

France

France narrowly avoids technical recession but underlying trend remains clearly downwards

- **Year-on-year GDP growth slows to marginal pace.**
- **PMI data suggest further weakening at start of Q4.**

France posted a surprise 0.1% rise in gross domestic product in Q3, following a drop of 0.3% in Q2, therefore avoiding the technical definition of recession, according to the INSEE first estimate published 14 November. The slight increase was underpinned by consumer spending and business investment holding up better than expected.

However, the year-on-year measure of GDP growth showed further weakening, easing to just 0.6% – the slowest in over five years – leaving little doubt that the French economy remains on a downward trajectory despite the small rebound in the quarterly figure.

The annual trend followed a similar path to recent data from the Purchasing Managers' Index (PMI) surveys, which have highlighted declining activity in the private sector economy since June.

October's Composite PMI Output Index – comprising data from the manufacturing, services and construction sectors – signalled a further loss of momentum at the start of the fourth quarter and, if sustained until the end of the year, indicates that the French economy could register a year-on-year contraction in Q4 (see chart 1).

PMI data indicate that the main weakness has been centred on the manufacturing and construction sectors in recent months (see chart 2). Manufacturing production fell at the fastest pace in the survey history in October, driven by substantial reductions in new orders from both the domestic and export markets.

While services activity has yet to show similarly steep falls during the current downturn, a series-record contraction of new business in October, coupled with a marked decline in backlogs, suggests that the economy's dominant sector may not be able to stave off a deeper slump for much longer.

Chart 1: France whole economy output

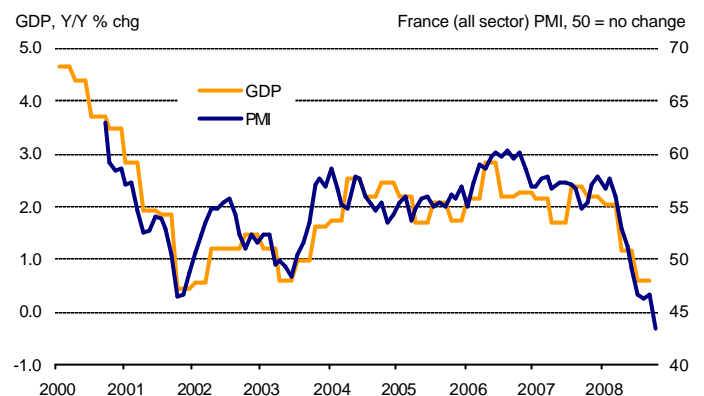
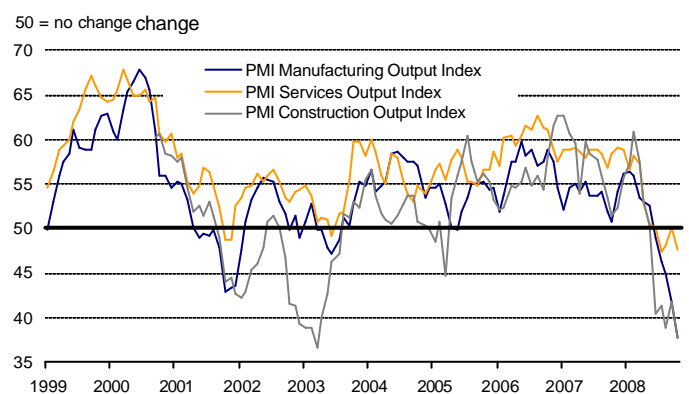


Chart 2: PMI Output Index by sector



Sources: Markit Economics, Reuters EcoWin.

The next release of PMI data for France will be the 'flash' figures for November, released 21 November. To find out how to receive data for the France PMI, please contact economics@markit.com.

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