

Flash Note

France & Spain: Q2 GDP growth

Strong performance in Q2

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France and Spain are the first of the big four euro area economies to publish Q2 GDP figures.

French real GDP rose by 0.5% q-o-q in Q2 2017, the same pace as the two previous quarters. The details showed that domestic demand remained solid, while the sharp improvement in net exports offset the fall in inventories.

Spanish real GDP expanded by 0.9% q-o-q in Q2, its fastest pace of expansion in almost two years. Today's quarterly growth was above our forecast which mechanically pushes up our yearly GDP forecast for 2017 from 2.8% to 3.1%.

For the euro area, we are keeping unchanged our GDP growth forecast at 1.9% for 2017 as a whole. We continue to see a number of headwinds leading to a modest slowdown in the pace of economic expansion for the rest of this year.

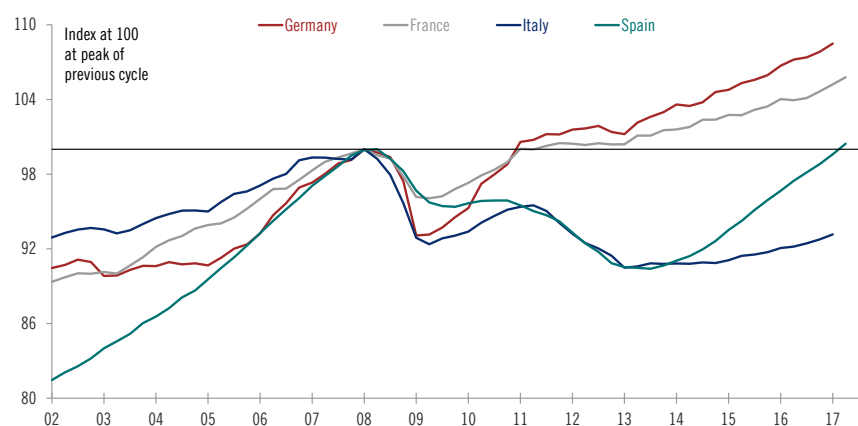
France and Spain today were the first big countries in the euro area to publish GDP growth figures for Q2 2017. According to preliminary estimates, **French real GDP expanded by 0.5% q-o-q in Q2**, the same pace as in the previous two quarters.

In Spain, GDP increased by 0.9% q-o-q in Q2, its fastest pace of expansion in almost two years. **Symbolically, Spanish real GDP now exceeds its pre-crisis level (2008) for the first time** (see Chart 1). Today's quarterly growth was above our forecast which mechanically pushes up our yearly GDP forecast for 2017 from 2.8% to 3.1%.

The relatively good performance of both countries, which account for 32% of total euro area GDP, bodes well for the euro area as a whole (Q2 GDP figure to be published on 1 August). Only France provides a breakdown of components with this preliminary estimate, but high-frequency data suggests that **growth was broad-based with an important contribution from net trade** (details for the euro area to be published on 5 September).

Overall, for the euro area, we are keeping unchanged **our GDP growth forecast at 1.9% for 2017 as a whole**. We continue to see a number of headwinds leading to a modest slowdown in the pace of economic expansion for the rest of this year.

Chart 1: real GDP by country indexed at 100 at the peak of the previous cycle



Source: Pictet WM – AA&MR, Eurostat

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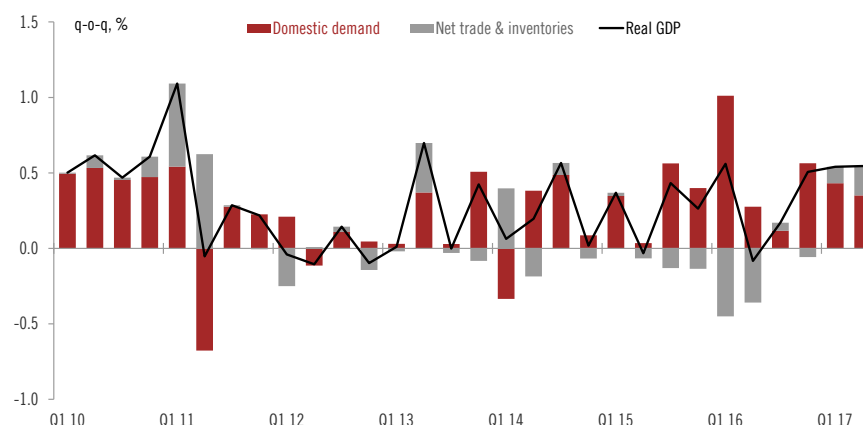
French GDP maintains its pace

In France, **real GDP expanded by 0.5% q-o-q in Q2** (2.2% q-o-q annualised), **for the third quarter in a row** and in line with consensus expectation. The year-on-year rate increased to 1.8%, from 1.1% in Q1.

The GDP breakdown – France’s is the only preliminary report that provides detailed components – showed that private consumption accelerated slightly in Q2 (+0.3% q-o-q, after +0.1% in Q1). However, the rise in private consumption was slightly disappointing, given the low base effect in Q1 as a result of slumping energy consumption (+0.5% q-o-q in Q2, after -3.2% in Q1). **Investment spending** (+0.5% q-o-q in Q2, after +1.4% in Q1) **slowed following a jump in the first quarter**, especially that of corporates (+0.5% q-o-q, after +2.1% in Q1). On the positive side, **the pace of construction capex accelerated slightly, in line with leading indicators**. Investment in manufactured goods fell back markedly after its surge in Q1. Meanwhile, public consumption increased 0.4% q-o-q, slightly faster than the 0.3% in Q1. As a result, **domestic demand** (excluding inventory changes) **contributed 0.4 points to growth in Q2**, broadly the same as in the previous quarter.

Exports rebounded (3.1% q-o-q in Q2 after -0.7% in the previous quarter), while imports significantly decelerated (0.2% q-o-q, after 1.2% in Q1). As a consequence, after having contributed negatively to growth in the previous quarter, **net trade** (exports minus imports) was a big boost in Q2, **contributing 0.8pp to the q-o-q growth**. This is its biggest contribution in more than seven years. Lastly, **changes in inventories contributed negatively to GDP growth**: -0.6 points, after +0.7 in Q1. These two numbers are linked, as a net trade surplus is often associated with stock reduction. The drag on total investment from inventories was mainly due to a strong decrease in transport equipment stocks.

Chart 2: French real GDP breakdown



Source: Pictet WM – AA&MR, Insee

Overall, **this was a solid result, showing fairly broad-based growth**. This is a welcome development for the newly elected government. The carry-over effect for 2017 reached 1.4%, meaning that even with flat GDP in the remaining two quarters of 2017, French activity would grow by 1.4% on average this year. The latest business surveys suggest that momentum in

business confidence remained strong entering the second half of the year, but point to a slight slowdown in Q3 GDP growth.

Revising up our 2017 GDP growth forecast for Spain

In Spain, the economy grew by 0.9% q-o-q in Q2, its fastest pace of expansion in almost two years. This was in line with expectations. Since the Spanish economy started its upturn in Q4 2013, quarterly growth has averaged 0.7% q-o-q.

The carry-over effect for 2017 reached 2.6%, meaning that even with flat GDP in the remaining two quarters of 2017, Spanish activity would grow by 2.6% on average this year. **Symbolically, Spanish real GDP now exceeds its pre-crisis level (2008) for the first time.**

The breakdown by expenditure is not yet available, but according to high-frequency data and Bank of Spain forecasts, domestic demand remained an important driver of growth thanks to strong employment growth fuelling demand, while net trade contribution should have remained slightly positive.

Looking ahead, the Spanish economy is likely to continue to outperform the euro area average in 2017. Today's quarterly growth was above our forecast which **mechanically pushes up our yearly GDP forecast for 2017 from 2.8% to 3.1%**. Nevertheless, we expect GDP growth to slow down slightly in the second half of the year.

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