

ECONOMIC PULSE

FRANCE: ECONOMIC DATA IS MORE MIXED THAN BAD

The latest economic data from INSEE have provided detail on the timing and scale of the purchasing power shock to household consumption, with three figures standing out: the 1.8% q/q fall in the purchasing power of gross disposable income over the first quarter; the revised fall of 1.5% q/q in household consumption (from -1.3% in the initial estimate); and the downgrade in GDP growth to -0.2% q/q, from 0% in the initial estimate.

INSEE's latest economic surveys of households have indicated a relative return to normal, following an over-reaction. The sharp rise in energy prices in March (9% m/m for the 'energy' component of the consumer price index) produced a shock that was visible in the drop in consumption of goods (-1.4% m/m in March), and in the record level of the balance of household opinions on the prospects for price increases (+40 in March). This figure then fell back to 24 in April and 9 in May.

Since then, energy price increases have continued to feed through into the prices of other goods and services. This is likely to continue, and inflation will thus continue to rise (6.5% in September on our estimates, from 5.2% in May). However, the scale of the monthly consumer price increase is no longer what it was in March: 1.4% m/m in March (1% when seasonally adjusted), 0.4% in April (0.5% seasonally adjusted) and 0.6% in May.

The prospect of inflation rising increasingly high, but whose acceleration will be smoothed over time, does not augur well for consumption, which will be constrained over time. But the major share of the drop may already be behind us (the decrease in household consumption of goods was 'only' 0.4% in April). The INSEE retail survey even showed a rebound in the business climate in May, whilst the confidence index in the accommodation and catering sector has reached a very high level (121 in May, from a long-term average of 100).

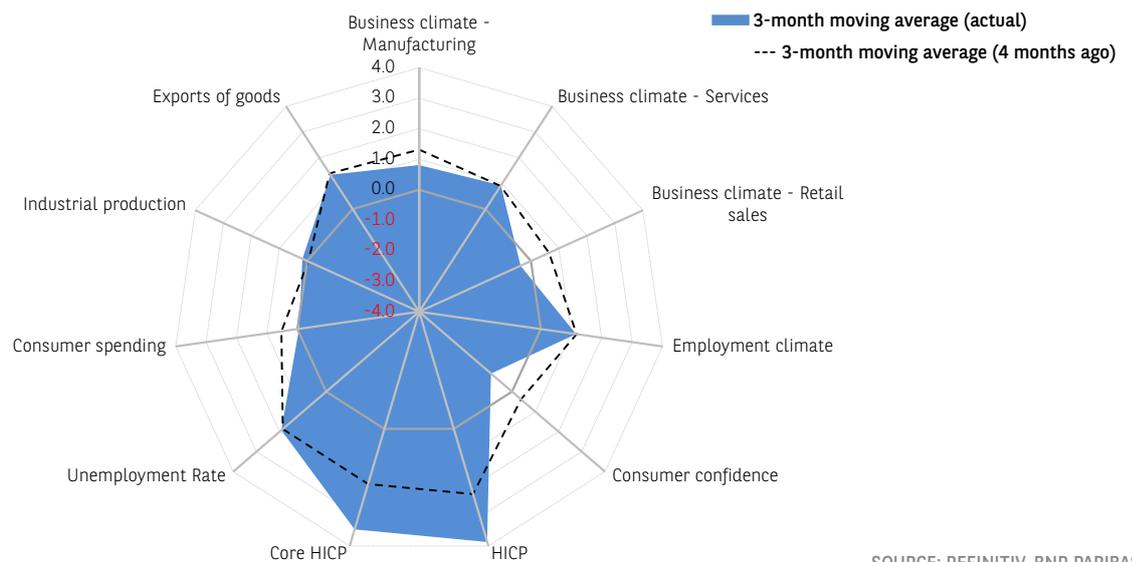
This improvement came largely thanks to the ending of Covid-19 health restrictions, which were mostly removed in February. The second quarter of 2022 will therefore be the first time the sector has operated without health restrictions for nearly two years, an effect that should boost French GDP in the second quarter.

More broadly, the reopening of European economies will have a positive effect on tourism, where depressed activity levels significantly dented French exports and whose recovery is therefore likely to support GDP growth. Thus we estimate that net exports (exports less imports) will contribute nearly half a point to GDP growth in 2022.

Regarding the second quarter, these positive factors are likely to offset the continued negative impact of inflation on growth, to the extent that we expect zero growth (rather than the negative growth in the first quarter), before a slight rebound (0.3% q/q) in the third quarter.

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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 +4. 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.

