

France

French economy buoyed by government spending and inventories in Q3

- **GDP up 0.3% in Q3**
- **Upturn driven by government spending and inventories**
- **Trade and investment act as drags on growth**

France reported 0.3% growth of gross domestic product in the third quarter, rebounding from a 0.1% decline in the second quarter, thereby avoid falling back into a technical recession.

France's performance was flattered, however, by a 0.8% jump in government spending, the largest rise since the second quarter of last year. After cutting out government spending, private sector GDP was up only a modest 0.1% in the three months to September. That was nevertheless better than the falling levels of private sector GDP seen in the first and second quarters.

The surge in government spending helps reconcile the more buoyant growth signals sent by recent GDP data with the more downbeat PMI business surveys, which only cover private sector activity.

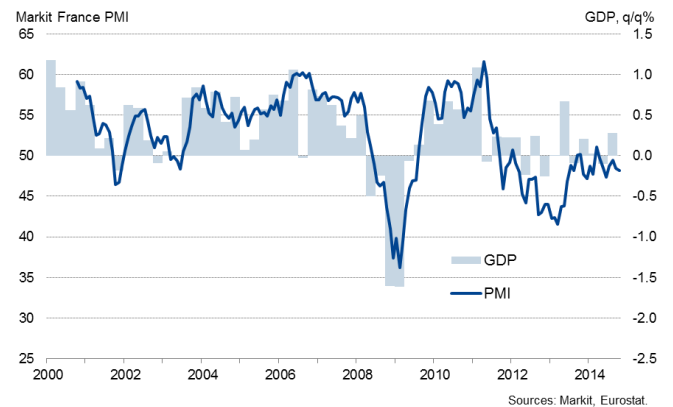
Once a 0.3% contribution from inventories to GDP in the third quarter is also taken into account, the French economy's performance suddenly looks a lot worse than indicated by the headline GDP number and more in line with the modest contraction signalled by the PMI in the third quarter.

Recession avoided by government spend

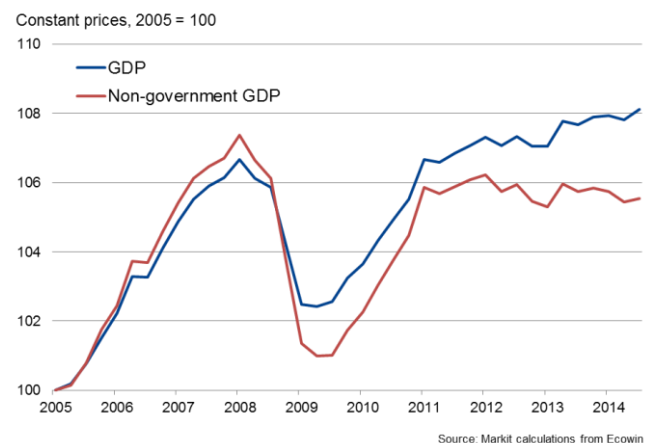
The contribution of government spending to the economic recovery in France has been essential in keeping the economy out of recession in recent years. Since the first quarter of 2011, government spending has risen 6.7%. Excluding this from GDP leaves the private sector economy down 0.3% over the same period.

Looking into the detail of the GDP report, consumer spending growth slowed from 0.3% to 0.2% and foreign trade acted as a drag on growth. Although exports rose 0.5%, imports rose a larger 1.1%.

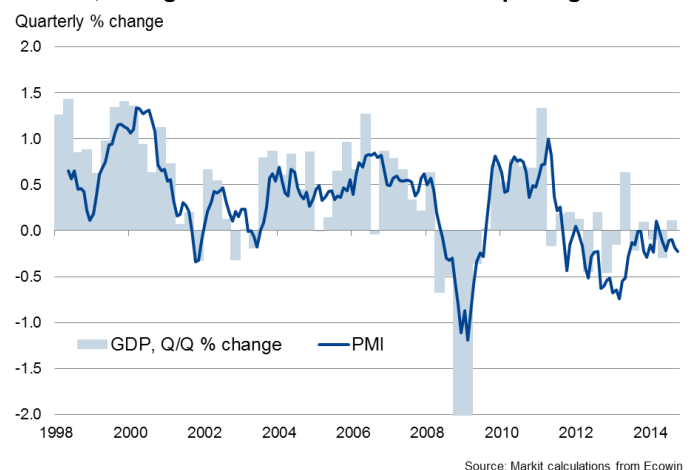
French economic growth and the PMI



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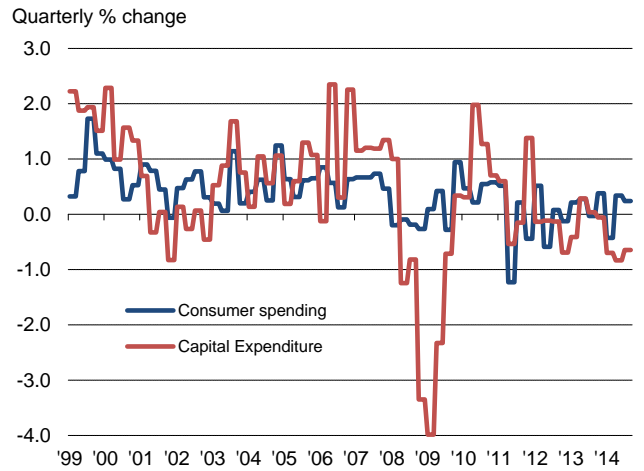


France, non-government GDP and PMI-implied growth



Perhaps the most worrying aspect of the French economy's performance in the third quarter was a 0.6% decline in capital expenditure, which follows a 0.8% decline in the second quarter and adds to worries that businesses are continuing to pull back on investment due to worries about the economic outlook.

Consumer spending and business investment



Source: Markit calculations from Ecwin.

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