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Florian Hense, Economist | florian.hense@berenberg.com | +44 20 3207 7859

FRANCE REMAINS RESILIENT AS REFORMS PAY OFF

Berenberg Macro Flash

French GDP, Q3 2019 (in %)

	qoq	yoy
Actual:	0.3	1.3
Previous:	0.3	1.4
Consensus:	0.2	1.3
Berenberg:	0.2	1.3

Everything is relative: Following upwardly revised 0.35% qoq growth in Q2, the French economy expanded by 0.26% in Q3 (see Chart 1). Despite this mild slowdown, France is still weathering global trade wars, a secular slowdown of the Chinese economy and the ongoing Brexit woes better than most other countries in Europe. Barring a major surprise, neither the UK (for which we expect 0.8% yoy for Q3) nor Germany (0.4%) or Italy (0.3%) will likely come close to the 1.3% yoy gain for French GDP in Q3.

Two reasons for the French resilience: Due to the structure of its economy – a relatively low export ratio of just 31% versus 48% for the Eurozone average, a focus on the export of less cyclical products such as food and pharmaceuticals and the 70% share of services in gross value added – France is less exposed to the global business cycle than its neighbours such as Germany. In addition, France is benefitting from good policies at home. President Emmanuel Macron's pro-growth reforms are apparently starting to pay off.

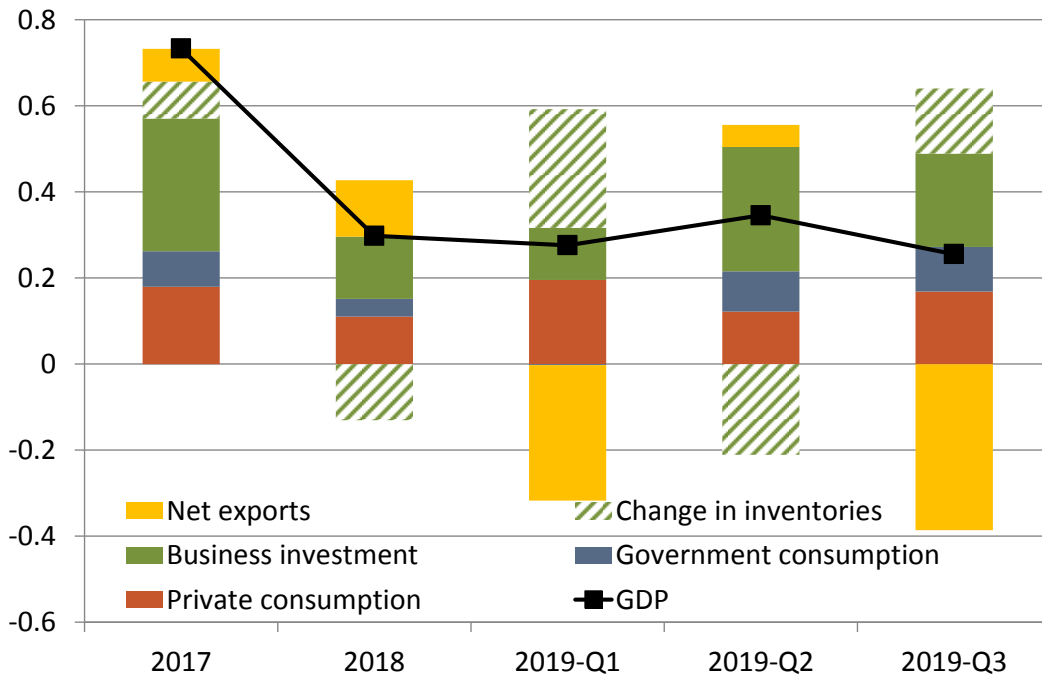
Strong domestic demand offsets drag from net trade: The expenditure details of the GDP print show that the trade-driven global economic downturn weighs on manufacturing production (-0.4% qoq after -0.5% in Q2). As imports bounced back strongly by 1.4% qoq after -0.3% in the previous quarter while exports expanded merely by 0.3% qoq in Q3, net trade shaved off 0.4ppt from GDP growth. Despite the challenging external environment, businesses continued to expand their capacities at a buoyant pace of 1.2% qoq after 1.1% in Q2. Corporate tax cuts and pro-growth structural reforms continue to boost businesses' willingness to invest and create jobs. They also drive French residents to build new companies (see Chart 2). On the back of lower oil prices and measures to boost households' purchasing power earlier this year, private consumption expanded at 0.3% qoq after 0.2% in Q2. An 0.4% qoq rise in government expenditures – unchanged from Q2 – also contributed positively to growth. In sum, final domestic demand added 0.5ppt to growth – in line with the Q2 contribution. Changes in inventories added 0.1ppt after subtracting 0.2ppt in Q2.

Going forward: For Q4, we expect GDP growth to come in slightly below the Q3 pace amid a challenging external environment. If trade tensions recede somewhat in coming months with a first US-Chinese deal, if the UK decides on an orderly Brexit from the EU and the Chinese economy does not weaken too much, which is our base case, the French economy could return to growth of 0.4% qoq in Q2 2020 and gather momentum throughout the year.



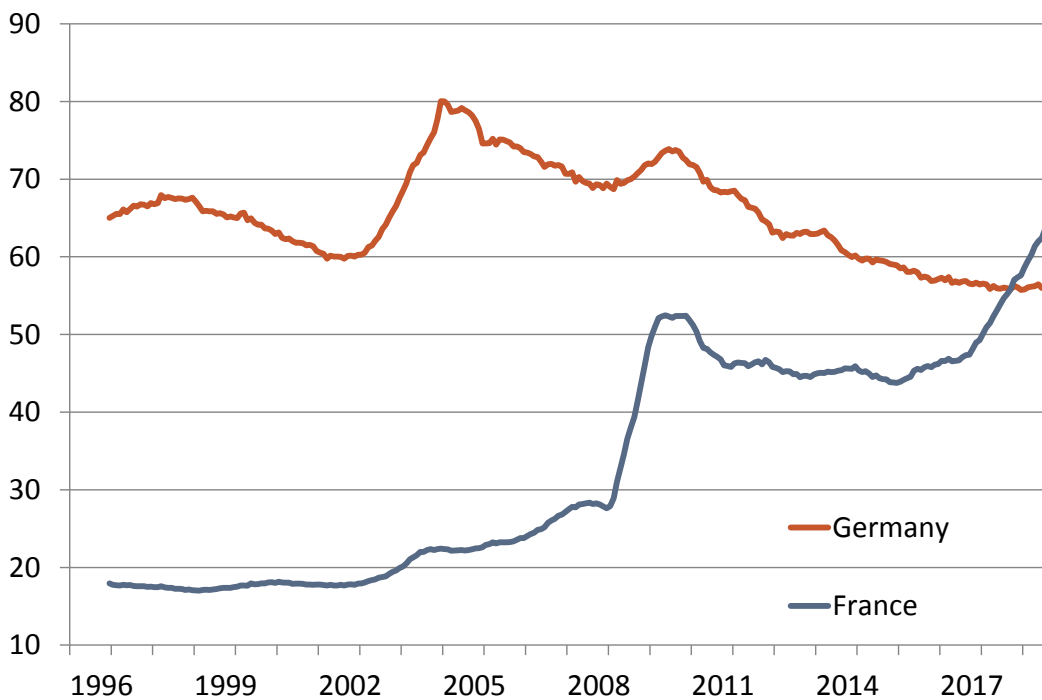
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Chart 1: French GDP growth and its contributions by expenditures



Qoq GDP growth in %, contributions in %-points. Source: INSEE, Berenberg

Chart 2: Business creations - France has the edge



In thousand, twelve-month moving average. Business creations for France, business registrations for Germany. Source: INSEE, Destatis, Berenberg



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Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com