.6 million (2015)
GDP	US\$ 2420 billion (2015)
Public Sector Balance	-3.6% of GDP (2015)
Public Sector Debt	127% of GDP (2015)
Current Account Balance	-0.2% of GDP (2015)
Parliament	Centre-left government, Parti Socialiste.
President	Francois Hollande
Prime Minister	Manuel Valls
Election Dates	2017 (Presidential) 2017 (Legislative)

Economic Activity

