

France

Hiatus in first-quarter growth

- Business climate surveys are consistent with a strong growth figure in first-quarter 2017, equal to or even likely higher than the Q4 2016 performance (0.4% q/q).
- However, monthly activity data available for January and February were poor, which evidently does not augur well for growth.
- The risk associated with our Q1 2017 growth forecast of 0.4% q/q has now swung to the downside.

The prospect of a strong growth figure in Q1 2017, similar to the Q4 2016 performance of 0.4% q/q, is questioned: it remains well supported by favourable confidence surveys, and particularly business confidence ones, but it is not backed up by hard data, which are poor.

We will begin by looking at the survey results (available through March): the INSEE composite business climate index averaged 104 in the first quarter. This is well above the benchmark average of 100 (which is consistent with quarterly growth of 0.3-0.4%). The INSEE composite index stands also slightly higher than the Q4 2016 average of 103, signalling a possible acceleration in growth from one quarter to the next.

Market PMI indices are even more upbeat. The composite index has gained 6.2 points in just four months, to 57.6 in March. The first-quarter average of 55.9 is comfortably higher than the critical threshold of 50, which separates economic expansion from contraction. The size of the rebound in PMI raises questions about the underlying support factors and the strength of the signal (is it noise or trend?). The PMI momentum is not replicated in the other business confidence surveys, which seems to signal a catching up effect rather than an underestimated improvement in economic fundamentals (see chart).

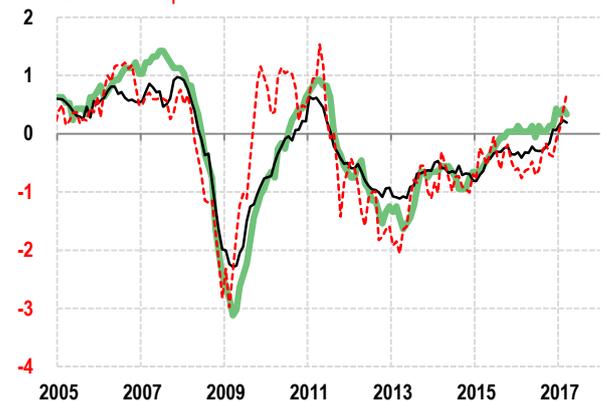
This improvement is not shown in the monthly economic data available for January and February. To the contrary, they paint a dismal picture, or at least cloud the message. Household spending on goods (i.e. energy and manufactured goods) bears the brunt of the sharp swings in energy spending (+5.1% m/m in January, -11% m/m in February), which were caused by the big changes in the weather, with 2017 bringing the coldest January since 2010 and the warmest February since 2007. Yet it is also important to note that headline consumption on goods, which increased 0.6% m/m in January, before declining 0.8% m/m in February, hides an inverse trend in purchases of manufactured goods (-0.2% m/m in January, +1.3% m/m in February), which buffered the overall figure.

The story for industrial production is similar but different, but more negative on balance. Weather conditions had the same impact on energy output (up 4.6% m/m in January, down 7.9% m/m in February), but industrial output declined in both months (-0.2% m/m and -1.6% m/m, respectively). In January, the fall in manufacturing

Business confidence surveys

Standardized

— INSEE composite index — Bank of France composite index
--- Markit PMI composite index



Chart

Sources: INSEE, Markit, Bank of France, BNP Paribas

output (-0.9% m/m) outweighed the surge in energy production, while in February, manufacturing output contracted again (-0.6% m/m), adding to the plunge in energy production. The decline in manufacturing output was broad based, touching virtually all sectors of activity. This reinforces the overall negative results, but leaves open the possibility of a strong technical rebound in March.

Monthly external trade data are also mixed: exports rebounded 1.6% m/m in February after contracting 7.6% m/m in January, hit by the ups and downs of Airbus shipments (the exceptionally high figure for December 2016 was followed by a sharp payback in January, and a mild return to normal in February), while imports were marked by exceptional purchases of pharmaceutical goods from Austria in January (-2% m/m in February after +3.3% m/m in January).

These rather poor activity data have a heavier weighting than the favourable survey results: the risk associated with our Q1 2017 growth forecast of 0.4% q/q lies now on the downside and no longer on the upside as suggested by the confidence surveys. Our Nowcast model based on hard data points to first-quarter growth of 0.2% q/q, compared to 0.5% q/q based on soft data. In comparison, the INSEE is forecasting growth of 0.3% q/q, the same as the Bank of France after the 0.1-point downward revision in its March update.