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**HELPING YOU PLAN FOR A CHANGING GLOBAL ECONOMY.**

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We aim to deliver state-of-the-art macroeconomic research to improve the performance of companies.

# **COUNTRY MONITORING.**

## **FRANCE**

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**THIS PAGE HAS BEEN LEFT BLANK FOR YOUR CONVENIENCE TO TAKE NOTES.**

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## OUR HIGHLIGHTS.

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### GDP.

- 5. Key forecasts
- 6. GDP growth
- 9. Inflation

### BUSINESS CYCLE.

- 10. Investment
- 12. Industrial sentiment
- 14. Construction

- 15. Exports & Imports
- 17. Labour market
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- 22. Indebtedness
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## POLITICS.

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## DISCLAIMER.

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## OUR HIGHLIGHTS.

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### Recapping 2017: numbers and implications

- **Annual GDP growth in France saw an upward revision to 2% in 2017, overshooting the Bank of France's expectations of 1.7% growth, as the economy grew the fastest in the fourth quarter – driven primarily by investment, whose contribution to the GDP, at 1%, overshadowed consumption for the first time since 2013. The year also recorded the highest GDP growth in the past six years. However, accelerated inflation accompanied the economy at 1.2% YoY, up from 0.2% YoY last year – responsible primarily for the lower household consumption.**
- **Total investment grew sharply in 2017, at 3.7%, after 2.7% in 2016, while consumption slowed down to 1.2% YoY growth. Exports accelerated considerably as well, with 3.5% growth, after 1.9% in 2016, but imports progressed at virtually the same pace in 2017, at 4.2% growth. As a consequence, the contribution of the trade balance to the GDP rose slightly in 2017.**
- **Although exports growth was significant, the economy has not surprised us (yet) on the competitiveness front. France is currently running a large negative trade balance, which has widened significantly since 2003. The current account balance has been falling overall, although it did pick up slightly towards the end of 2017 Q3. FDI exhibits a similar trend. However, in terms of cost competitiveness, France improved its performance in 2017 – the increase in unit labour costs was slower than in Germany, and the EU average for all four quarters.**
- **Positively, France's budget deficit fell to 2.6% of the GDP in 2017, respecting the EU's 3% target for the first time in a decade, triggered by sharper revenue growth of 4% and expenditure growth of 2.5%. Currently, France and Spain are the only Eurozone countries under the EU's excess deficit procedure; to be given the “all-clear”, France must maintain its deficit under 3% for another year. However, gross debt, at 97% of the GDP, is at an all-time high.**

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## OUR HIGHLIGHTS.

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- **After a significant acceleration in 2017, in our view, economic activity should continue to grow at a similar robust pace in 2018, maintaining its 2% growth – favoured by rising profits and growing inventories. Economic sentiment continues to improve, with most confidence indicators approaching, or even exceeding their pre-crisis levels. Hiring appetite continues to rise as well, with strong readings for production surveys in the industrial, construction and manufacturing sectors.**
- **Investment has performed remarkably well this year, after several years of contraction, and we expect the effect to continue in 2018 – contributed mainly by rising corporate investment as the Macron reforms are likely to be realised strongly this year, thereby incentivising firms to invest. The share of firms producing at maximum capacity, at 37%, is the highest since 1999. Household investment is likely to be spurred by falling interest rates as well. However, we expect GDP growth to moderate slightly in 2019E at 1.8%, as the effects of Euro appreciation should be realised gradually – weakening the demand for French exports and thereby neutralising the contribution of the external balance on the economy’s growth.**
- **We lack a positive outlook on inflation – we project inflation to pick up to 1.4-1.5% YoY over the next two years, triggered by higher oil prices. As higher prices eat into purchasing power, household consumption is unlikely to pick up significantly. Rather, we expect house savings to rise – in line with the surveys on future savings appetite.**
- **We also expect the reforms to attract significant FDI this year as they are realised, and the country improves its competitiveness – as prior surveys signalled that the biggest hurdle for business was the overly complicated tax system, which has now been overhauled completely.**
- **Overall, as the economy expands, we see investment becoming a key driver of growth, overtaking consumption after years – perhaps indeed a signalling a Macron effect. However, we are yet to find out if this switch will be sustained.**

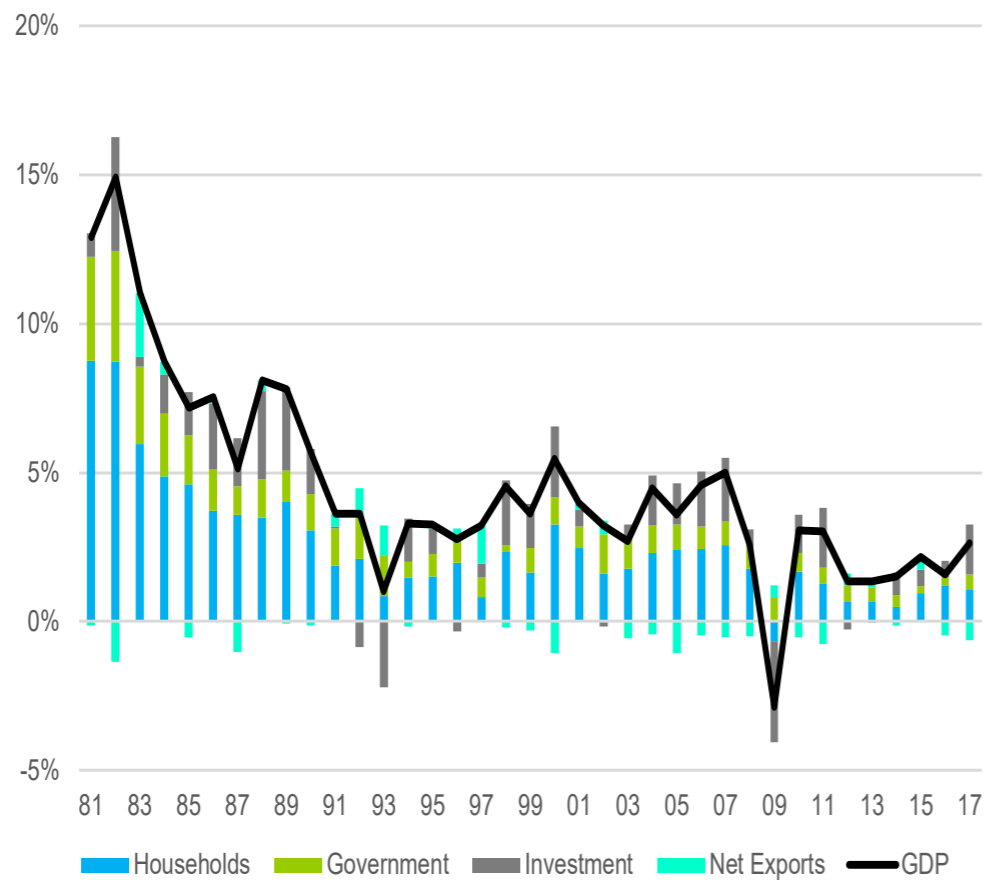
## KEY FORECASTS.

|                                 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018F | 2019F |
|---------------------------------|------|------|------|------|------|------|------|------|------|-------|-------|
| <b>Real GDP</b>                 | -2.9 | 1.9  | 2.1  | 0.2  | 0.6  | 1.0  | 1.1  | 1.2  | 2.0  | 2.0   | 1.8   |
| <b>Nominal GDP</b>              | -2.8 | 3.1  | 3.0  | 1.3  | 1.4  | 1.5  | 2.2  | 1.6  | 2.6  | 3.4   | 3.2   |
| <b>CPI, average</b>             | 0.1  | 1.5  | 2.1  | 1.9  | 0.9  | 0.5  | 0.1  | 0.2  | 1.2  | 1.4   | 1.4   |
| <b>Unemployment</b>             | 8.7  | 8.9  | 8.8  | 9.4  | 9.9  | 10.3 | 10.4 | 10.1 | 9.4  | 9.3   | 9.0   |
| <b>Budget deficit, % of GDP</b> | 7.2  | 6.8  | 5.1  | 4.8  | 4.1  | 3.9  | 3.6  | 3.4  | 2.6  | 2.6   | 2.8   |
| <b>Debt, % of GDP</b>           | 78.9 | 81.6 | 85.2 | 89.6 | 92.4 | 95.0 | 95.8 | 96.5 | 97.0 | 97.2  | 97.5  |

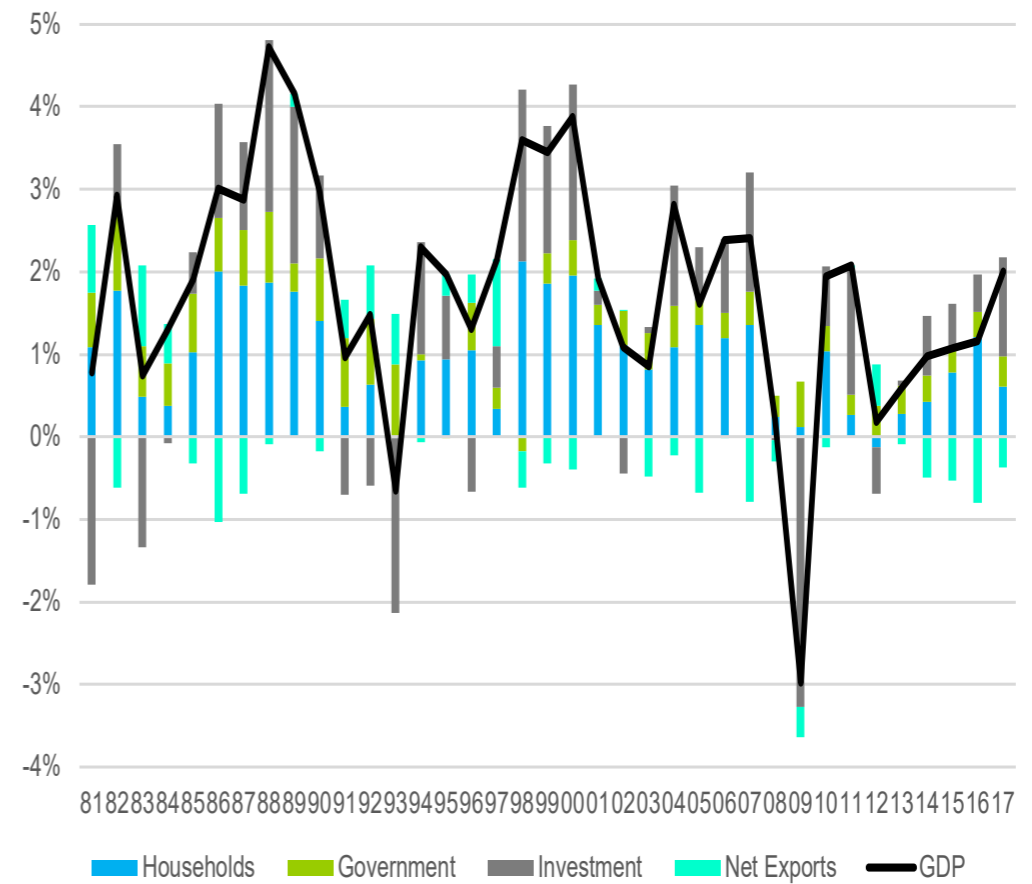
Sources: ADA ECONOMICS

## GDP GROWTH.

### GDP Contributions, Current Prices.



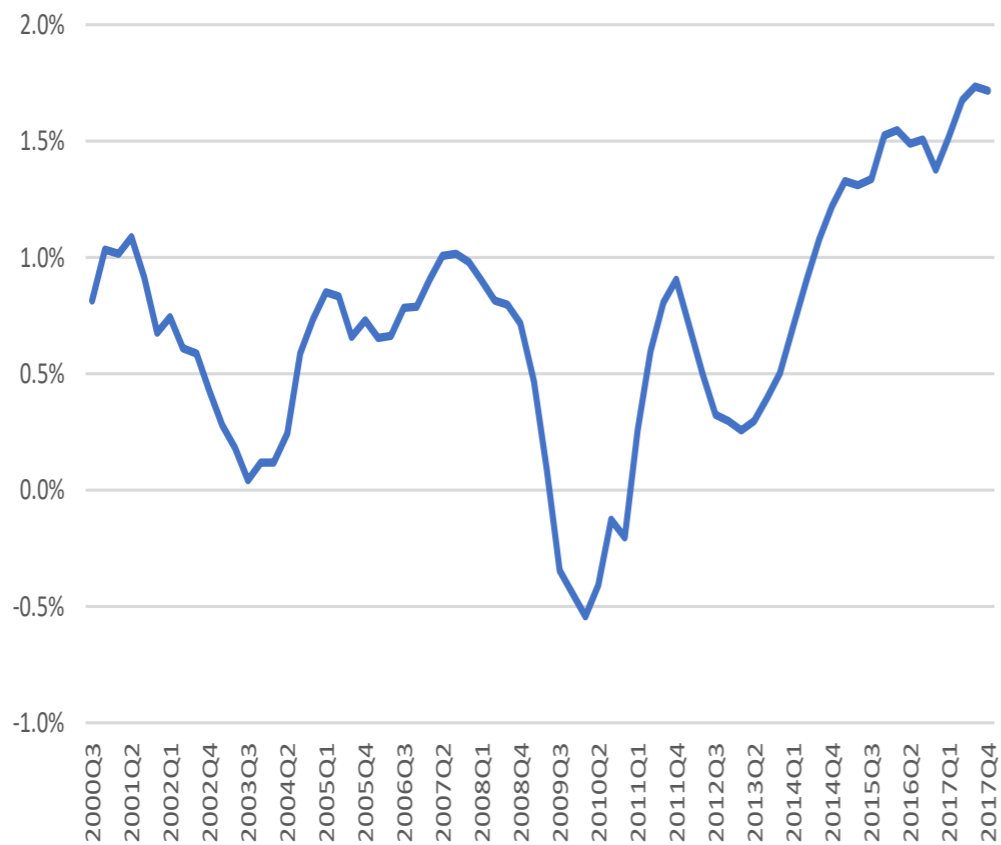
### GDP Contributions, 2010 Prices Chain Linked.



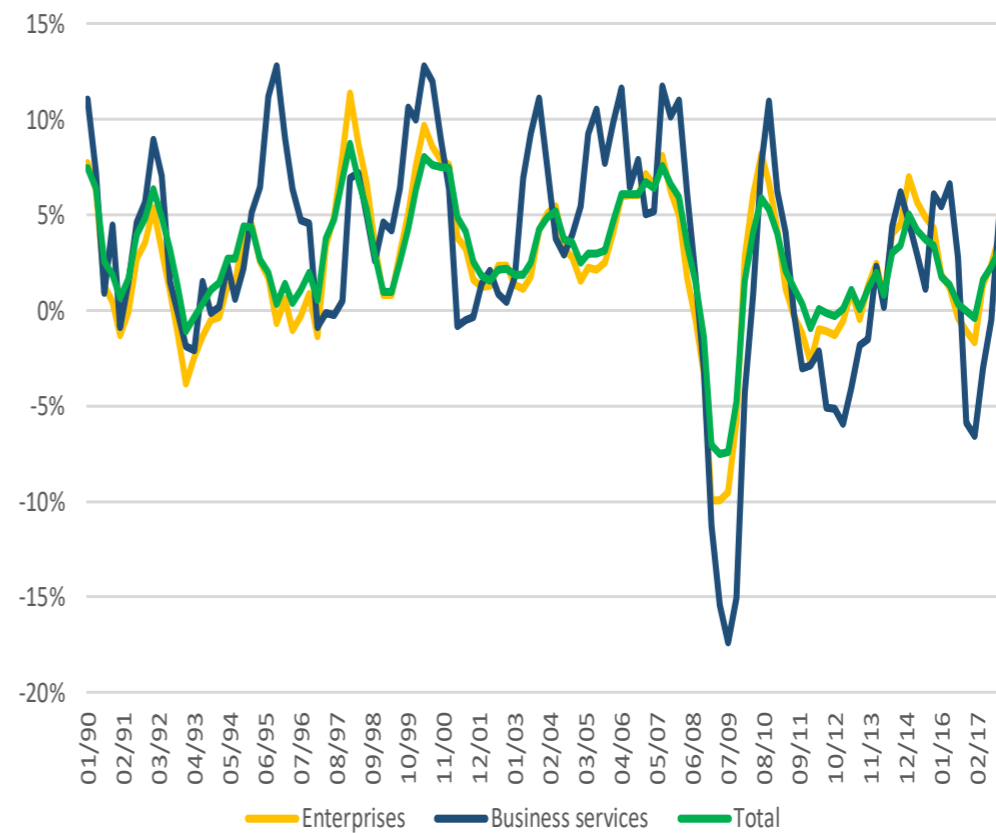
Sources: CEIC, ADA ECONOMICS

## GDP GROWTH.

4Q rolling sum of inventories, % of GDP.



Total profits growth of the economy.

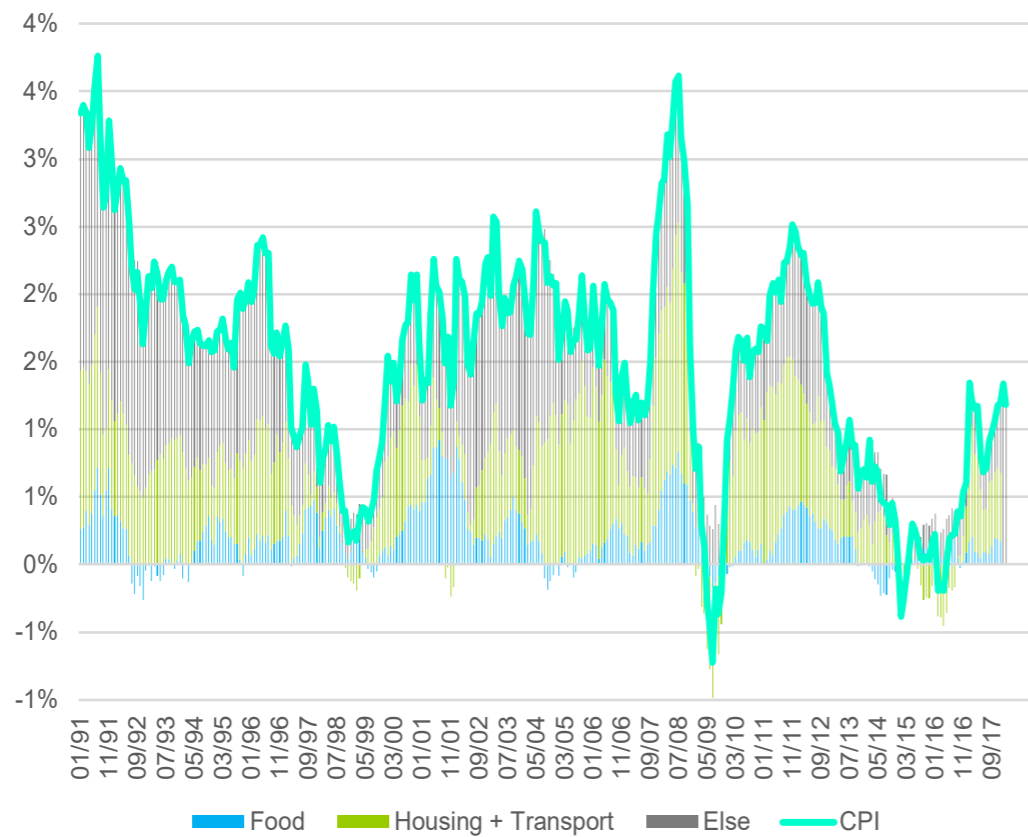


Sources: CEIC, ADA ECONOMICS

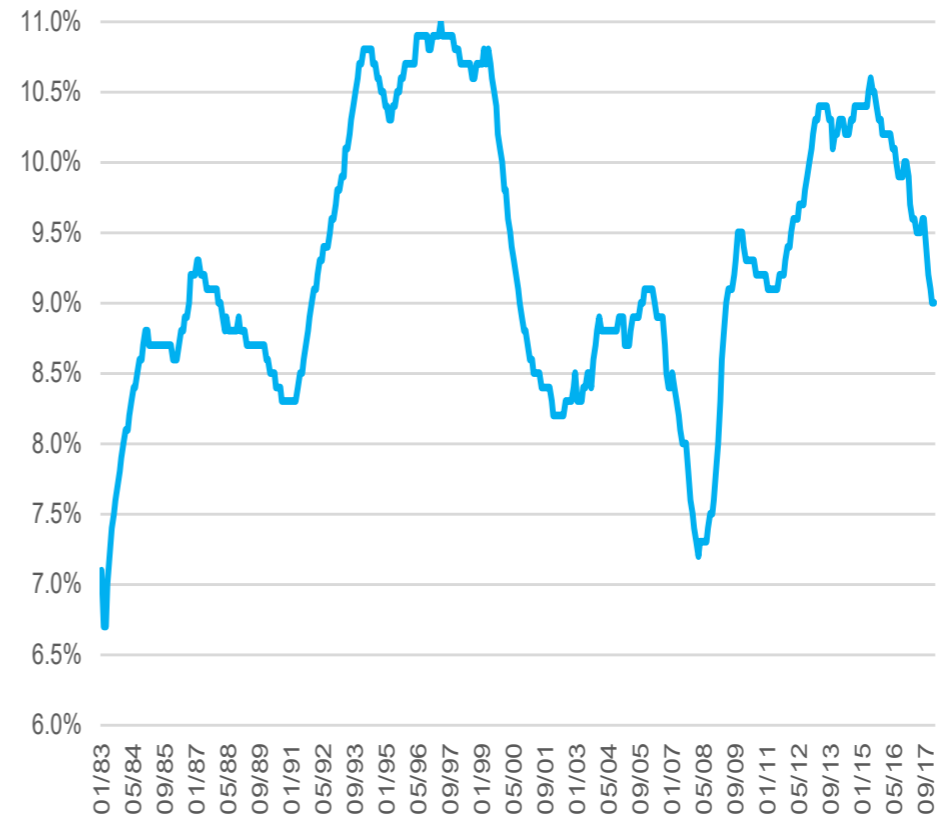


# INFLATION.

### YoY CPI change.



### Unemployment Rate.



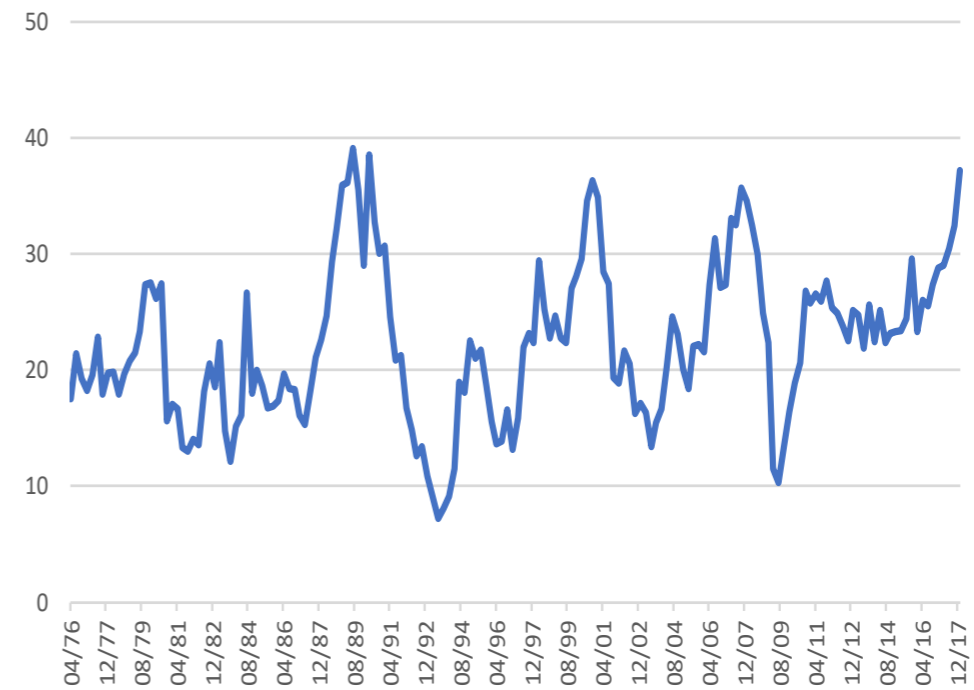
Sources: CEIC, ADA ECONOMICS

## INVESTMENT.

**Productive Capacity Utilization Rate %.**



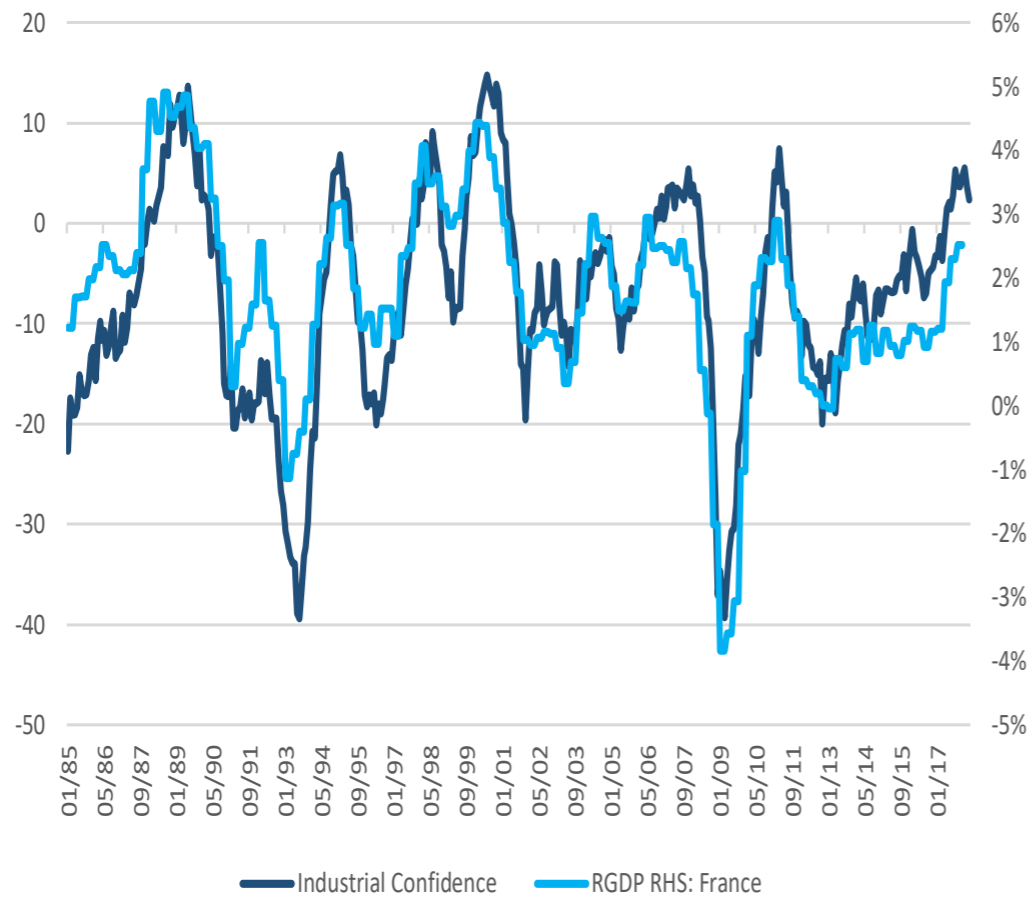
**Share of Firms Producing at Full Capacity %.**



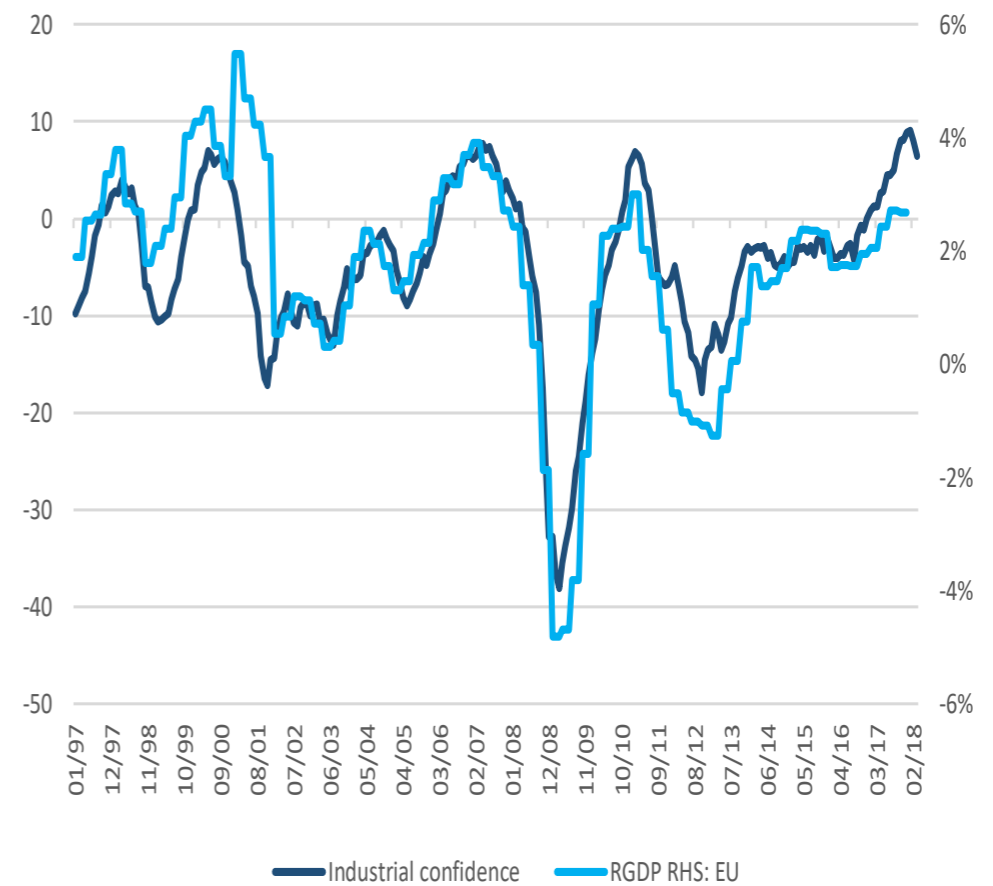
Sources: CEIC, ADA ECONOMICS

## BUSINESS CYCLE.

**France: leading indicators suggest stronger GDP growth ahead.**



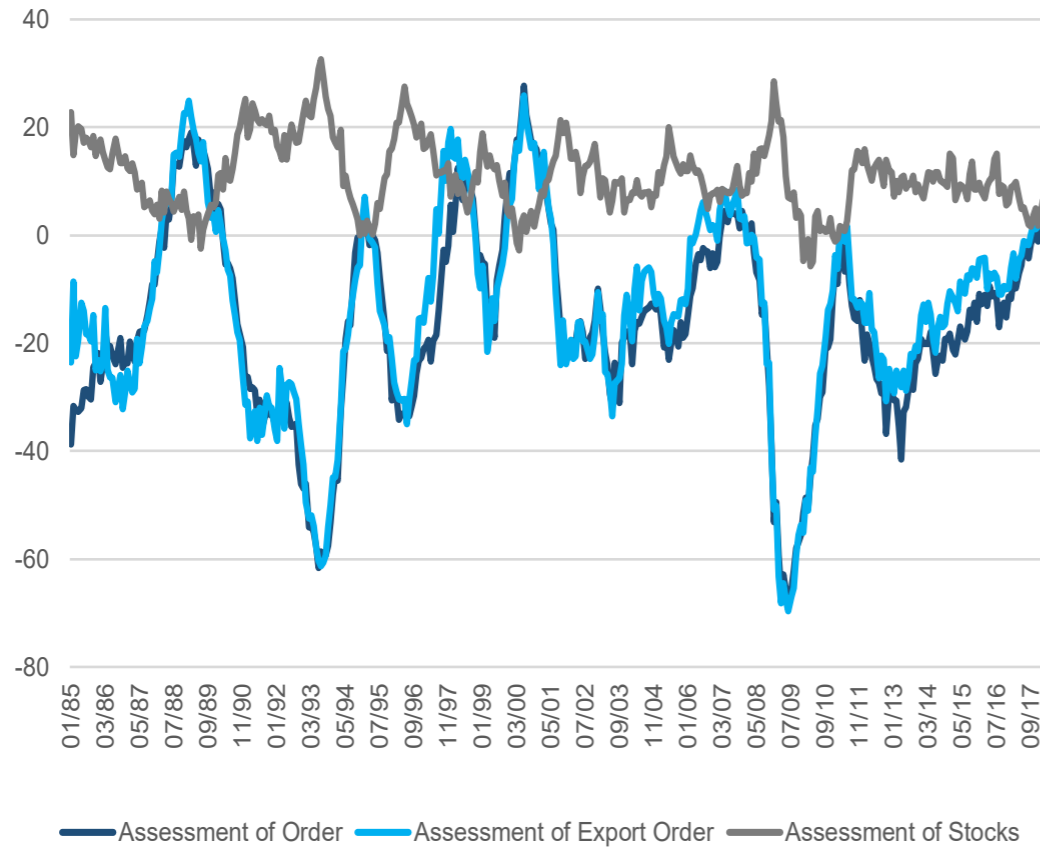
**Eurozone: leading indicators point to a robust recovery.**



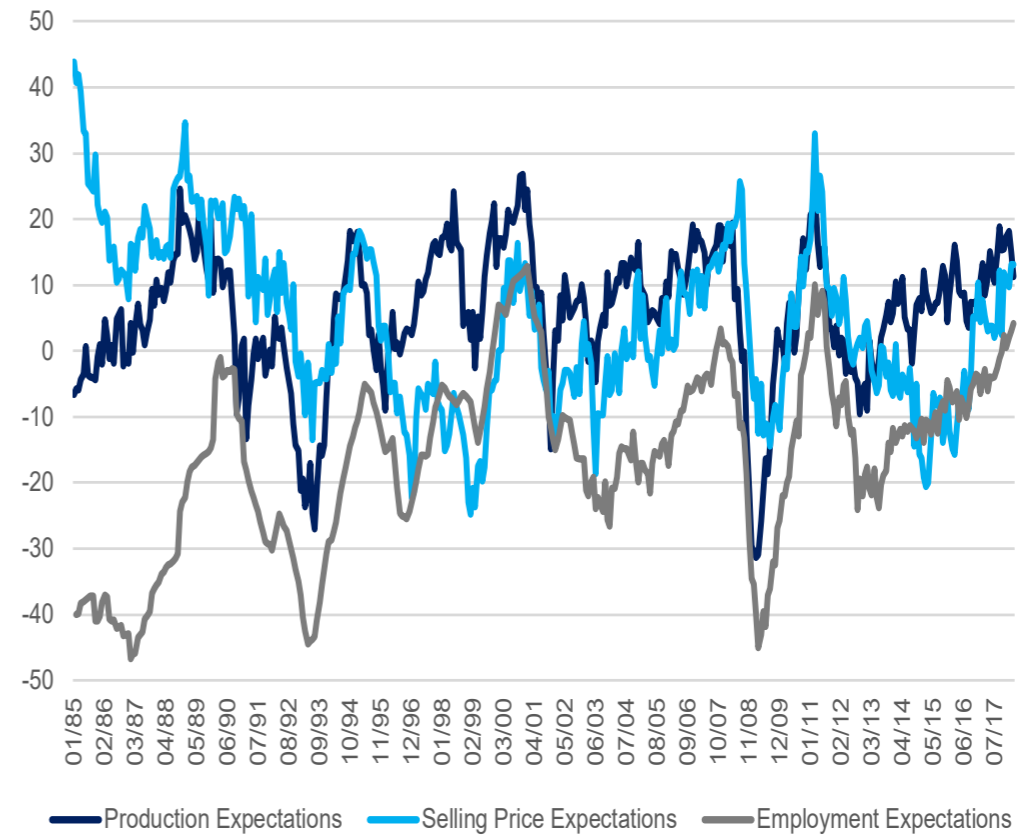
Sources: CEIC, ADA ECONOMICS

# INDUSTRIAL SENTIMENT.

## Assessments.



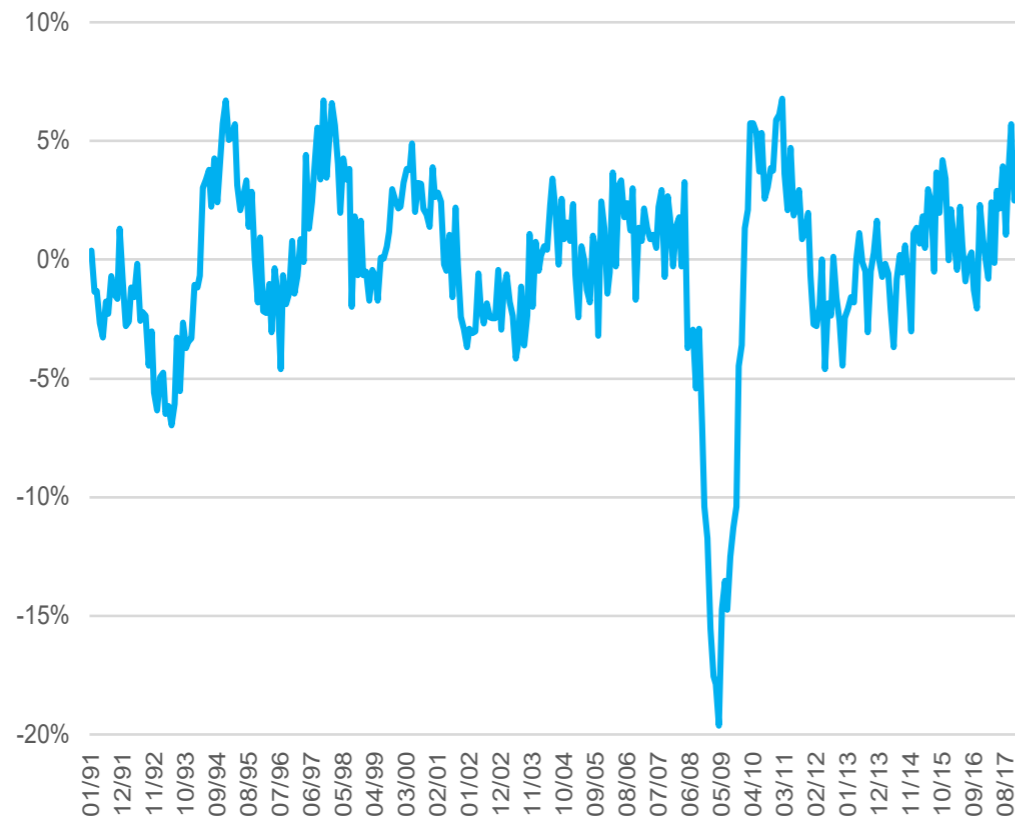
## Expectations.



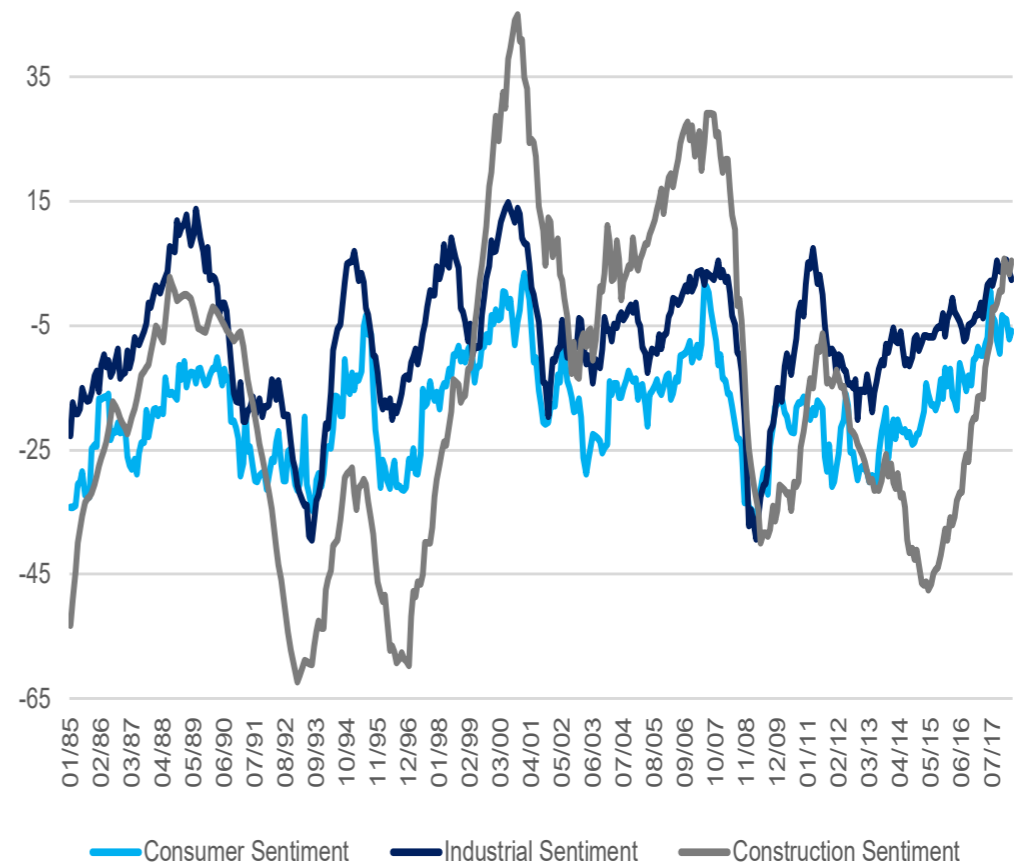
Sources: CEIC, ADA ECONOMICS

# INDUSTRIAL SENTIMENT.

## YoY change Industrial Production.



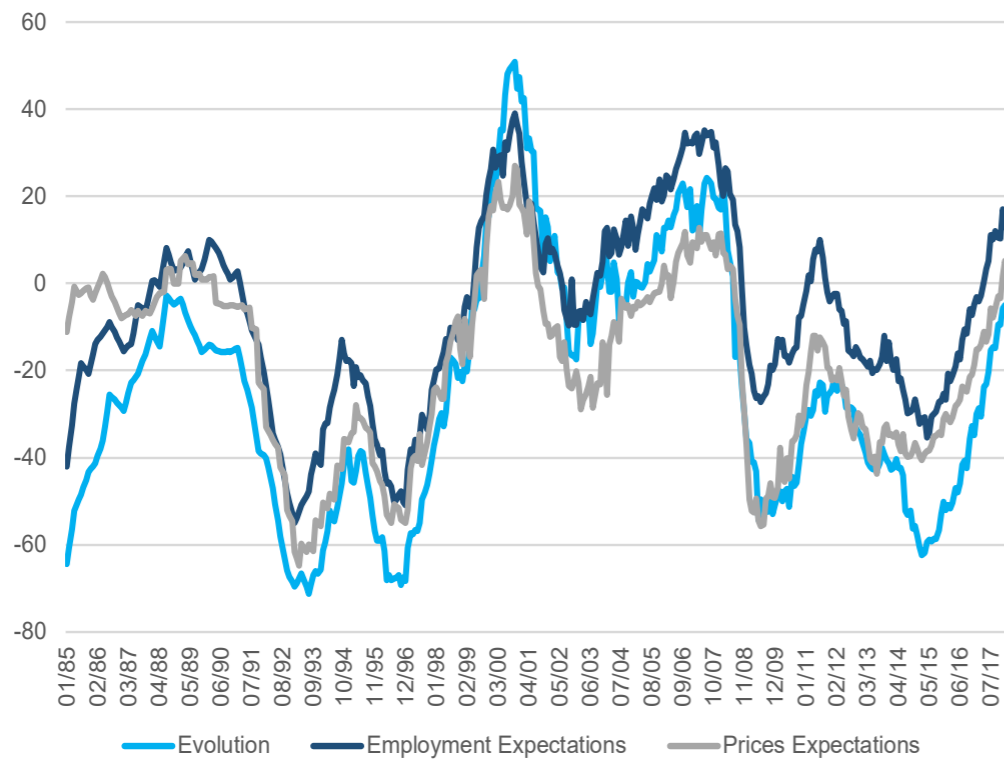
## Confidence Indicators.



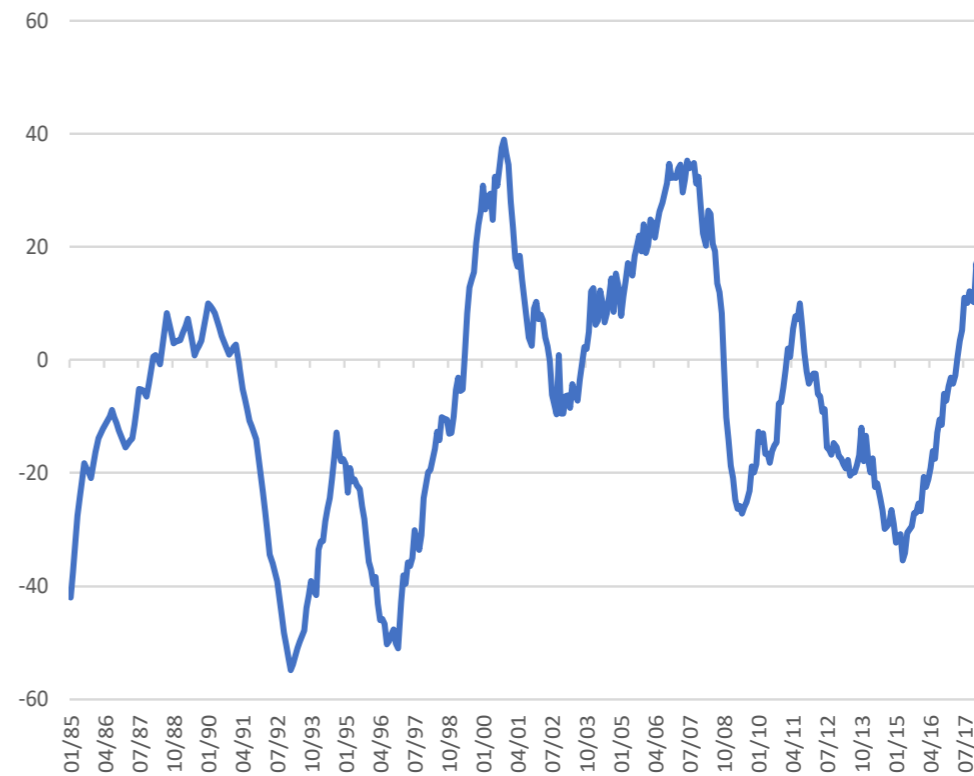
Sources: CEIC, ADA ECONOMICS

# CONSTRUCTION.

## Confidence and expectations.



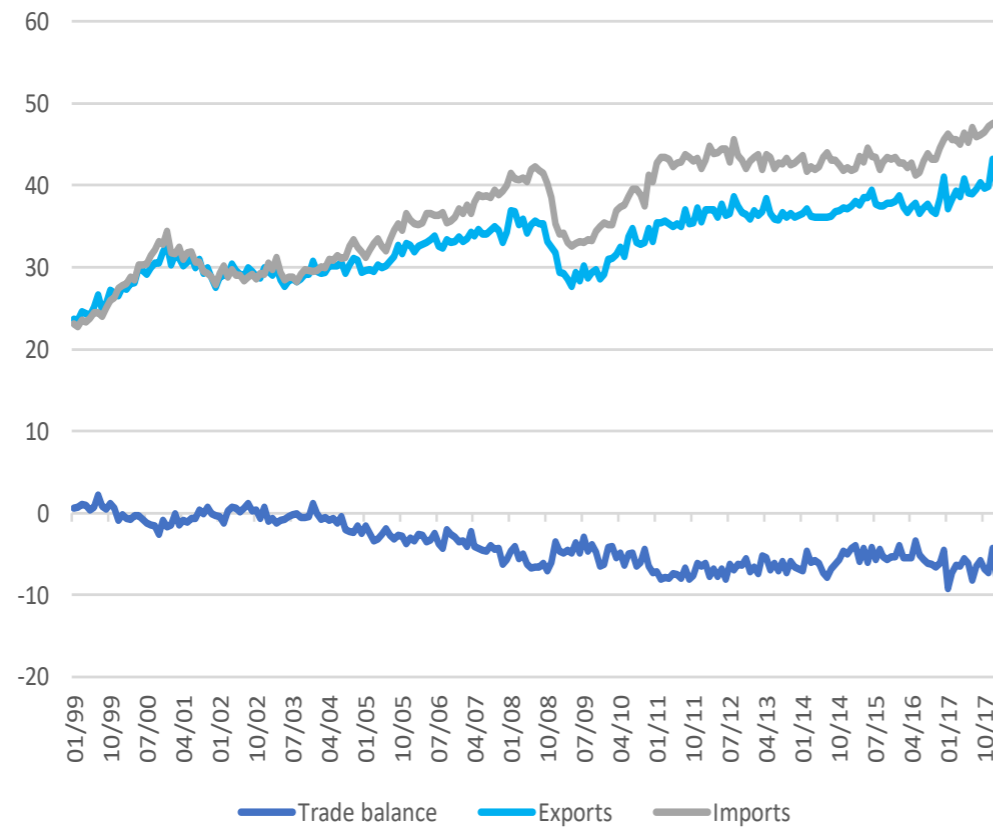
## Hiring appetite.



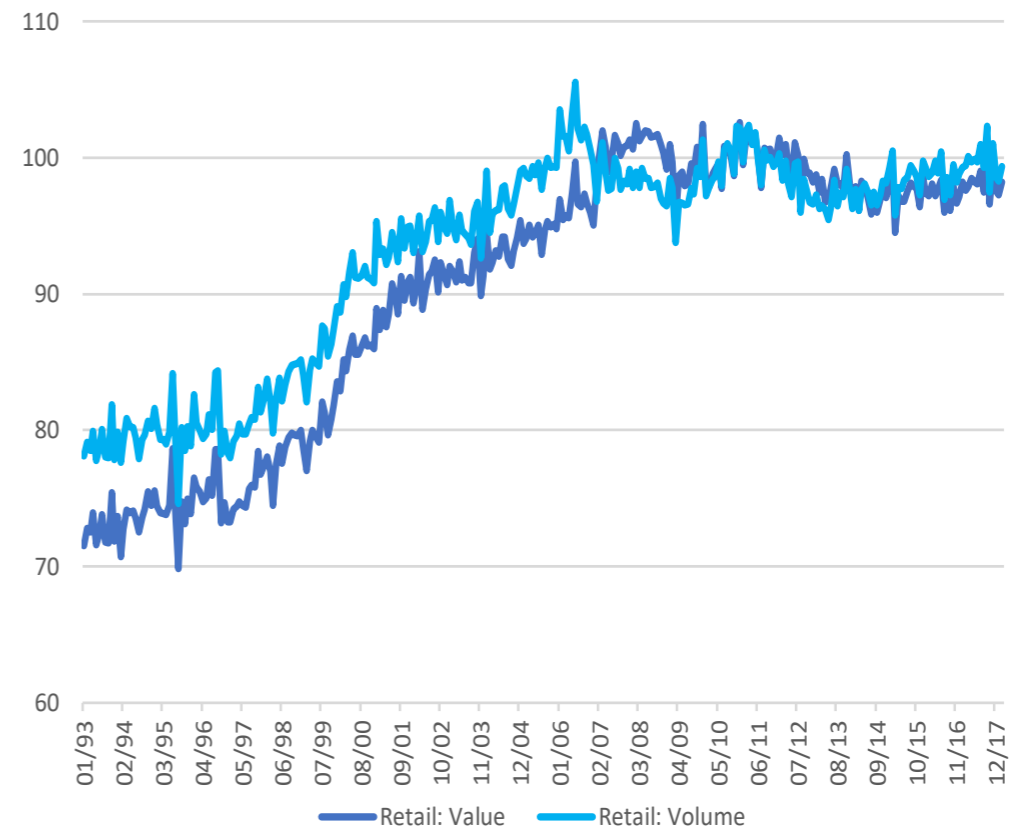
Sources: CEIC, ADA ECONOMICS

## EXPORTS & IMPORTS.

### Exports and imports dynamics, in EUR bn.



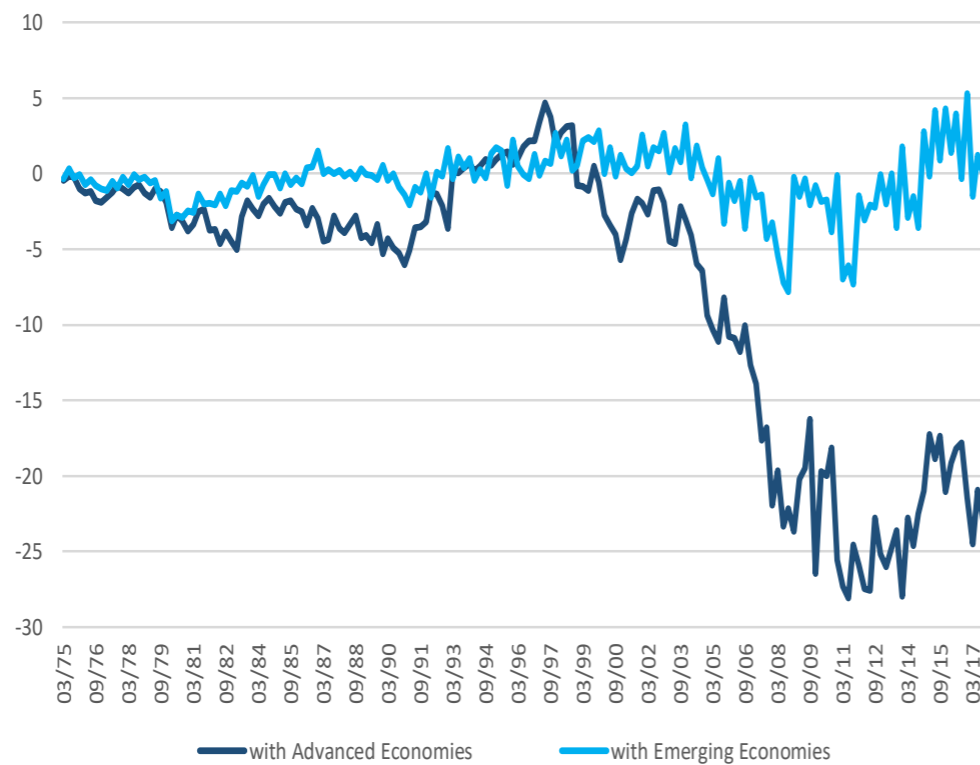
### Retail Trade.



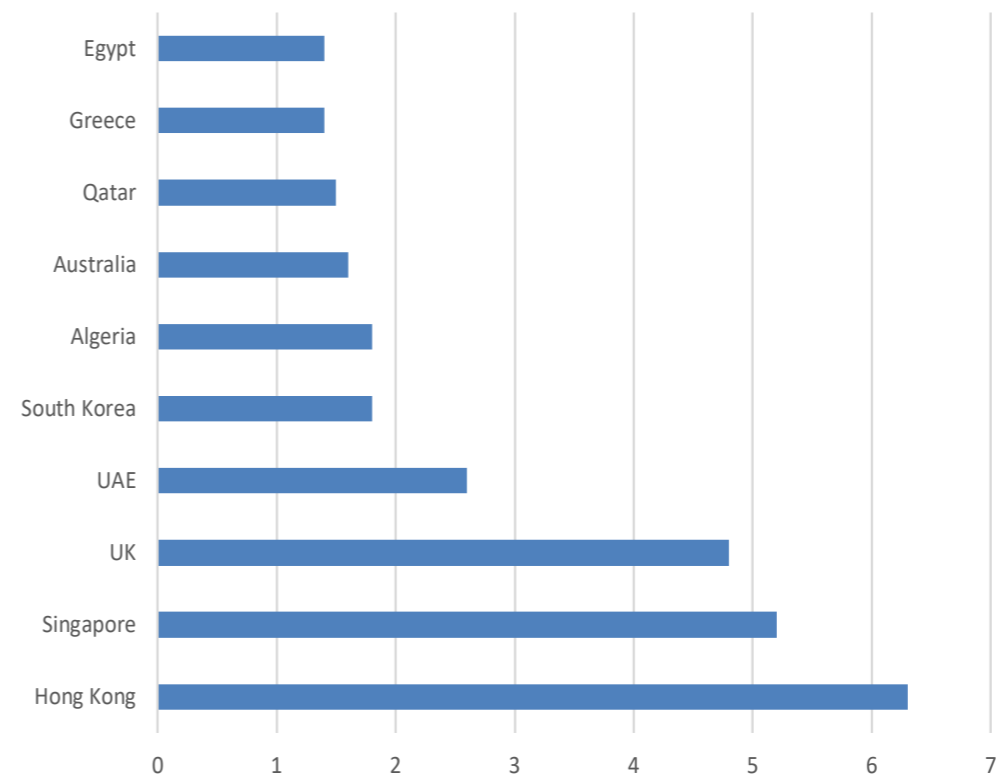
Sources: CEIC, ADA ECONOMICS

## EXPORTS & IMPORTS.

**Evolution of France's trade balance, in USD bn.**



**Trade surplus in 2016, in USD mn.**

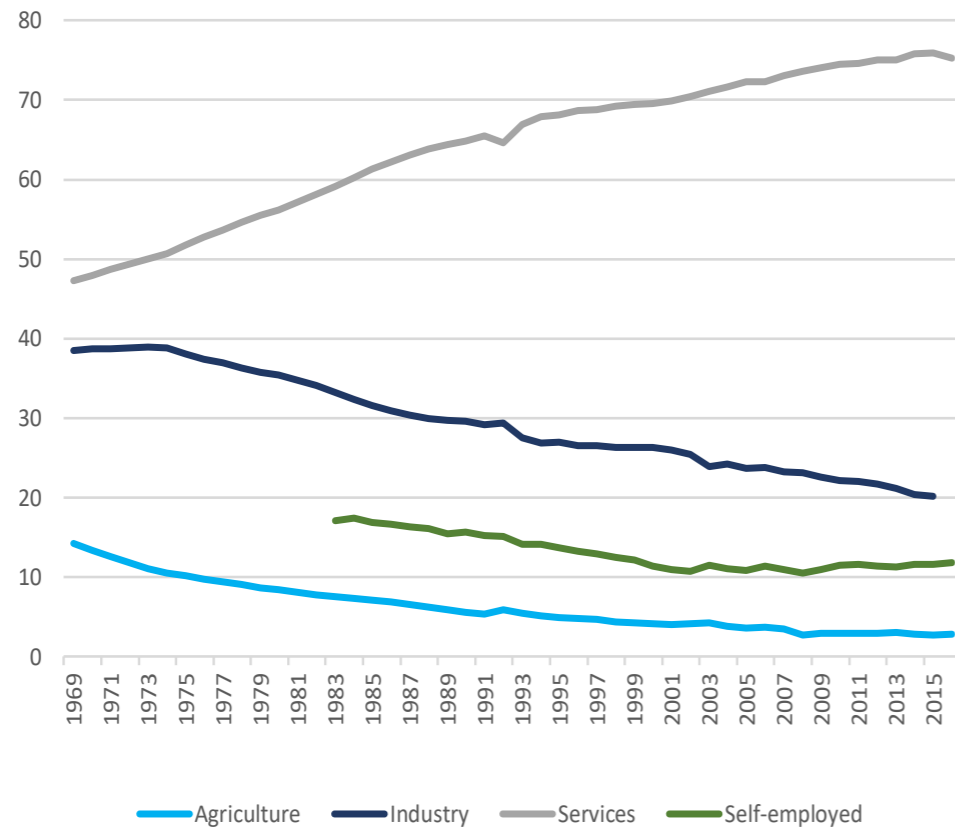


Sources: CEIC, ADA ECONOMICS

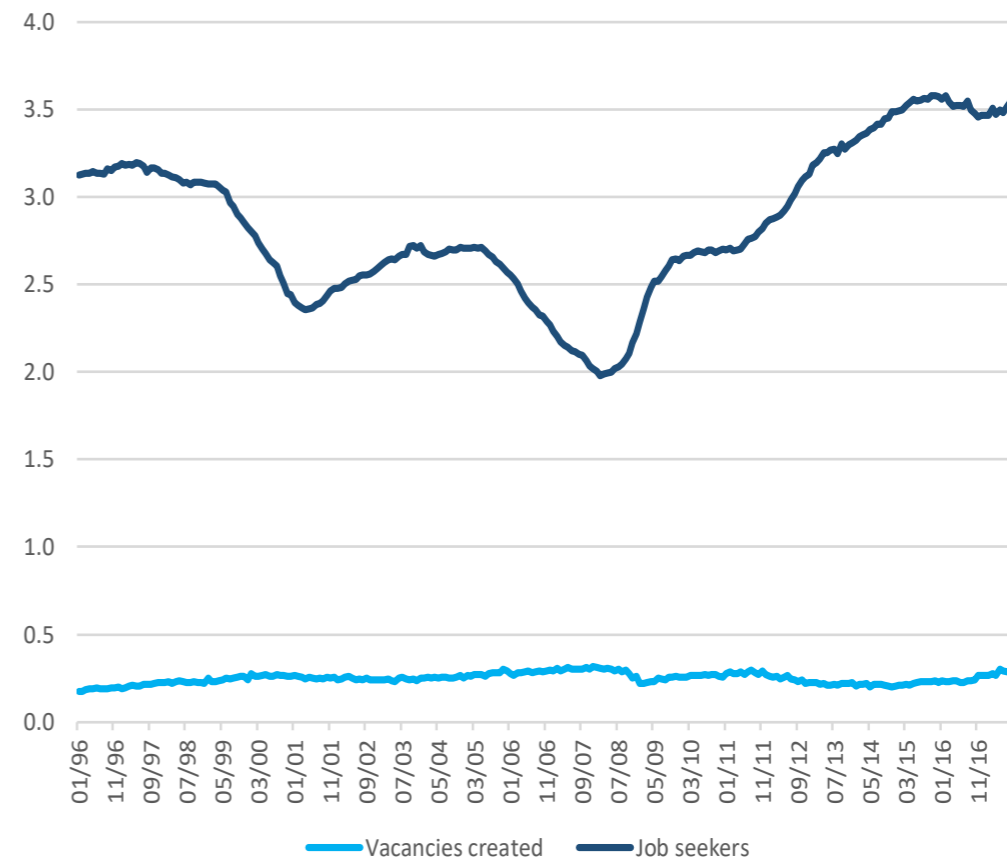


## LABOUR MARKET.

**% of total employment.**



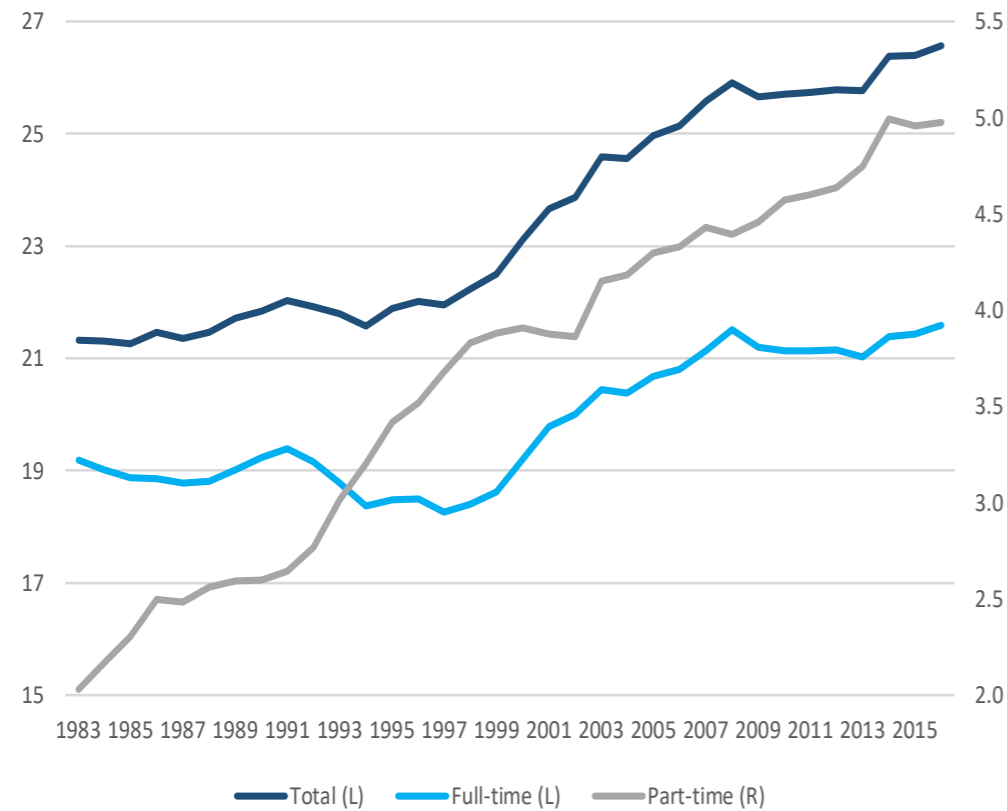
**Vacancies vs. job seekers (in 1,000 persons).**



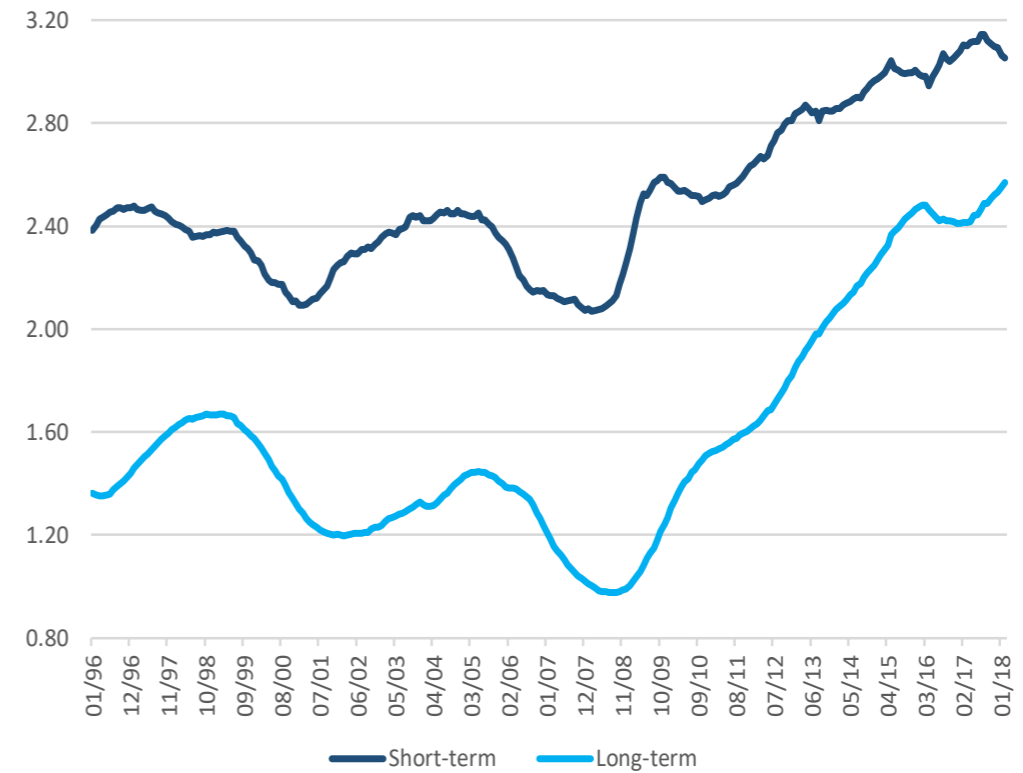
Sources: CEIC, ADA ECONOMICS

## LABOUR MARKET.

Employment by contract, in person mn.



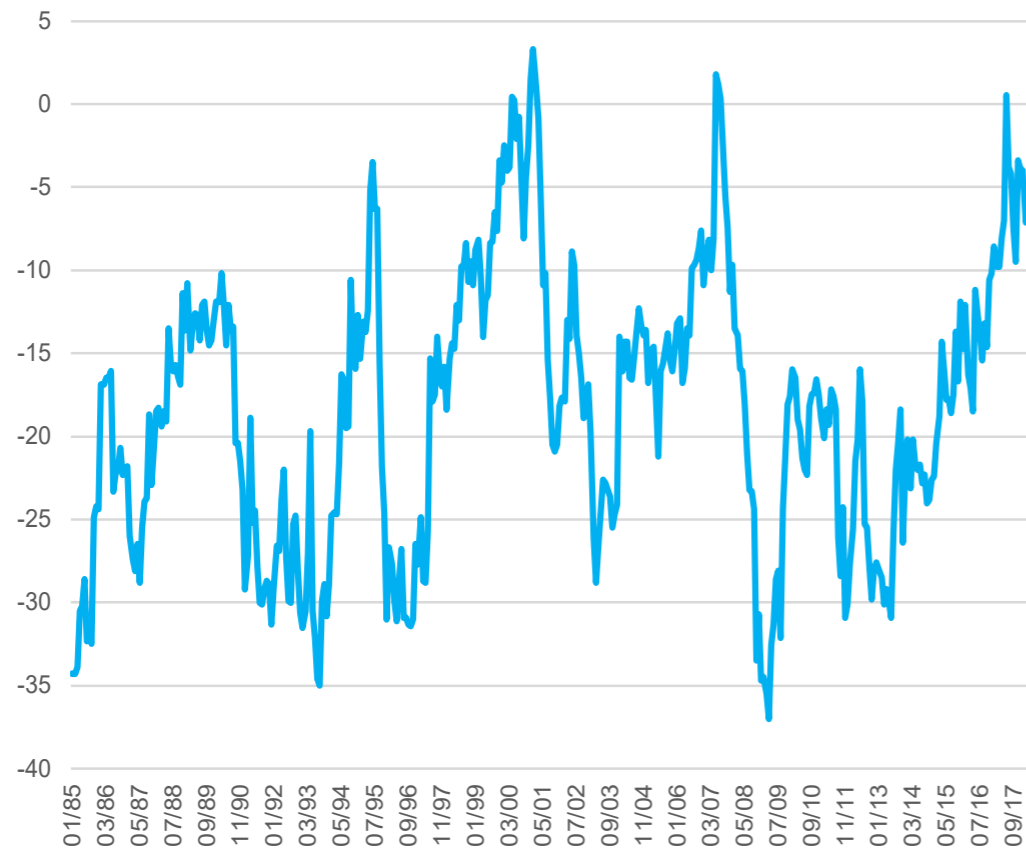
Unemployment by duration, in person mn.



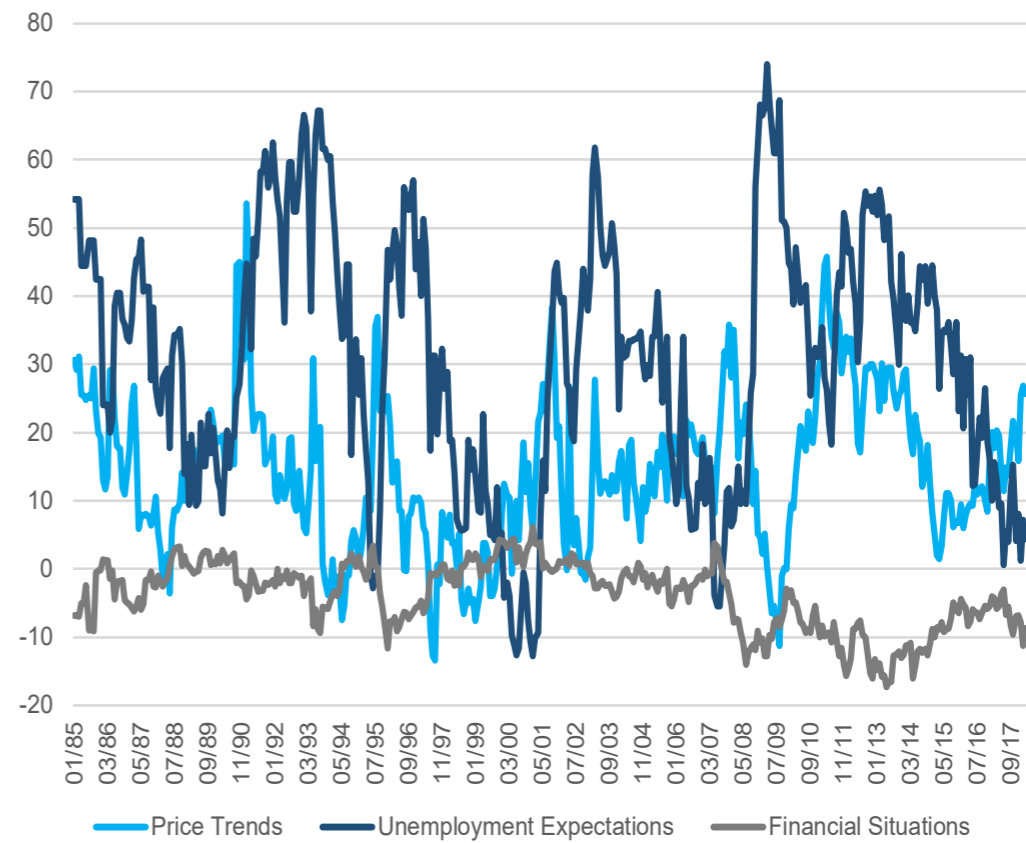
Sources: CEIC, ADA ECONOMICS

# CONSUMPTION.

## Total Balance.



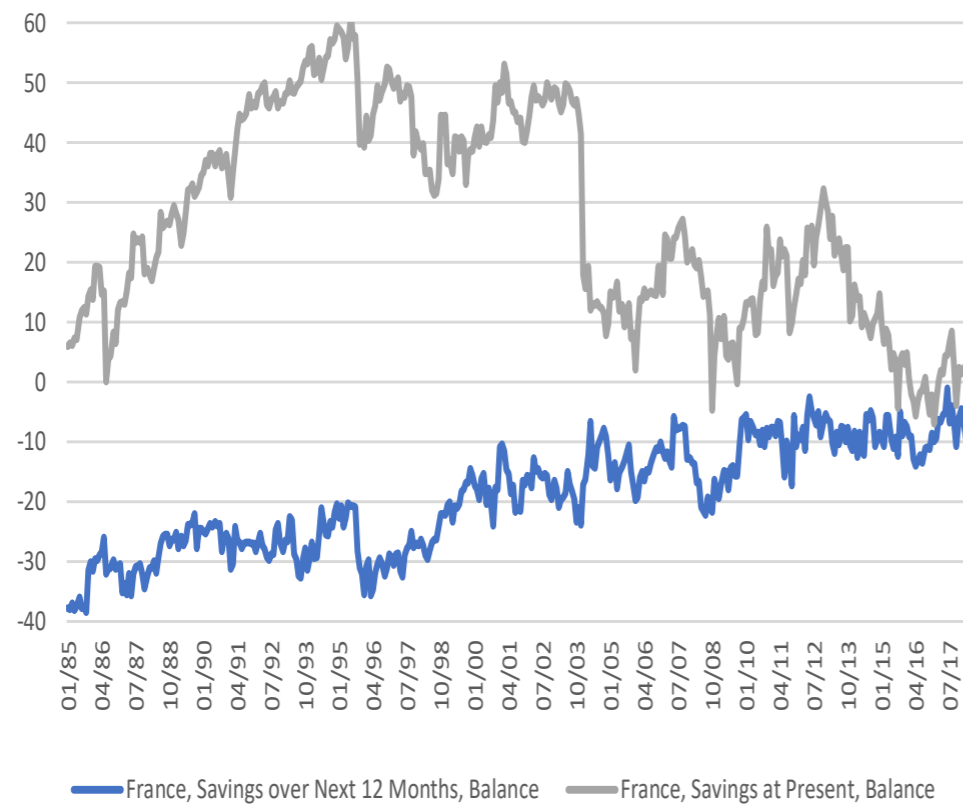
## Indicators.



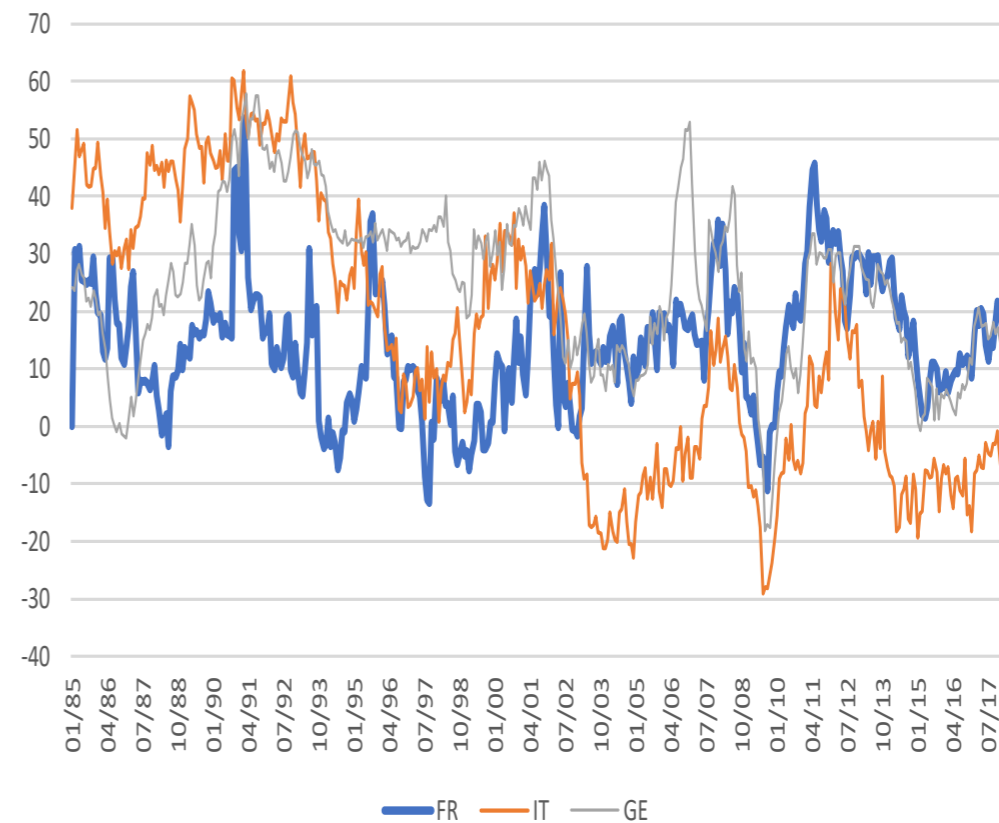
Sources: CEIC, ADA ECONOMICS

## CONSUMPTION.

**Appetite for future savings is rising.**



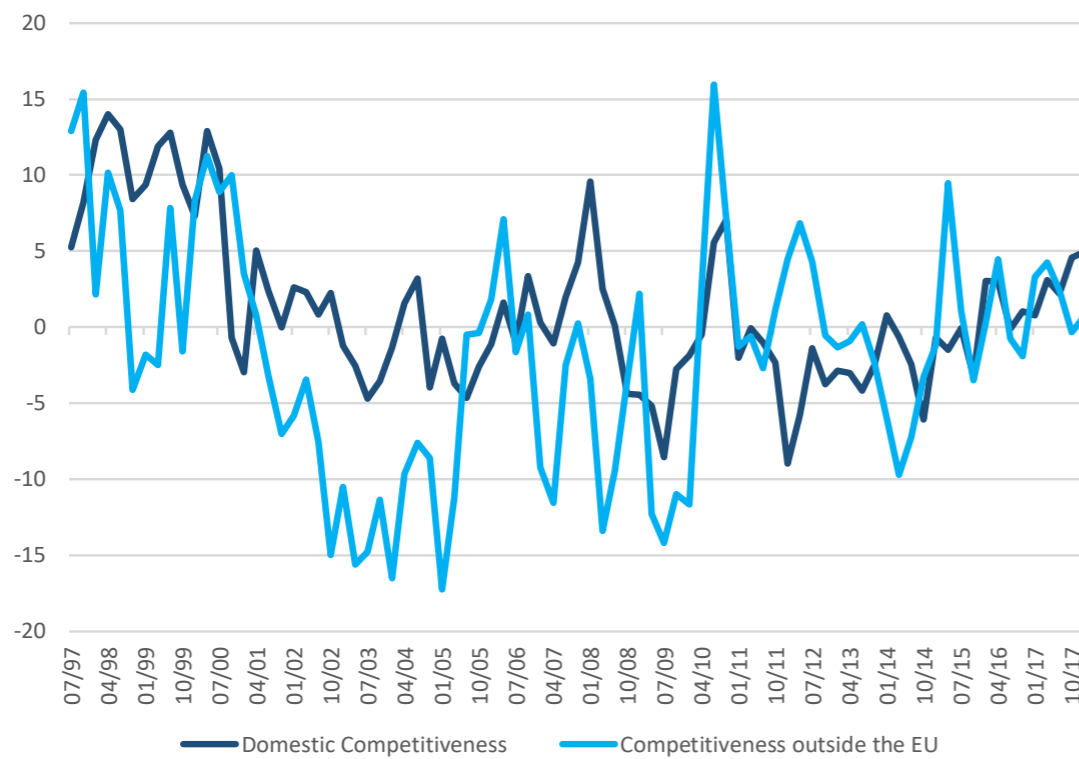
**Inflation concerns are comparable to those of German households despite slower growth in France.**



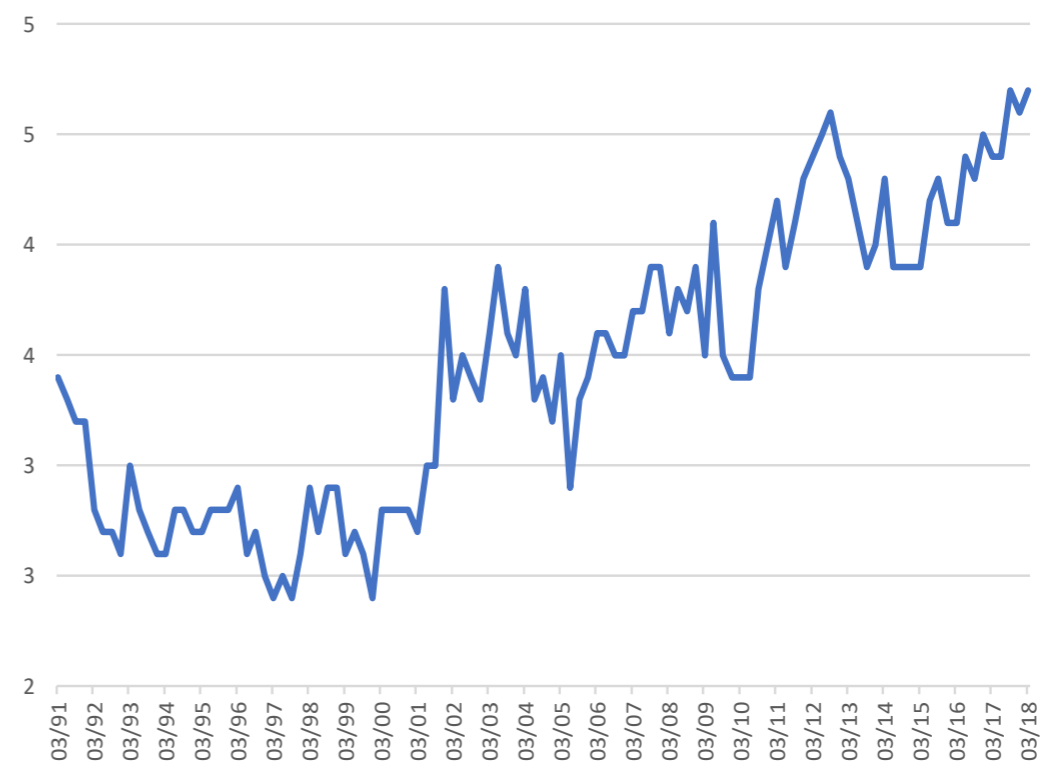
Sources: MACROBOND ON EC SURVEY DATA, ADA ECONOMICS

# COMPETITIVENESS.

### Competitiveness.



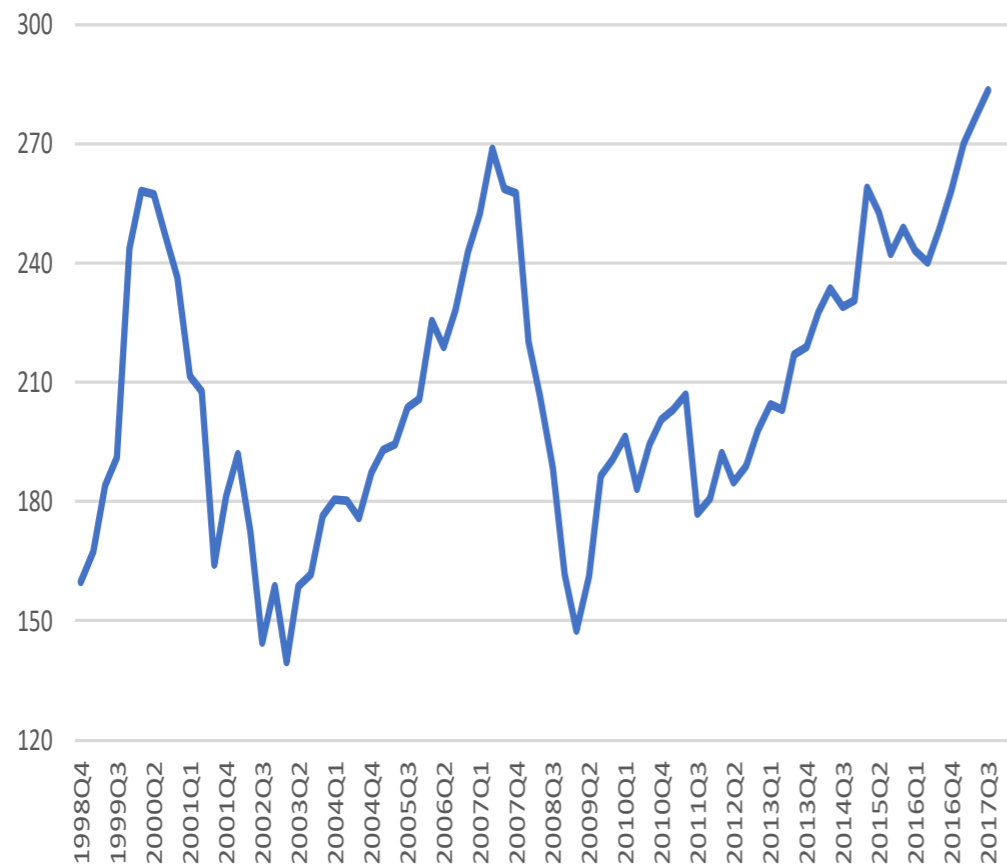
### Duration of Current Order.



Sources: CEIC, ADA ECONOMICS

## INDEBTEDNESS: NFC'S.

Debt-to-GDP %.



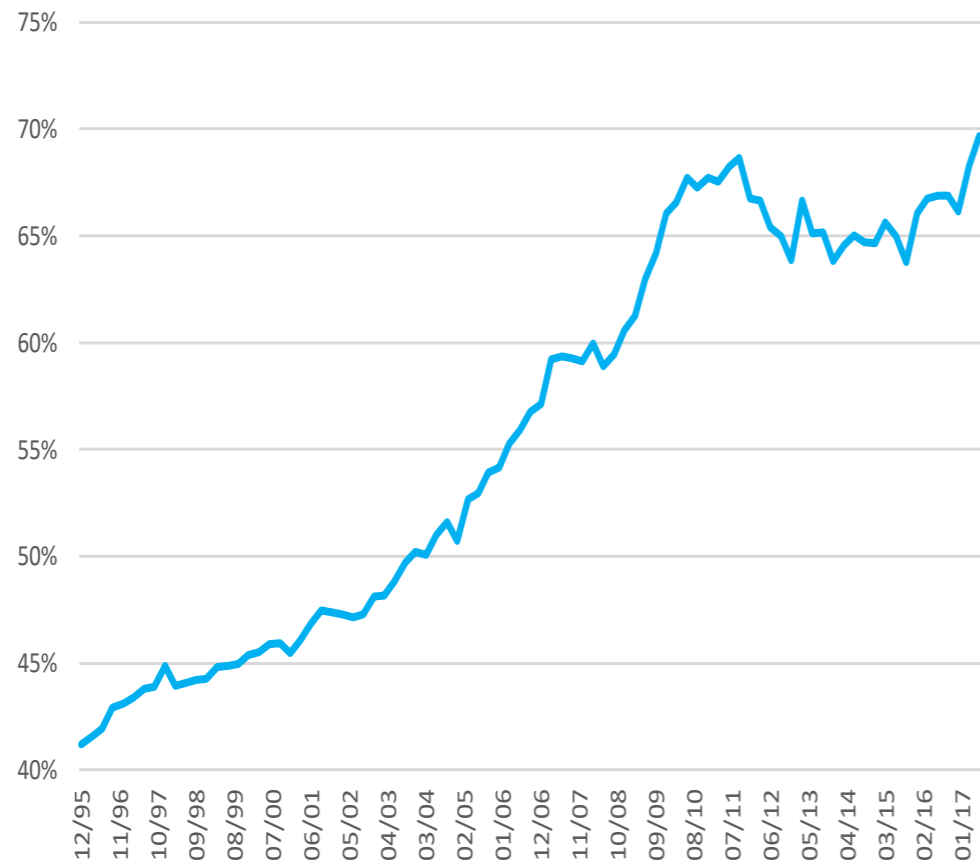
Net assets-to-GDP.



Sources: CEIC, ADA ECONOMICS

## INDEBTEDNESS: HOUSEHOLDS.

### Debt-to-GDP.



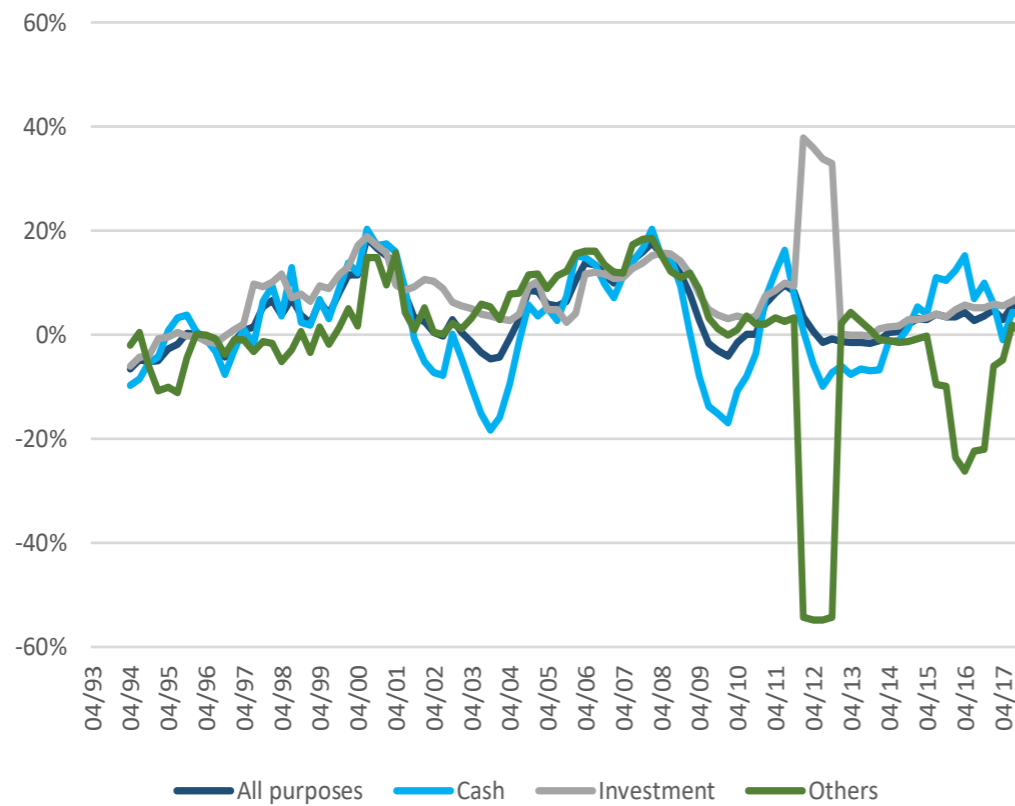
### Net assets-to-GDP.



Sources: CEIC, ADA ECONOMICS

## INDEBTEDNESS: LOANS TO NFC'S.

**Loans to NFC's, YoY.**



**Debt service ratios, as a share of income.**

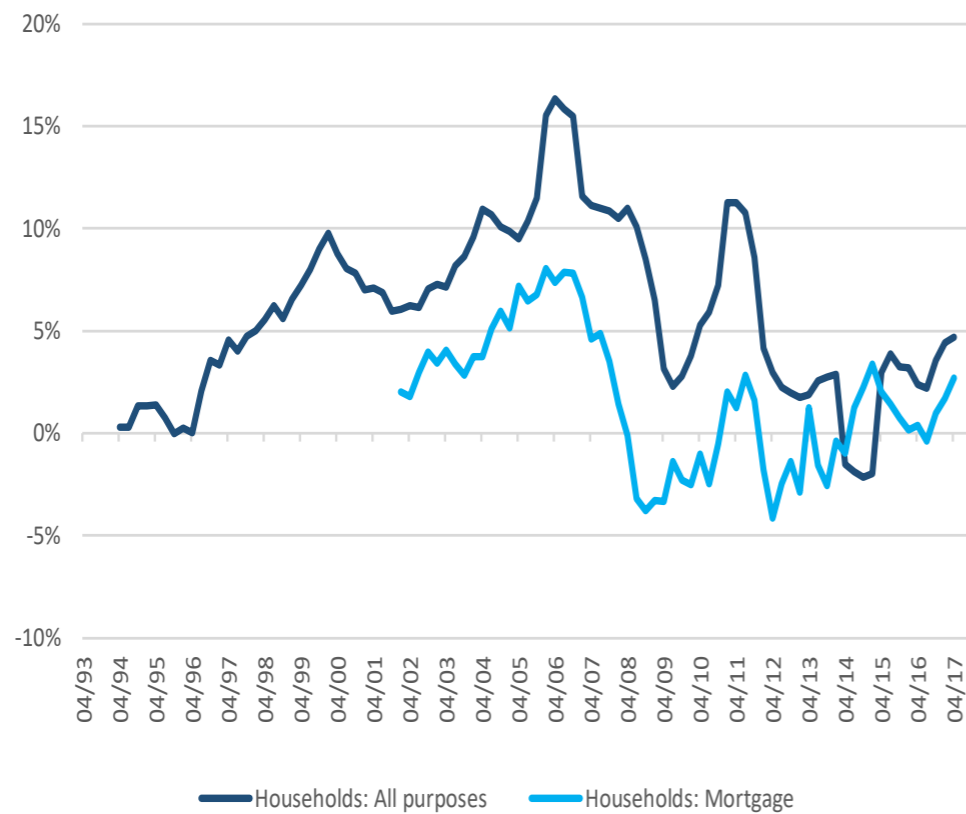


Sources: CEIC, ADA ECONOMICS

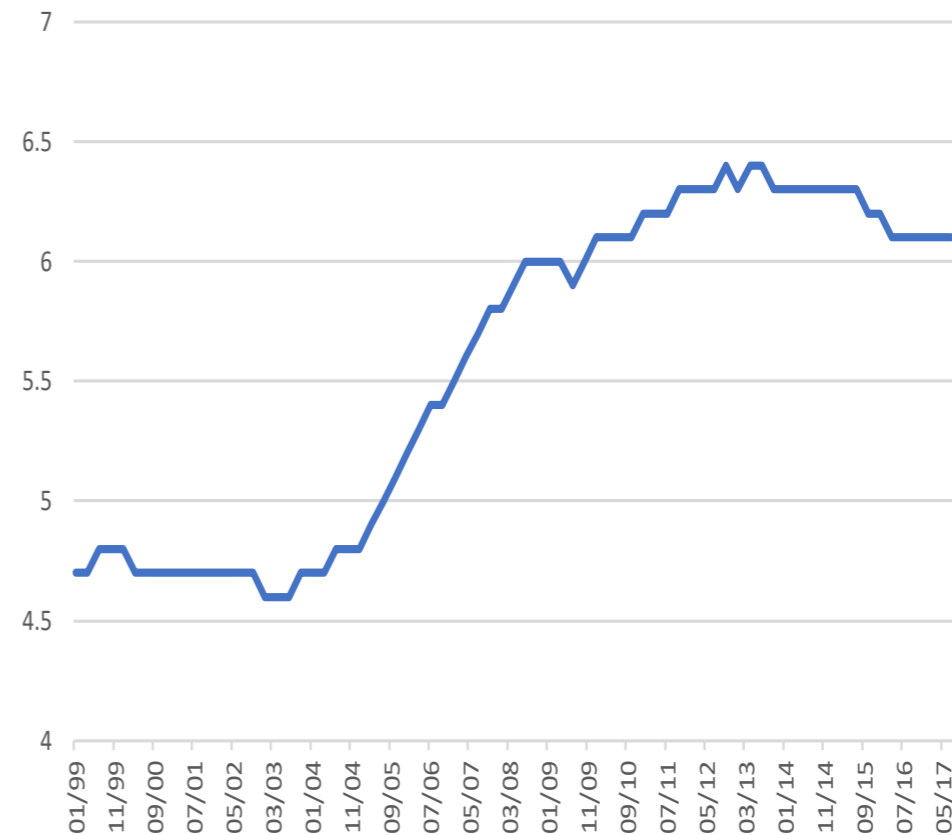


## INDEBTEDNESS: LOANS TO HOUSEHOLDS.

**Loans to households, YoY.**



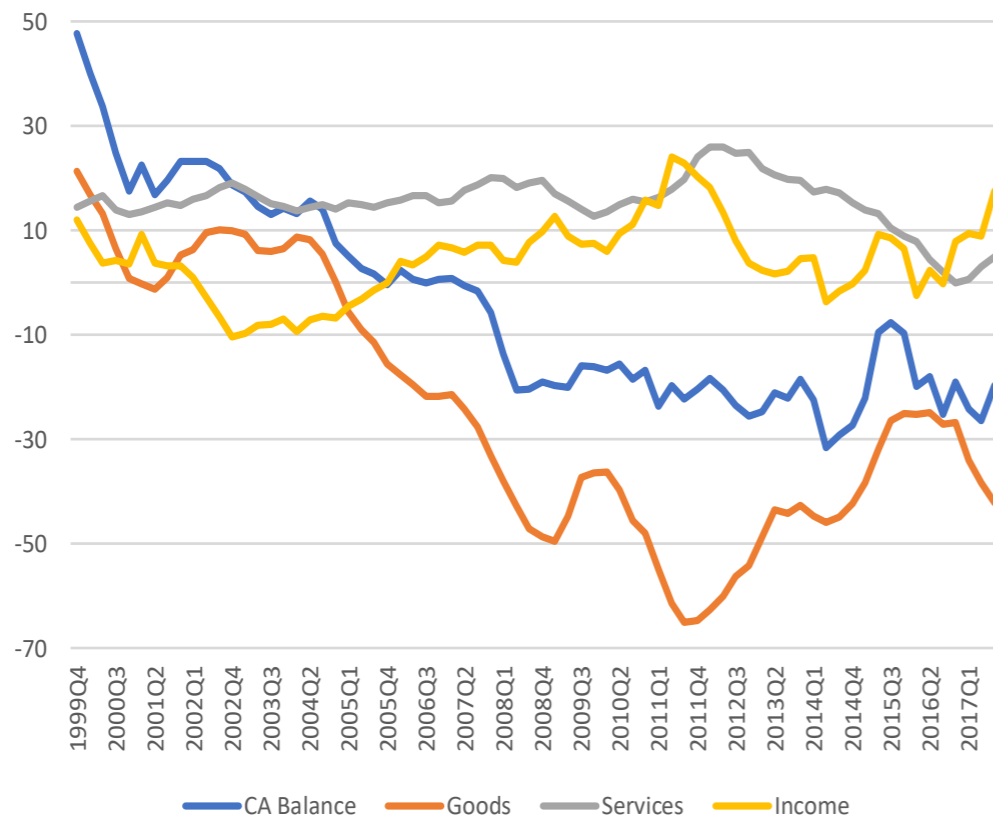
**Debt service ratios, as a share of income.**



Sources: CEIC, ADA ECONOMICS

## BALANCE OF PAYMENTS.

**Current account, 4Q rolling sums, EUR bn.**



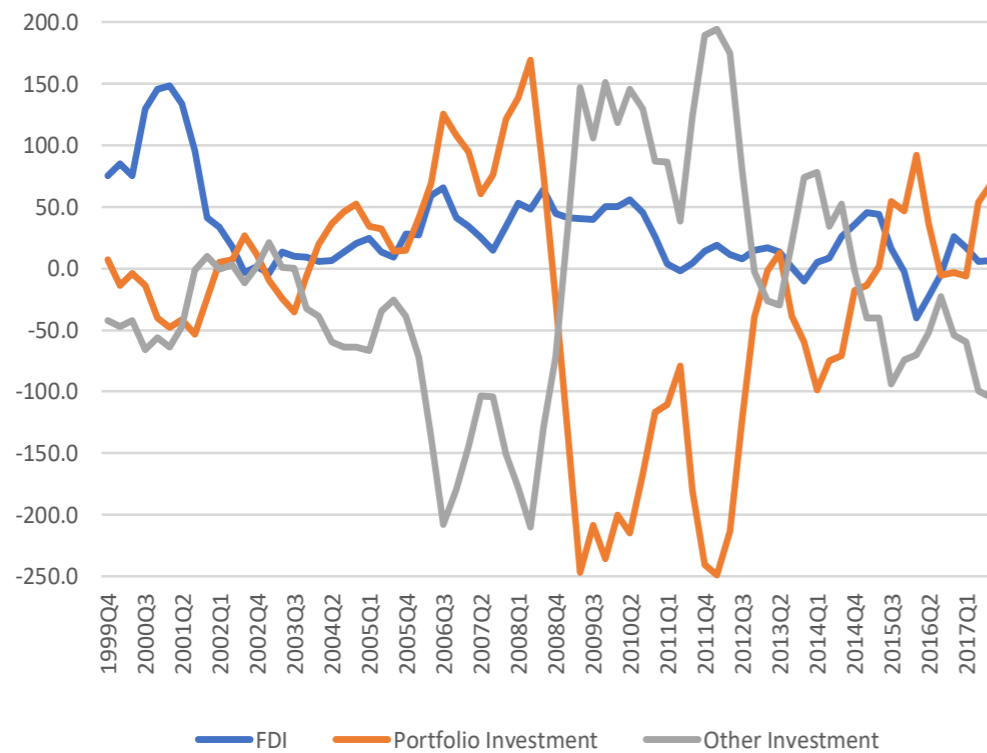
**Current account as a % of GDP.**



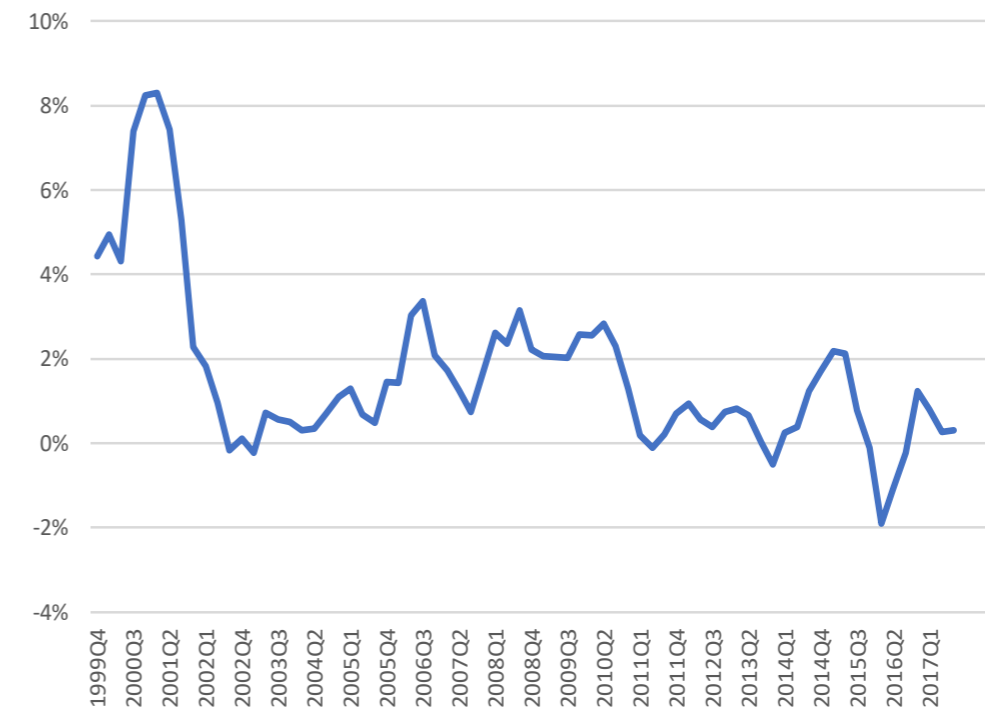
Sources: EUROSTAT, ADA ECONOMICS

## BALANCE OF PAYMENTS.

**Financial account, 4Q rolling sums, EUR bn.**



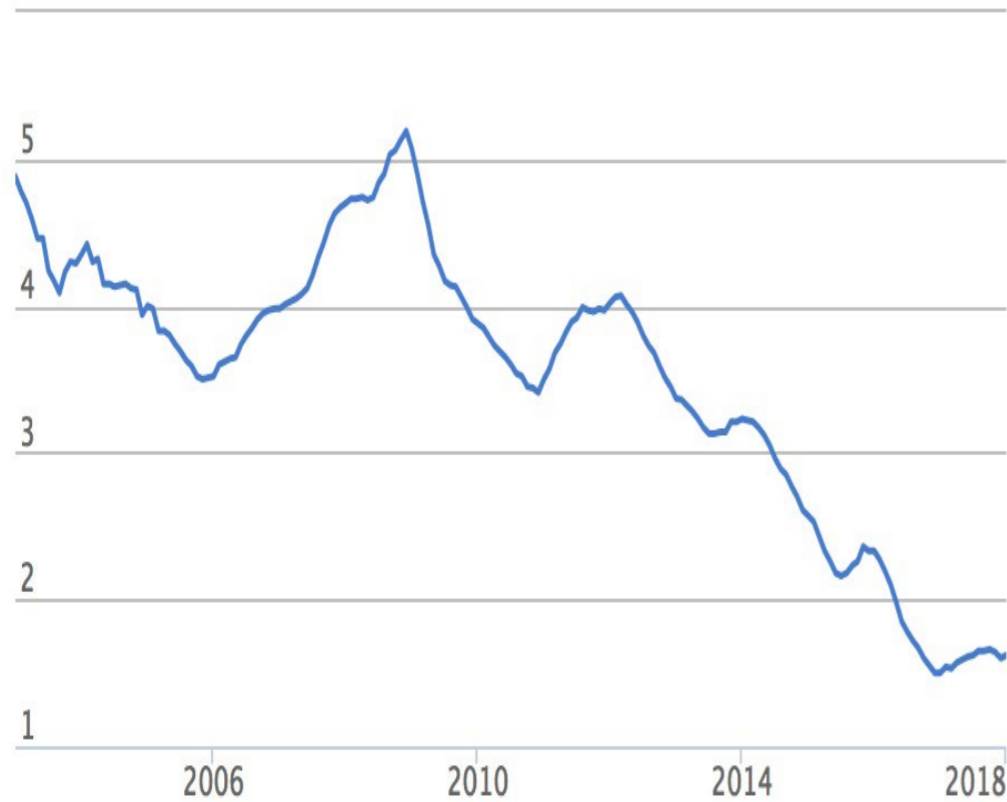
**FDI as a % of GDP.**



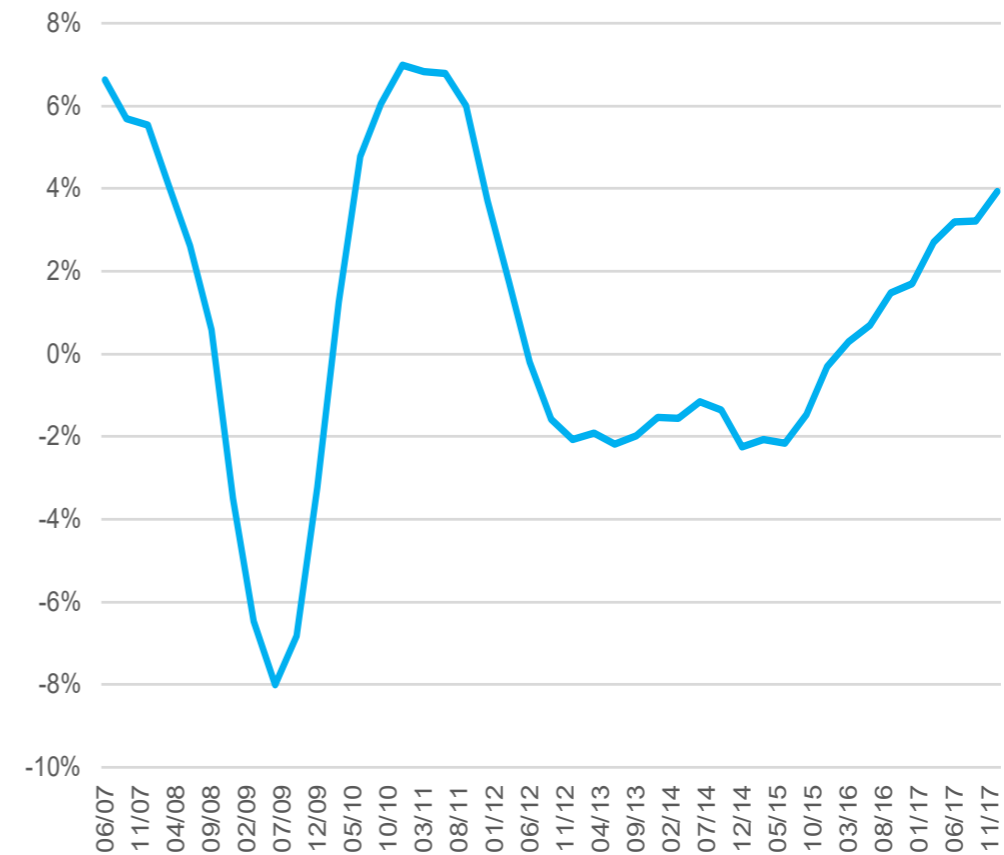
Sources: EUROSTAT, ADA ECONOMICS

## HOUSING MARKET: HOUSE PRICES.

Average interest rate on mortgages, %.



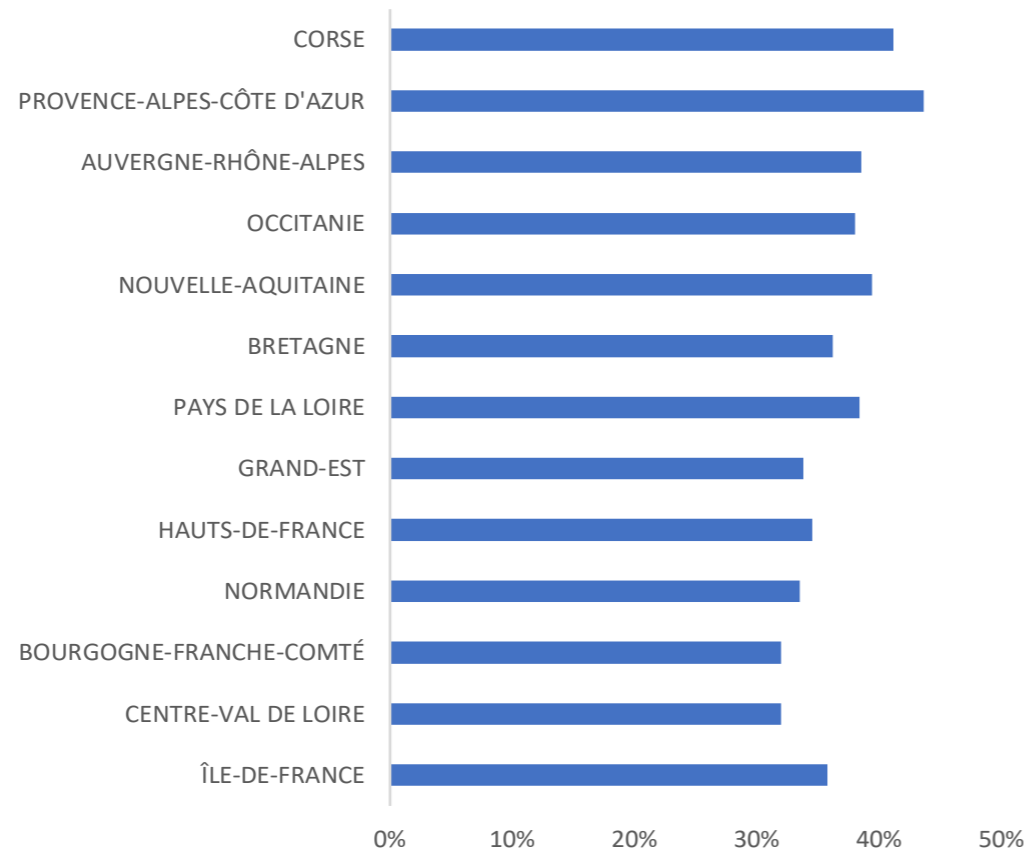
YoY House Price Change.



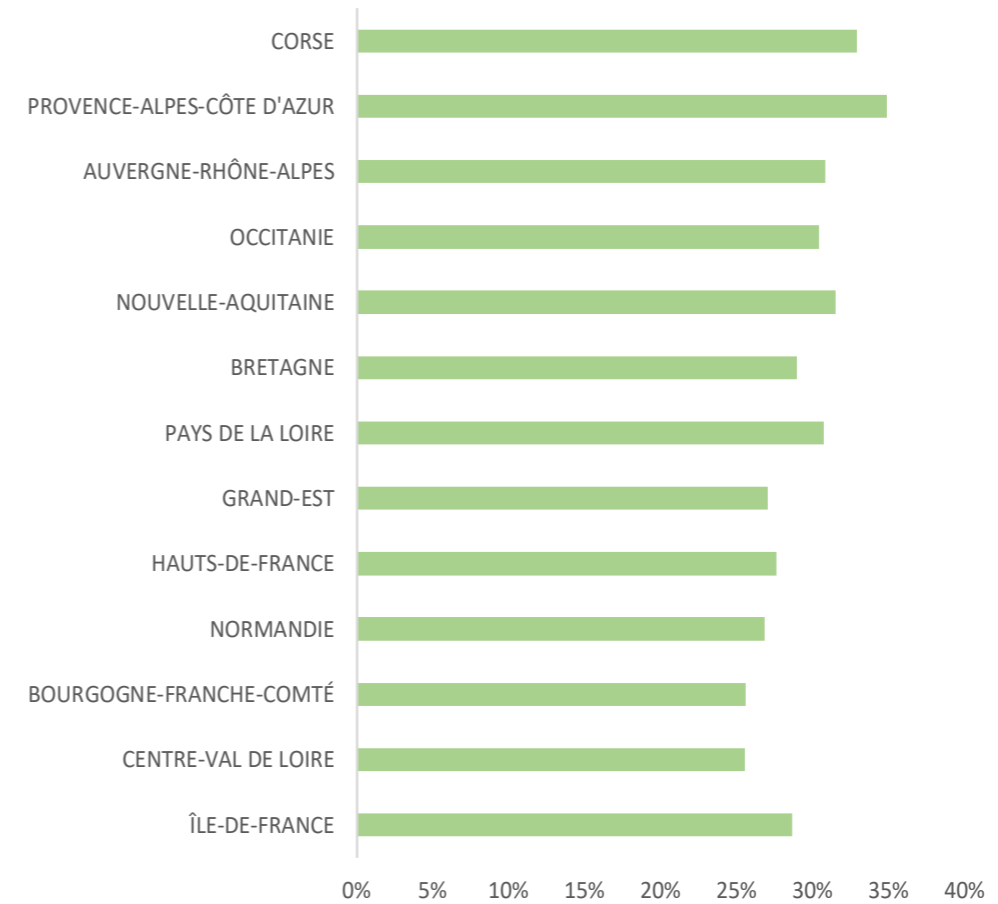
Sources: CEIC, ADA ECONOMICS

## HOUSING MARKET: DEBT SERVICING COSTS, BY REGION, 2016.

For 60m squares, 100% LTV.



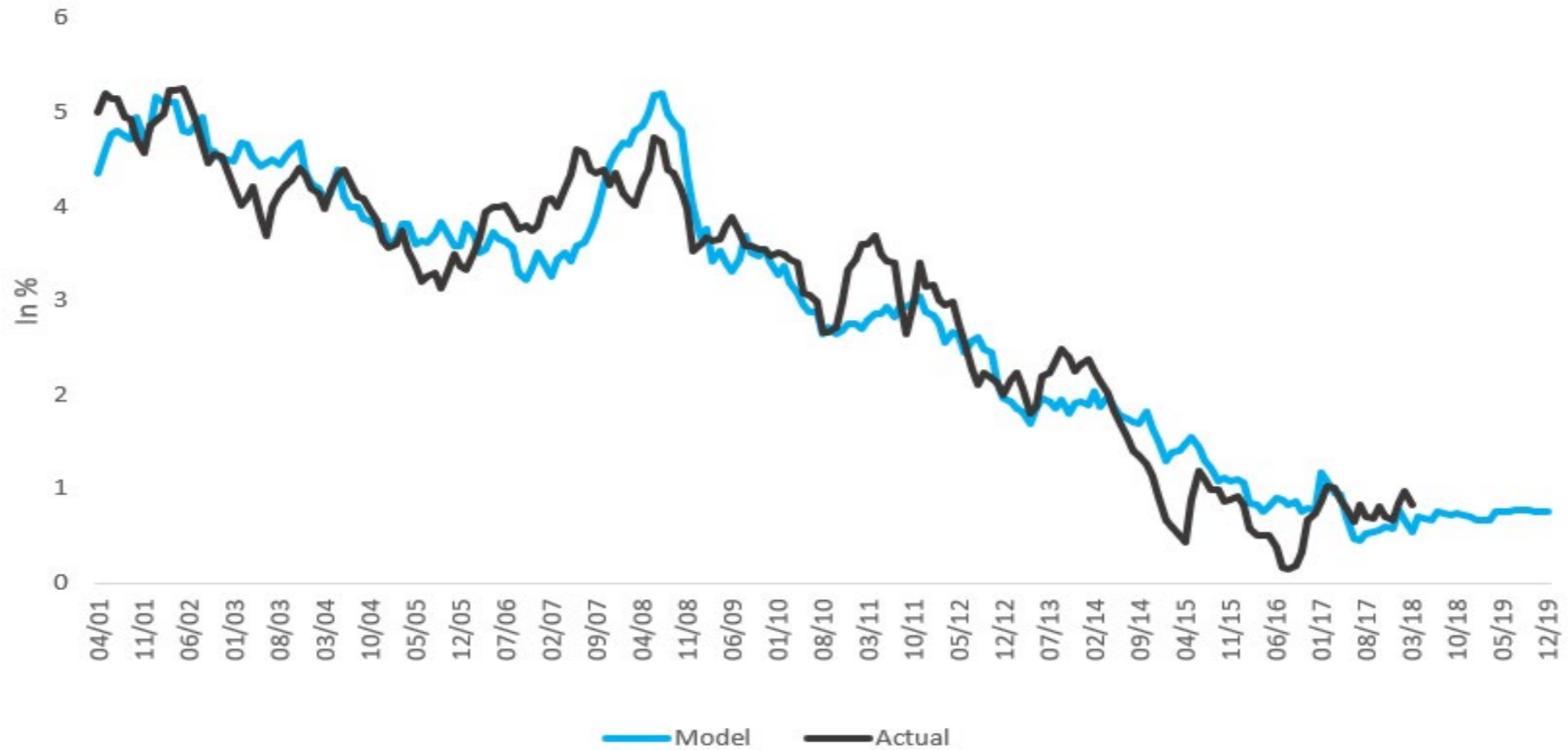
For 60m squares, 80% LTV.



Sources: CEIC, ADA ECONOMICS

## BORROWING COSTS: BOND YIELDS.

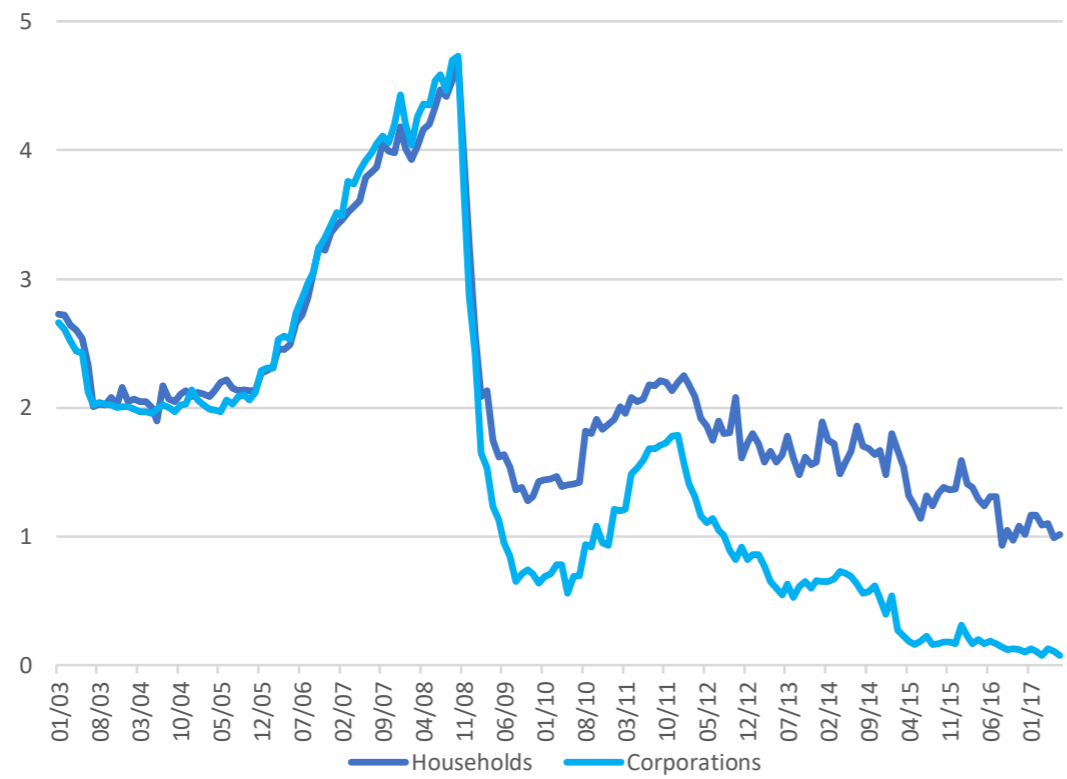
### Government Bond Yield.



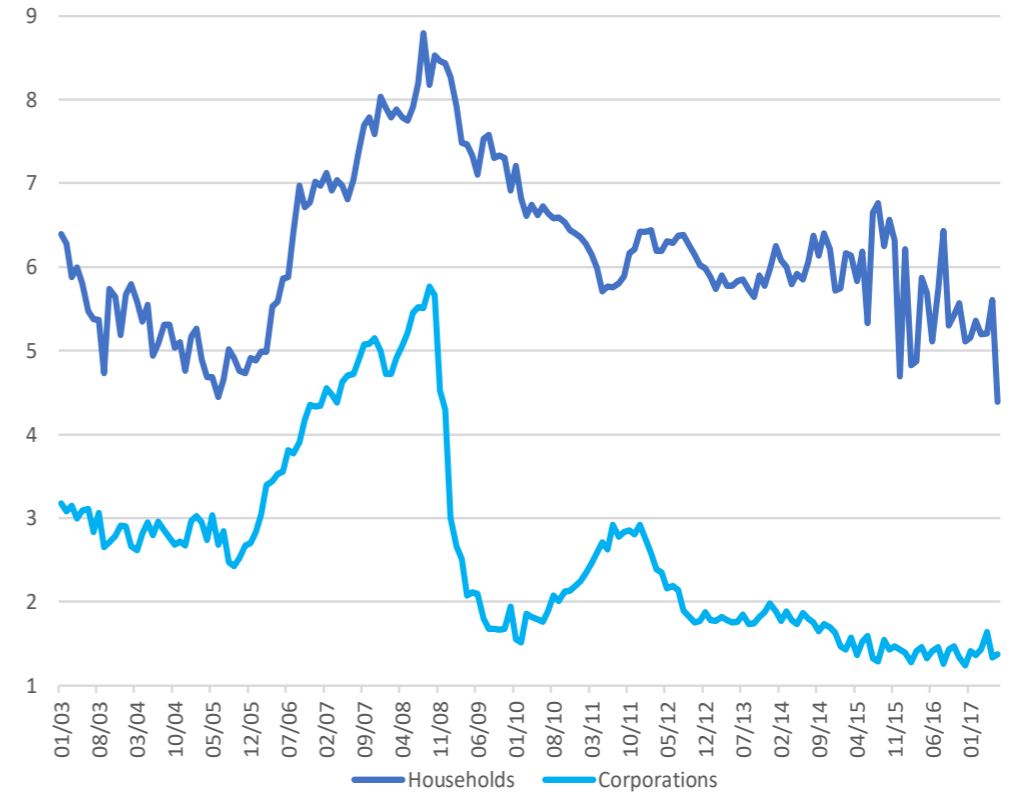
Sources: CEIC, ADA ECONOMICS

## BORROWING COSTS: RETAIL BORROWING COSTS (%).

Deposit rates, %, up to 1 year, new business.



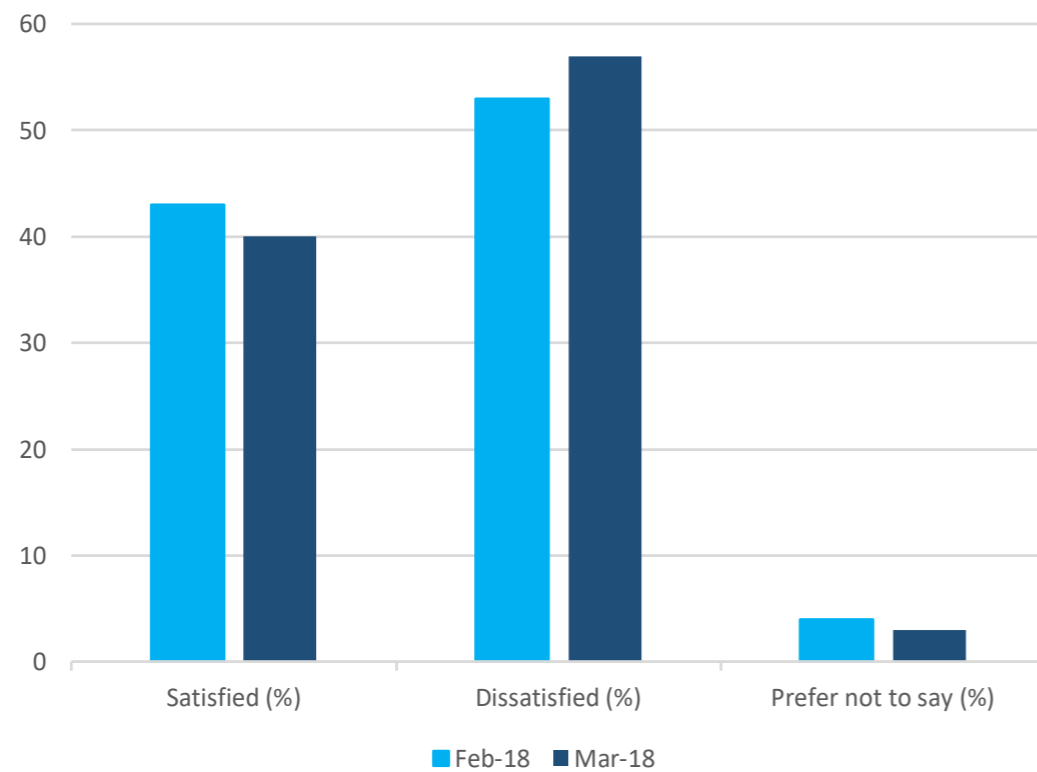
Lending rates, %, floating and up to 1 year, new business.



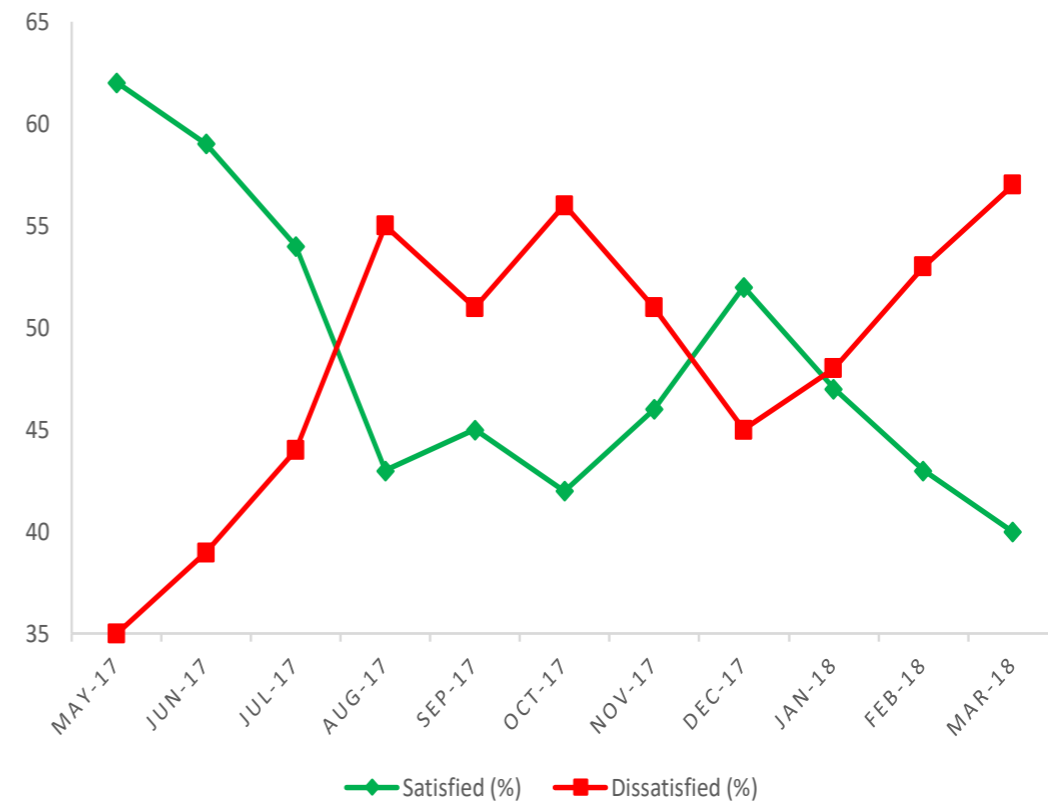
Sources: CEIC, ADA ECONOMICS

## OPINIONS POLLS.

### Satisfied or dissatisfied with President Macron?.



### Evolution of public opinion on President Macron.

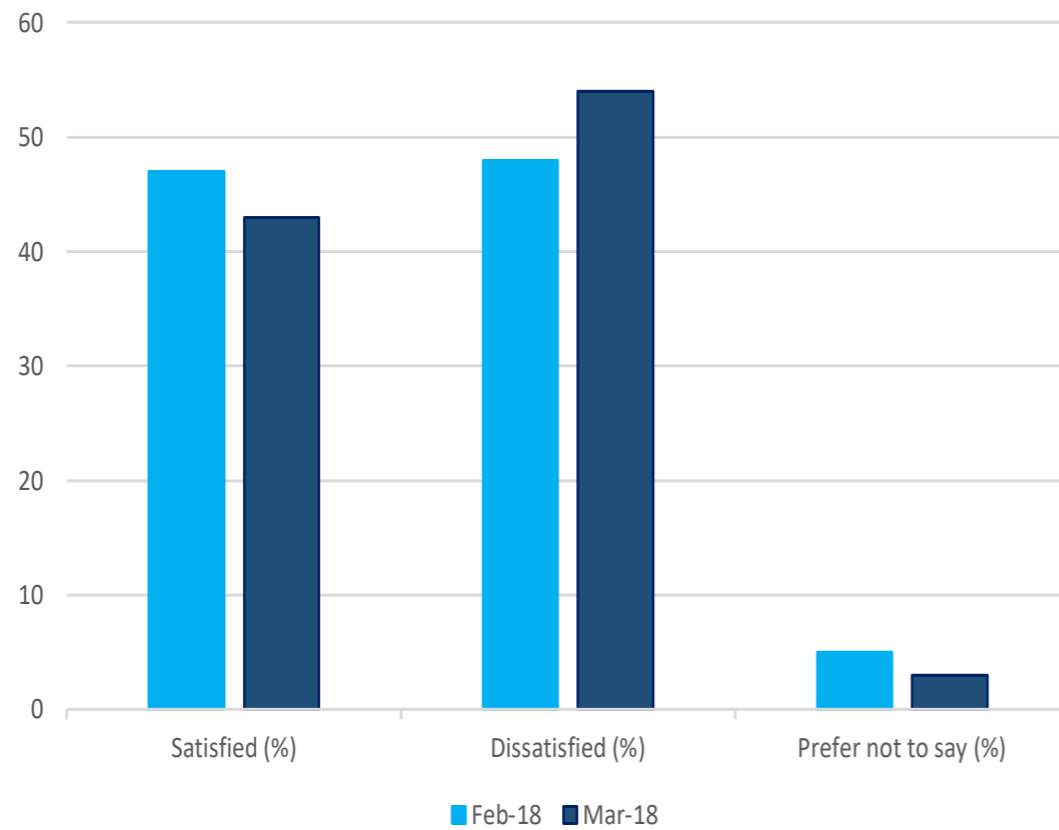


Sources: CEIC, ADA ECONOMICS

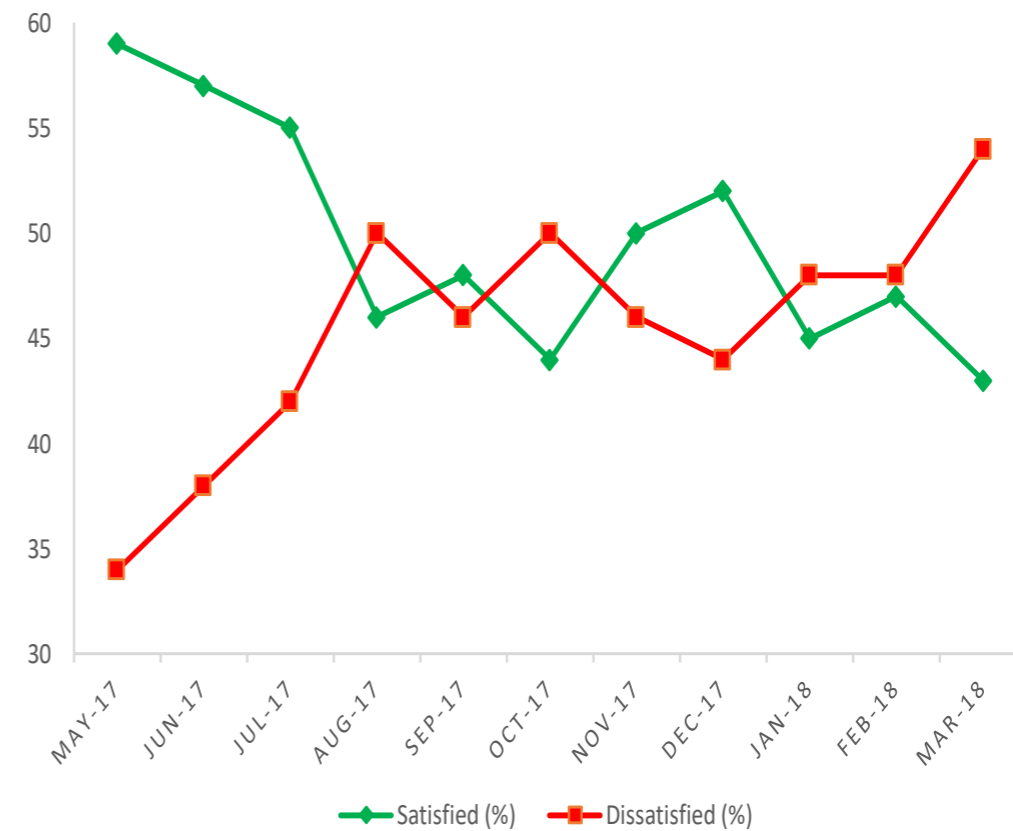


## OPINION POLLS.

### Satisfied or dissatisfied with Prime Minister Edouard Philippe?



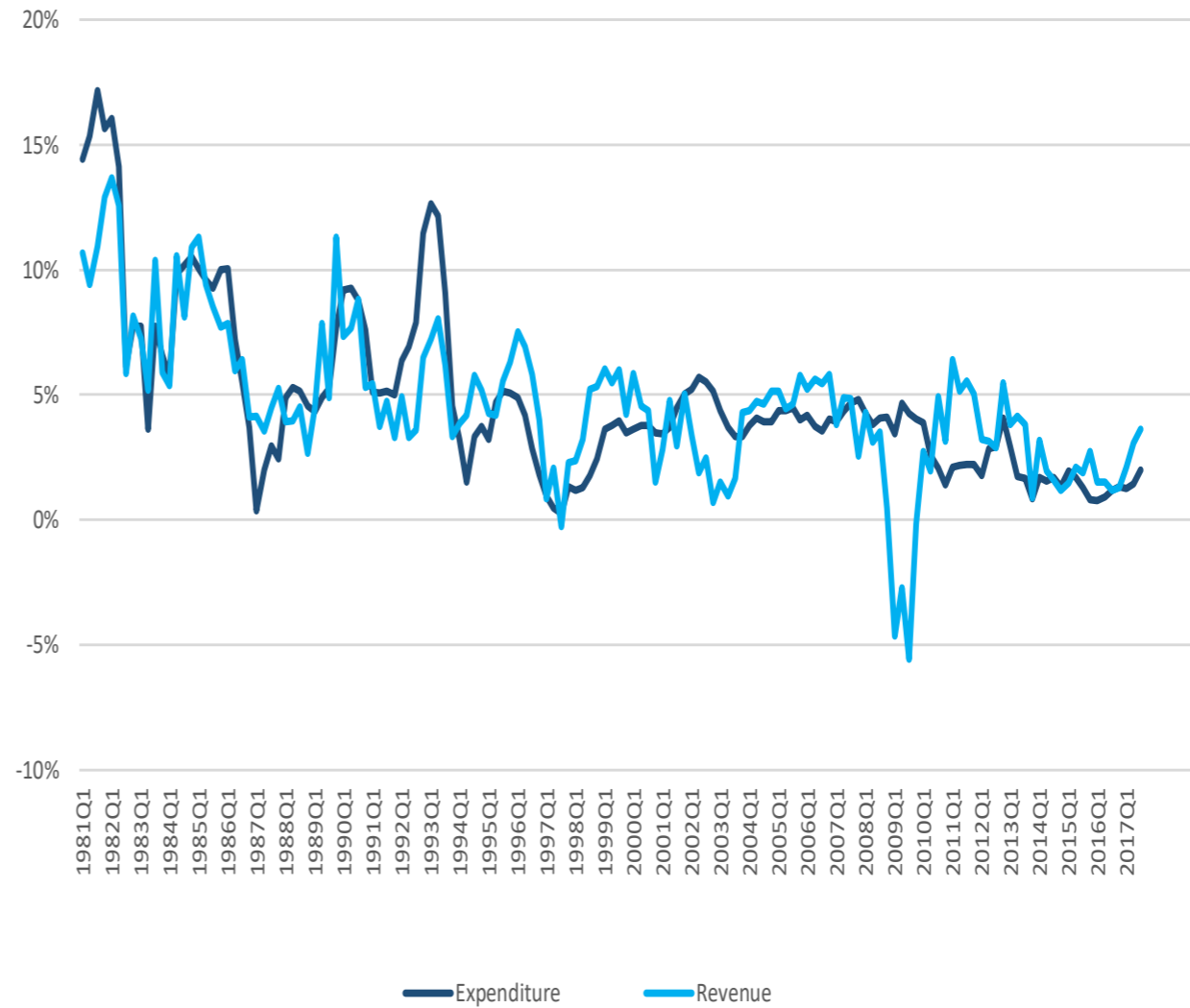
### Evolution of public opinion on PM Philippe.



Sources: CEIC, ADA ECONOMICS

## BUDGET IMPLEMENTATION.

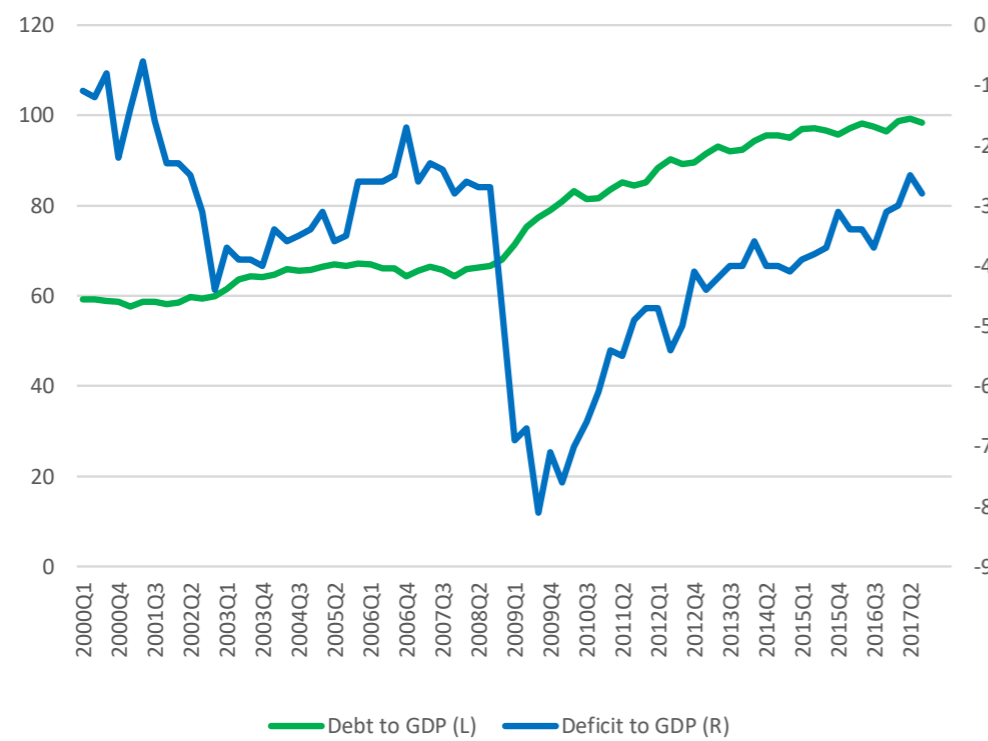
**YoY % change  
in General Government  
Expenditure and Revenue.**



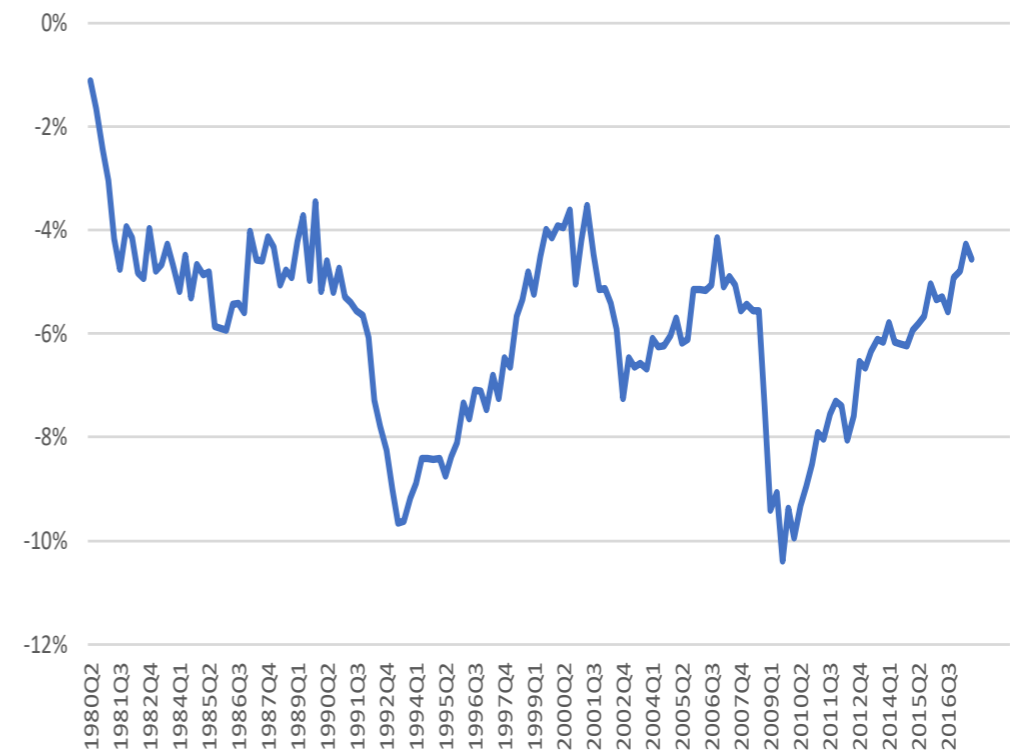
Sources: CEIC, ADA ECONOMICS

## BUDGET IMPLEMENTATION.

In % of GDP, deficit on secondary axis.



Primary balance, in % of the GDP.



Sources: CEIC, ADA ECONOMICS

## STATE FUNDING OUTLOOK: BANK OF FRANCE PROJECTIONS.

### YoY growth.

|                            | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E |
|----------------------------|------|------|------|-------|-------|-------|
| <b>Real GDP</b>            | 1    | 1.1  | 2    | 1.9   | 1.7   | 1.6   |
| <b>HICP</b>                | 0.1  | 0.3  | 1.2  | 1.6   | 1.4   | 1.8   |
| <b>GDP Deflator</b>        | 1.1  | 0.4  | 0.8  | 1     | 1.5   | 1.7   |
| <b>Domestic demand</b>     | 1.2  | 2    | 1.9  | 1.7   | 1.7   | 1.7   |
| <b>Private consumption</b> | 1.3  | 2.1  | 1.3  | 1.5   | 1.8   | 1.8   |
| <b>Govt consumption</b>    | 1.1  | 1.2  | 1.6  | 0.7   | 0.7   | 0.8   |
| <b>Total investment</b>    | 0.9  | 2.7  | 3.8  | 3.4   | 2.4   | 2.3   |
| <b>Exports</b>             | 4    | 1.9  | 3.3  | 6.0   | 4.3   | 3.8   |
| <b>Imports</b>             | 5.5  | 4.2  | 4.1  | 4.1   | 3.9   | 3.8   |
| <b>Real HH GDI</b>         | 0.8  | 1.8  | 1.5  | 1.7   | 2.2   | 1.7   |

Sources: BANK OF FRANCE, ADA ECONOMICS

## STATE FUNDING OUTLOOK.

### Financing requirements, in € billion.

|  | 2018         |
|--|--------------|
| Redemption of medium- & long-term debt | 116.6        |
| Redemption of other debts              | -            |
| Deficit to be financed                 | 85.8         |
| Other cash requirements                | 0.3          |
| <b>TOTAL</b>                           | <b>202.7</b> |

### Financing resources, in € billion.

|   | 2018         |
|---|--------------|
| Issuance of medium- & long-term debt              | 195.0        |
| Funds allocated to Caisse de la Dette Publique    | 1.0          |
| Change in correspondents' deposits                | 1.0          |
| Cash in Treasury's account + other cash resources | 5.7          |
| <b>TOTAL</b>                                      | <b>202.7</b> |

Sources: : AGENCE FRANCE TRÉSOR, ADA ECONOMICS

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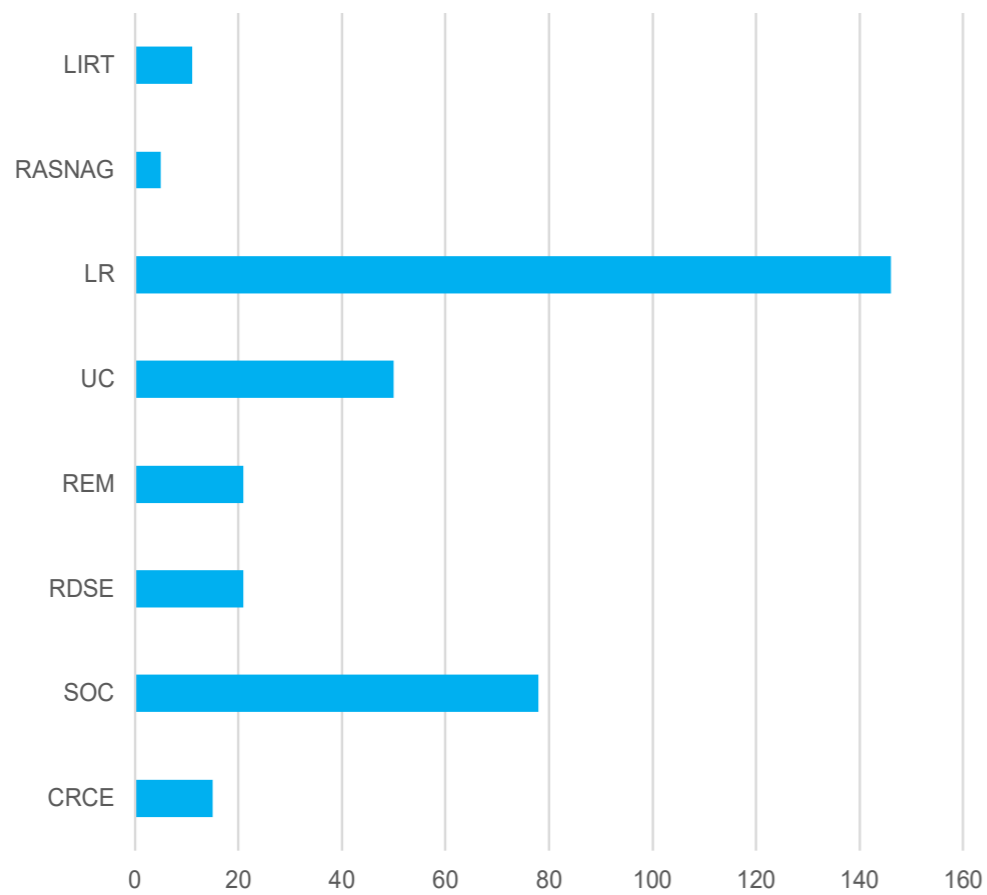
## FRENCH GOVERNMENT SET UP.

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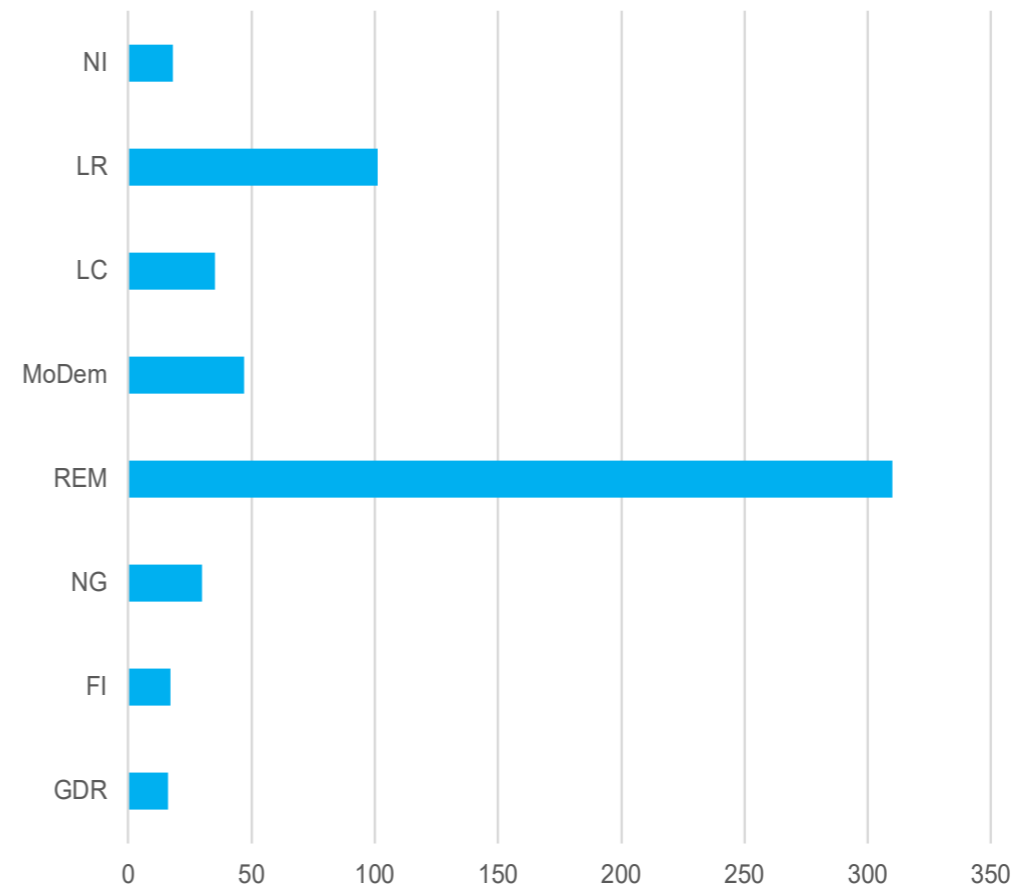
- **President: Emmanuel Macron**
- **Prime Minister: Edouard Philippe**
- **President of the National Assembly: Francois de Rugy**
- **President of the Senate: Gerard Larcher**

## FRENCH PARLIAMENT STRUCTURE.

### Senate Political Groups.



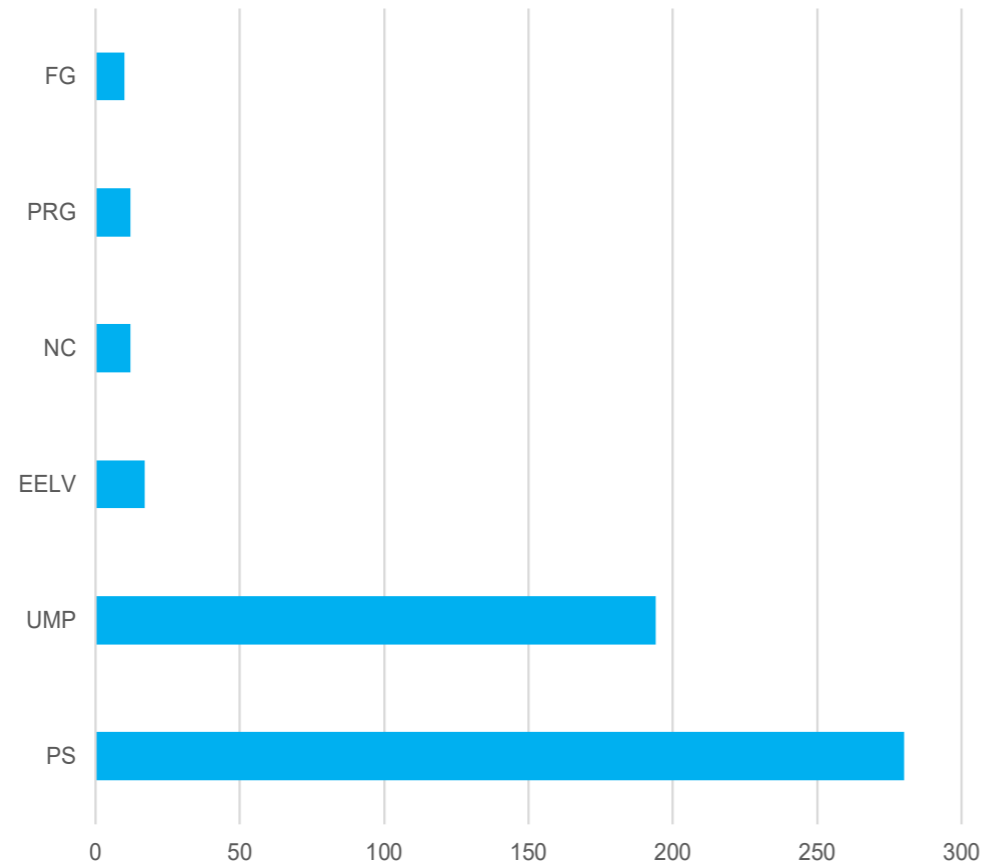
### National Assembly Political Groups.



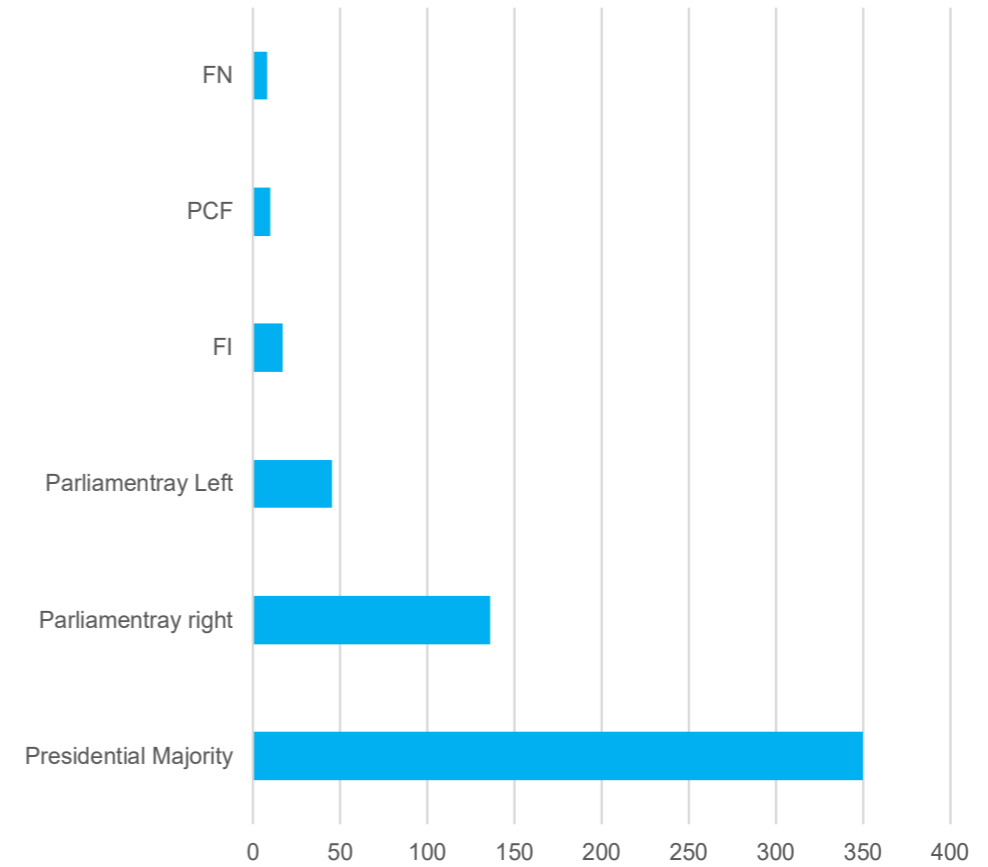
Sources : WIKIPEDIA, ADA ECONOMICS

## FRENCH PARLIAMENTARY ELECTIONS.

### 2012 Election.



### 2017 Election.



Sources: WIKIPEDIA, ADA ECONOMICS



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