



France

Stable business climate masks contrasting trends

- In April, the Insee's composite business climate indicator held steady at 101, a level compatible with quarterly growth of about 0.3-0.4%.
- This stability masks contrasting sector trends. The business climate gained two points in the industrial and construction sectors, but shed one point in services and two points in retailing.
- These results suggest a mixed cyclical environment in which growth is holding up but still lacks vigour.

In April, the Insee's composite business indicator held steady at 101, slightly above the long-term average of 100. This mixed performance masks both positive and negative developments: a net upturn in the industrial and construction sectors contrasts with a downturn in services and retailing. The business climate has not improved over the past six months, after picking up throughout 2015. This extended pause can be attributed to the opposing forces at work in the French economy. On the negative side, there is the slowdown in world growth, high uncertainty, jittery financial markets and ongoing fiscal consolidation. Positive factors include the low level of interest rates, the euro and commodity prices, the eurozone recovery and domestic measures to support competitiveness and employment.

There is nothing particularly alarming about the stability of the composite business climate indicator, since the current level is compatible with quarterly growth of about 0.3-0.4%, just below the 0.5% q/q recorded in Q1 (see editorial, on page 1). Although we see no signs of acceleration, this stability is nonetheless a comforting sign of the economy's resilience. What is disappointing, however, is the limited effect of the support factors for growth, which have failed to prevail over headwinds. At best, they only seem to offset these headwinds.

If we look at the sector breakdown of the business climate, we can see several trends. First, there is a mild but unmistakable upturn in the construction industry (see chart). Although relatively mild in scope, this is a very welcome trend because it signals that a major obstacle to French growth is in the process of disappearing. In the industrial sector, the business climate's resilience during the recent period is also worth noting given the deterioration in the external environment. The 2-point gain in April (to 104) is significant and encouraging, even though the details are more mixed (more favourable assessment of past production, order books and general production prospects, but another decline in the balance of opinions of personal prospects, and higher-than-normal inventories). The results of the latest quarterly industrial survey are also rather positive: an upturn in the production capacity utilisation rate (+1.2 points to 82.1%); business leaders are relatively optimistic about past and future trends in demand; and the balance of opinions has improved again concerning competitiveness outside of the EU. The

Business climate by sector

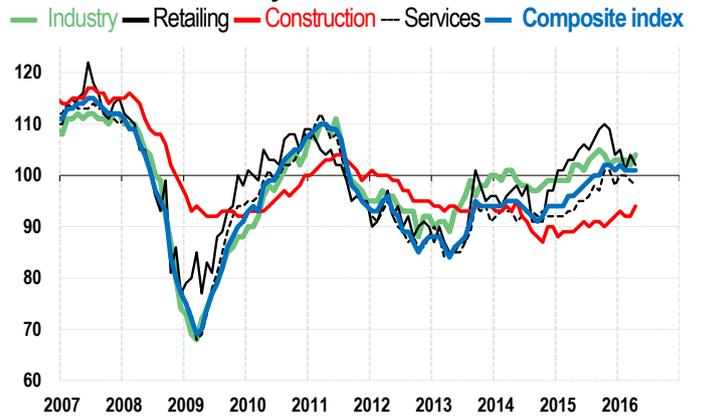


Chart 1

Source: INSEE

biggest clouds on the horizon are the deterioration in the assessment of export prospects and foreign demand.

In retailing, the business climate has deteriorated sharply in recent months, although this follows a stronger improvement than in the other sectors of activity. The business climate indicator for this sector is still holding above the benchmark level of 100. This is not the case in services, where the recent downturn in the business climate is more alarming given the sector's weighting within the economy. In both sectors, the business climate is still showing traces of the sharp decline reported in December. In April, the downturn in confidence in both sectors can be attributed to the deterioration in the balance of opinions pertaining to prospects (activity, prices, employment and investment). It is too early to blame this decline on the winding down of the positive effects of purchasing power gains generated by the decline in oil prices, although this factor is worth watching.

To sum up, these results continue to suggest a lacklustre cyclical environment, an analysis backed by the preliminary results of the Markit PMI indexes for April. The composite index gained half a point to 50.5, thanks to a 0.9 point gain in services (to 50.8), but this masks a net decline in manufacturing (-1.3 points to 48.3). In other words, the economic environment is uncertain, as illustrated by the Insee's turning point indicator: after holding in favourable territory (about 1) between July 2015 and February 2016, the indicator has moved into an area of uncertainty since March, at between -0.3 and +0.3 (unfavourable territory is close to -1). Let's hope we can move rapidly out of limbo and back into positive territory.