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## MACRO NEWS

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### FRENCH ECONOMY: UPSET IN Q4, BETTER DAYS TO COME

#### Berenberg Macro Flash

##### French GDP, Q4 2019 (in %)

	qoq	yoy
<b>Actual:</b>	<b>-0.1</b>	<b>0.8</b>
Previous:	0.3	1.4
Consensus:	0.2	1.2
Berenberg:	0.1	1.1

**Weak finish to 2019:** The French economy finished 2019 on a surprisingly weak footing as real GDP declined by 0.08% qoq in Q4. It marked the first quarter of declining output since early 2016 (see Chart 1). Three factors contributed to the contraction: 1. Businesses scaled back their inventories considerably in response to less (foreign) demand throughout 2019. The stock correction subtracted 0.4ppt from the qoq rate. 2. The strikes against Macron's pension reform plans that started in early December dragged on household consumption which slowed from 0.4% qoq in Q3 to 0.2% in Q4. The contribution from consumption was probably 0.2ppt lower in Q4 than in Q3. 3. Total capital formation growth – the broadest measure of investment – slowed down significantly to 0.3% qoq after strong gains in the previous two quarters (1.3% average).

**2019 was a weak year, with strikes adding to headwind from trade tensions ... :** French growth momentum has slowed a lot over the past two years – from 2.4% in 2017 and 1.7% in 2018 to 1.25% in 2019. Similar to the trend in the rest of the Eurozone in 2019 the trade-led downturn of the economy showed up in lower net exports and increasingly a stock correction. Together they subtracted 0.6ppt from growth in 2019, that is by more than in the Eurozone overall (probably 0.5ppt). Given France's relatively low export ratio of just 31%, versus 48% for the Eurozone average, and a focus on the export of less cyclical products, we would have expected the French economy to suffer less from the downturn in the global business cycle than the Eurozone. However, the strikes in December changed that story a little. Instead of outperforming the Eurozone thanks to its domestic market-heavy economy, France experienced a sharper decline at the end of the year.

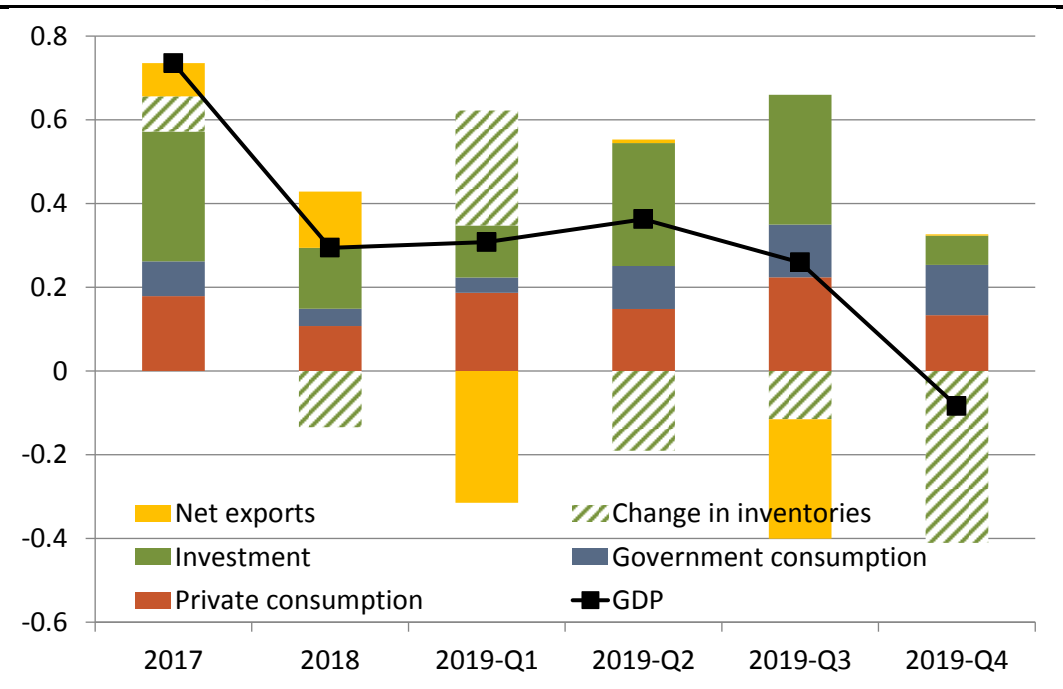
**... while domestic demand picked up:** France continues to benefit from good economic policy. Against the stable gains in final domestic demand for the Eurozone overall (1.8% in 2018 and probably 1.7% 2019), spending at home accelerated in France from 1.3% in 2018 to 1.8% in 2019. President Emmanuel Macron's tax cuts and pro-growth reforms have made France a more attractive place to do business and hire people (see Chart 2 for number of business creations). Investment, especially among businesses, rose to 3.6% in 2019 from 2.8% in 2018 while employment went up by more than 260k in the first three quarters of 2019 relative to 2018. In addition, a modest fiscal easing to boost households' disposable income helped to lift consumption throughout the last year.



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**Rebound ahead:** We expect growth to return to its potential growth rate of 0.4% qoq throughout 2020. The strikes have dwindled in January following concessions by Macron to phase in the new, universal system for pensions at an even slower rate while keeping more exceptions for some workers than initially planned. This should underpin a rebound in domestic demand from the Q4 dip while the inventory correction and the drag from trade wears off as external headwinds – trade tensions and Brexit – fade further. Continued wage gains can lift households' confidence and improve their financial situation. We thus see an upside risk to consumption in 2020. Chances are that the recent outbreak of the Corona virus will [not disrupt the positive outlook much](#).

Chart 1: French GDP growth and its contributions by expenditures

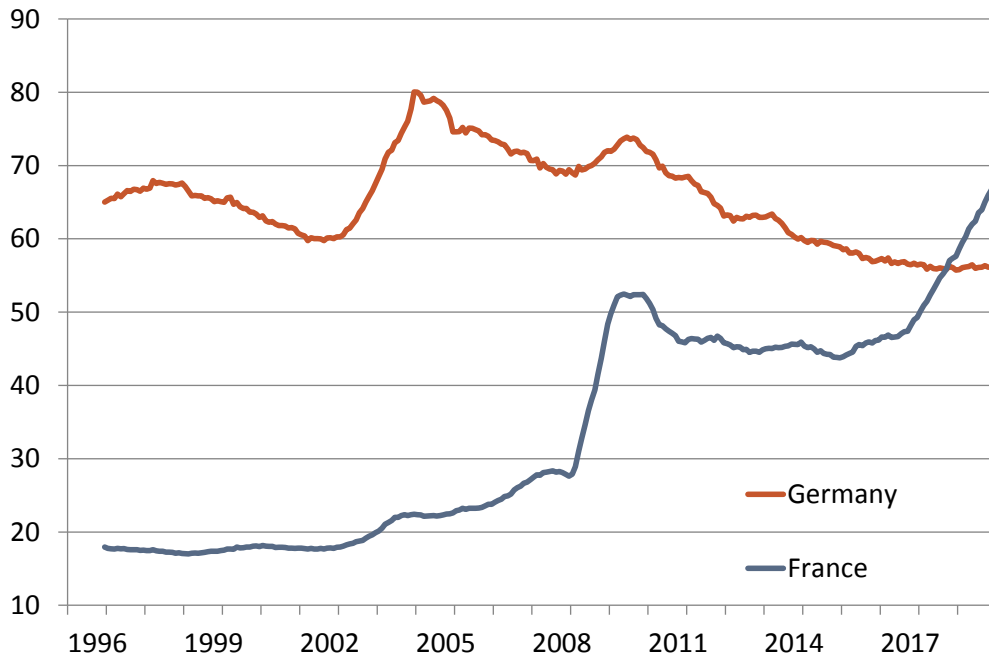


Qoq GDP growth in %, contributions in %-points. Source: INSEE, Berenberg



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**Chart 2: Business creations – France has the edge over Germany**



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

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