

ECONOMIC PULSE

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FRANCE : CONFIDENCE RISES IN SEPTEMBER DESPITE HIGHER INFLATION

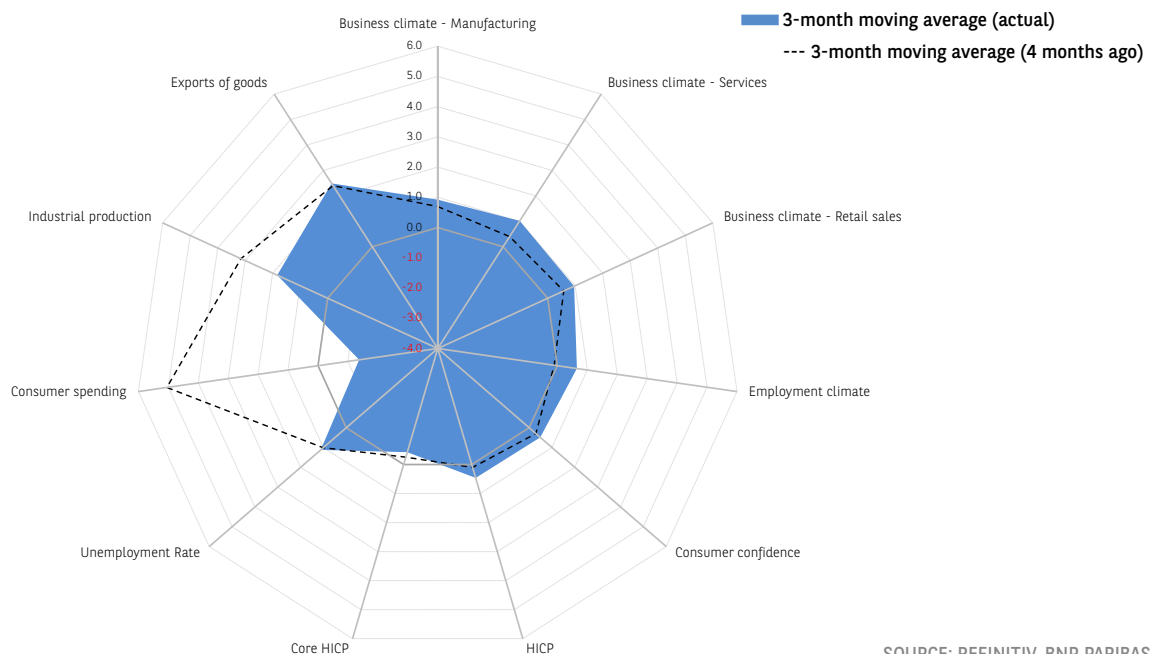
For the first time in several months, the INSEE and Markit business climate surveys did not move in the same direction in September. The INSEE composite index picked up slightly (up 1 point to 111), while the composite PMI continued to erode (down 1 point to 55). The activity component of the manufacturing PMI declined more sharply (down 3 points to 51.3) than for the services PMI (down 0.3 points to 56). Yet the survey results are still holding at a high level, and their Q3 average is higher than their Q2 average. We are still confident in our Q3 GDP growth forecast (+2.2% q/q after +1.1%).

Mixed sector details in the INSEE survey mitigate the positive signal of the headline improvement. The services index regained 1 point to 110, thanks notably to the improvement in the balance of opinions on future demand, employment and investment plans. In the building industry, business leaders expressed a little more confidence in their business prospects. In contrast, the manufacturing index declined sharply (down 4 points to 106) due to the deterioration in most of the balances of opinion, with the notable exception of a more favourable assessment of overall production prospects. This downturn is not surprising as it follows on the back of a major 9-month increase. Moreover, it bears the marks of current supply-side constraints. For the same reasons, the wholesale business climate index also declined (down 3 points to 110). The new decline in the retail index (down 3 points to 106) probably reflects a technical correction after a very strong rebound in May and June, following the end of April's lockdown. The troubles in the automobile sector are also to blame, but it would become alarming if this trend were to continue in the months ahead.

The 3-point increase in the households' confidence index in September (to 102) is the positive surprise of the past two weeks. We were expecting households' confidence to decline with the current surge in inflation. That has yet to happen. Households' confidence has improved thanks to their more positive assessment of both past and future living standards in France, and of unemployment trends. Despite this good news, we should expect a backlash in October. Inflation might not be very high, but it has risen considerably since the end of last year, with a negative impact on purchasing power. Year-on-year inflation was nil in December 2020, but by September 2021, it had risen above 2% (2.1%) for the first time in three years. What we are seeing is not a return to inflation strictly speaking (the increase in prices is neither widespread nor self-sustaining), but a relative and apparently temporary distortion of prices (the increase in the energy component alone contributed about half of inflation in September). Yet this price distortion nonetheless feeds "bad" inflation. And even though we expect them to be limited, it will have negative consequences on growth.

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QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



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