

ECONOMIC PULSE

FRANCE: DOWNSIDE RISKS TO GROWTH OUTLOOK IN THE SECOND HALF OF THE YEAR

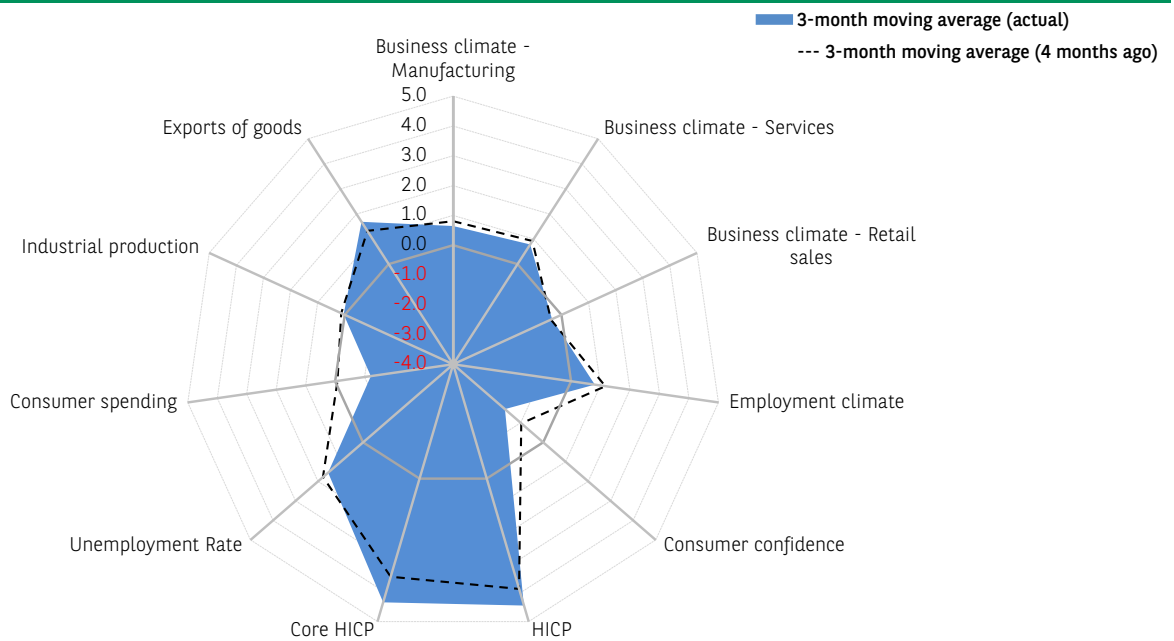
The French economy sprung a pleasant surprise in view of the headwinds that have been picking up since the start of 2022. Growth was 0.5% Q/Q during Q2, mainly due to the upturn in tourism and leisure business activity after COVID restrictions were lifted from March onwards. However, inflation continued to have an impact, as seen in the further fall in consumer purchasing power during Q2 (-1.1% Q/Q, following on from -1.6% during Q1). This inflation hit 6.1% Y/Y in July before falling back to 5.8% in August (according to the French National Institute of Statistics and Economic Studies (INSEE) national measurements). This helped the consumer confidence index to strengthen slightly, rebounding 2 points in August to 82. However, it is still down 17 points from December 2021. By the end of the year, we expect inflation to remain below the July peak, due to the increase in the discount per litre of fuel from 18 to 30 cents during September and October, in particular. This increased discount is one of the aspects of the purchasing power law passed this summer, which should help purchasing power to bounce back, +1.4% Q/Q during Q3 according to our expectations (compared with +0.1% if no purchasing power support measures had been introduced).

This positive growth in purchasing power during Q3 will be followed by an expected shock next winter, mainly due to fears about energy supplies. The first issue here is the potential shortages (in gas and electricity) and the precautionary consumption-reduction measures designed to avoid them. The second issue revolves around prices and rising energy bills. Households are protected by a tariff freeze that fixes regulated gas and electricity tariffs until December. A cap will remain in place in 2023 according to the government, but the size of the price increase at the start of 2023 is still unknown. Companies are already facing price increases when their previous electricity-supply contracts come to an end and they have to take out new ones, which has led some to announce short-time working from this autumn in order to reduce their costs.

All of these aspects will quickly hamper French growth. And as this is a common problem across the rest of the European Union, exports will also be affected. In addition, there are vulnerabilities in the French economy as we approach this period. The first vulnerability is driven by France's electricity production, which fell by 10.4% Y/Y during the first half of the year. The second vulnerability revolves around droughts, which has likely worsened the problem, while also negatively impacting crop production, which is pushing food prices upwards (expected to hit +10.8% Y/Y at the end of the year). The third vulnerability is linked to an increase in the inventories in the manufacturing sector, against a backdrop of declining demand. Inventories are now equivalent to 68 days of turnover, according to our calculation, which is higher than usual levels (60 days). In order to reduce this high level, there is an increased risk of a drop in production. With all of these aspects in mind, we are expecting a 0.2% Q/Q contraction in GDP during Q3, with the INSEE expecting growth of 0.2% Q/Q and the Bank of France anticipating growth of around 0.3% Q/Q.

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FRANCE: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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 +5. 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.

