

FRANCE

Economic Snapshot

Third Quarter | 2016



Overview

Economic activity was hit by a series of one-off negative factors in Q2, including severe flooding and months of strikes and street protests over unpopular labour market reforms. Consequently, GDP contracted by 0.1% over the second quarter. This is expected to have been a blip, however, with the latest data for Q3 suggesting that economic activity has accelerated again, especially in September.

Recovery in business investment continues

While the Brexit vote has heightened uncertainty, businesses remain relatively bullish about their future prospects. Companies saw the highest capacity utilisation rate (83.7%) in six years in Q3, while rising corporate profit margins, supportive government initiatives and cheap financing are boosting sentiment. The IHS Markit composite Purchasing Managers' Index (PMI) rose from 51.9 in August to 53.3 in September, which was the strongest reading since June 2015. Furthermore, the recent labour market reforms will slowly start boosting exporters' competitiveness and ability to compete in global markets. Investment growth is forecast to reach a robust 2.7% in 2016, up from 0.9% in 2015.

Good momentum in private consumption

Inflation is low, but is steadily increasing and is expected to reach 1.3% in 2017. Despite this, consumer confidence remains close to its highest level since the financial crisis and households are upbeat about their future job prospects and earnings. The ILO unemployment rate was 9.9% in Q2 – the lowest level since 2012 – and is expected to be at 9.8% by the end of 2016, marking its first significant yearly decrease since 2008.

Outlook

GDP growth is forecast to be a modest 1.3% in 2016, before slowly gathering momentum and averaging 1.6% over the medium term. There are still several key risks to the economy, however, not least the increased political uncertainty in the lead up to the presidential elections in 2017, with current president, Francois Hollande, not expected to be re-elected for a second term. Brexit also has the potential to lead to a prolonged period of uncertainty and financial market volatility, which could undermine confidence and investment.

MARKET INDICATORS

Market Outlook

GDP:	Modest improvement in 2016; stronger contributions expected from all sectors of the economy.	▼
Inflation:	Rising steadily over the coming quarters, as energy prices and domestic demand increases.	▼
Interest rate:	The ECB is committed to its ultra-loose monetary policy and further interest rate cuts are possible.	▲
Employment:	Healthy job growth forecast, with businesses benefiting from several favourable tailwinds.	▼

Economic Summary

ECONOMIC INDICATORS	2013	2014	2015	2016 ^F	2017 ^F
GDP Growth	0.6	0.7	1.2	1.3	1.5
Consumer Spending	0.6	0.7	1.5	1.6	1.5
Industrial Production	-0.5	-0.9	1.5	0.2	1.3
Investment	-0.7	-0.4	0.9	2.7	2.1
Unemployment rate (ILO%)	9.9	9.9	10.1	9.8	9.6
Inflation	0.9	0.5	0.0	0.2	1.3
USD/EUR (average)	1.33	1.33	1.11	1.12	1.09
USD/EUR (end-period)	1.38	1.21	1.09	1.12	1.07
Interest Rates: 3-month (%)	0.6	0.2	0.1	0.0	0.0
Interest Rates: 10-year (%)	2.2	1.7	0.8	0.4	0.7

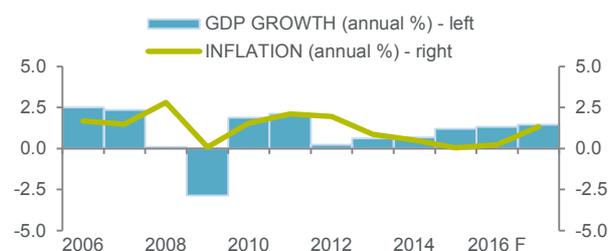
NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	66.6 million (2015)
GDP	US\$ 2420.1 billion (2015)
Public Sector Balance	-3.6% of GDP (2015)
Public Sector Debt	126.9% 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



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