France’s Economy Grew Faster Than Forecast in Third Quarter

By Mark Deen - Nov 14, 2014

The French economy grew faster than economists forecast in the third quarter as domestic demand helped it bounce back from a contraction in the previous three months.

**Gross domestic product** rose 0.3 percent in the three months through September, the most in more than a year, national statistics office Insee in Paris said today. Economists forecast growth of 0.1 percent, based on the median of 25 estimates in a Bloomberg News survey. The second quarter was revised from stagnation to a 0.1 percent contraction.

The performance indicates the 18-nation euro area received a boost from its second-biggest economy in the quarter as the European Central Bank adds stimulus to kick start expansion in the region. It also makes it more likely that President Francois Hollande’s government will achieve its full-year growth target of 0.4 percent.

“The third quarter supports the government’s growth outlook,” Finance Minister Michel Sapin said in a statement. “Growth is recovering slightly but it remains too weak to generate the jobs needed in our country.”

The remarks underline the challenges facing Hollande as he seeks to revive an economy that has barely grown since his Socialist government took power in May 2012.

**Economic Risks**

The European Commission has forecast that France’s economy will expand just 0.3 percent this year. It expects 0.8 percent expansion in the euro area. GDP in the currency bloc probably rose 0.1 percent in the third quarter, economists said in a survey before data due later this morning.

“The risk is that France is moving toward entrenched stagnation,” said Francois Cabau, an economist at Barclays Plc in London. “It’s very difficult to see where a confidence shock is going to come from that will improve the situation, and a negative shock can’t be ruled out.”

In France, with the second-highest tax burden in the euro zone and the government cutting spending, businesses are reluctant to hire or invest, stymieing growth.

Hollande is trying to simplify administrative procedures and avoid fresh tax increases to bolster
business confidence and investment. Even so, previous policies, such as a tax of 75 percent on salaries over 1 million euros ($1.24 million) and controls on rent increases, are keeping investors from taking risks in France.

**Building Slump**

Construction is the clearest example. While the government is loosening restrictions on landlords put in place after it came to power in 2012, Insee predicted last month that output from builders will fall for a third year in 2014.

Business confidence is at the lowest in more than a year and a manufacturing survey by Markit Economics has signaled contraction for the past six months.

“Chief executives are still saying they don’t see any demand, they’re still waiting,” Insee economist Laurent Clavel said last month at the publication of the agency’s latest forecasts.

The risk for France is a further slowdown in neighboring Germany or a political upset for the Socialist government’s narrow majority that could dent what is already anemic growth.

“Our baseline scenario is for growth to come back a little bit and slowly,” Clavel said. “That’s actually if all goes well. It presumes no political or economic tensions, it presumes that reforms keep advancing even if their impact will take time. It assumes no crisis.”

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