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FRENCH TRADE BALANCE: 2023 REVIEW AND 2024-2025 PROJECTIONS

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The improvement in the trade deficit in 2023 – EUR 99 billion compared to 162 billion in 2022 according to French customs – can be explained by the end of one-off impacts, in particular with the upturn in national electricity production.

This deficit structurally reflects the country's strong dependence on hydrocarbons and a significant imbalance on trade in manufactured goods. New investment and electrification needs have exacerbated this imbalance for just over five years, in addition to the effects of deindustrialisation.

For 2024, we expect a slight reduction in the trade deficit, to EUR 95 billion, driven by a slowdown in investment and imports of intermediate goods at least in the first half of the year.

In 2025, a year that is expected to be marked by a return to more significant growth in France, the trade deficit could once again exceed the symbolic threshold of EUR 100 billion.

FRANCE: CONTRIBUTIONS TO TRADE BALANCE CHANGES BETWEEN 2022 AND 2023 (EUR BN)

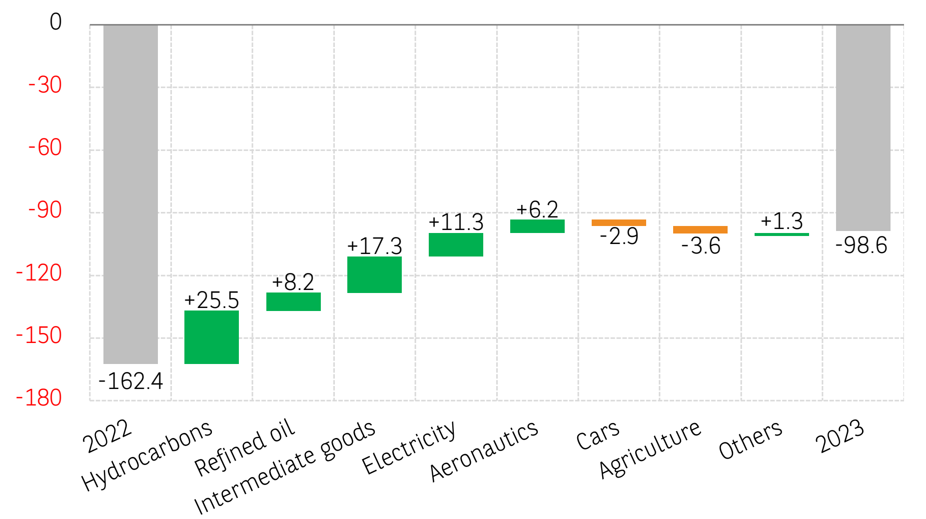

CHART 1

SOURCE: FRENCH CUSTOMS, BNP PARIBAS CALCULATIONS

In terms of the trade balance, 2023 largely unwound the problems of 2022, which, with its burdens and shocks, constituted an annus horribilis for French foreign trade. In 2023, the oil price partly fell, France's electricity production was back to surplus and the country did not have any strikes in its oil refineries. The need for intermediate goods was less than in 2022 (the shortages were at that time mitigated by a sharp increase in purchases). All these factors, with the rebuilding of the aeronautics sector trade surplus (at a level close to that of 2019), made it possible to significantly reduce the French trade balance deficit (*Chart 1*).

Reduce, but not mitigate. Deficits linked to crude and refined hydrocarbons (EUR 69 billion) and manufactured goods (EUR 54 billion) remained considerable. While the former depends on oil prices (which France does not control, and which should stabilise in 2024 according to our forecasts), the second has risen in recent years due to new factors.

Investment and electrification: two new drivers of the French trade deficit

From 2007, the trade balance for manufactured goods in France first deteriorated at the pace of the country's deindustrialisation and the decline in industrial production capacities[1]. Thus, in 2016, the deficit in manufactured goods reached EUR 32 billion. At the end of a period when deindustrialisation seemed to have been halted, it did not change much until 2019 (EUR 36 billion). In 2023, however, it stood at EUR 54 billion.

1 See S. Colliac, "French industry: a challenge of scale", EcoFlash, no. 22-01 2022

The Covid-19 period was marked by a number of disruptions, the most obvious of which affected economic activity with very high growth volatility. Other disruptions are more structural in nature. The European Next Generation EU plan and its French version (France Relance, and more recently France 2030) provide for significant new financing, in particular to accelerate the economy's adaptation to climate change. In France, this allowed the investment momentum given during the pre-Covid period, from 2016 to continue (due to low interest rates and tax incentives, after several years of under-investment). However, this increased investment resulted in an increase in capital goods imports. As a result of the Covid-19 pandemic, more incentives (including an environmental bonus) have prompted consumers to buy more electric vehicles, which are also largely produced abroad.

These two dynamics, in terms of capital goods and car fleet electrification, explain almost 80% of the deterioration in the balance of trade deficit for manufactured goods between 2019 and 2023 (*Chart 2*).

With the rise of the electric vehicle and its inputs, the automotive trade balance (vehicles and car suppliers combined) deteriorated by EUR 8.5 billion between 2019 and 2023. However, any progress towards more electric vehicles will be accompanied by an increase in these sectoral deficits. Indeed, while the ecological bonus has been revised to further penalise vehicles imported from far away (carbon cost of transport) and produced with carbon electricity, this tightening does not affect those manufactured in the European Union. However, while China's ramp-up has been much talked about, France's bilateral sectoral deficit with this country increased from EUR 1.1 billion in 2022 to 2.9 billion in 2023, while that with Germany rose from 2.4 billion to 5.9 billion (particularly after the opening of the Tesla plant in Berlin in September 2022).

The other major deterioration relates to the structural increase in capital goods imports, which led to an increase of the deficit on this item: it oscillated between EUR 20 and 25 billion per year until 2016 and has increased since then to reach EUR 39 billion in 2023. Of course, corporate investment stalled at the end of 2023 and deteriorated underlying drivers (high interest rates, lacklustre demand) suggest that this will still be the case in the first half of 2024, which will dampen capital goods imports. However, the continuation of substantial support with France 2030 and France Green Industry (including the launch of the tax credit for investments in green industry, C3IV) suggests a recovery in investment momentum and, with it, a deterioration in the deficit on capital goods.

In the second half of 2023 and the first half of 2024, the poor economic situation is mitigating the external deficit

A notable reduction in the trade in intermediate goods has been observed in recent months, an item for which France has a deficit. The decrease in trade is therefore reducing the overall trade deficit. However, this is also a negative leading indicator in terms of the economic situation.

Indeed, the scale of imports of inputs for other sectors (intermediate goods) can enable to anticipate the evolution of industrial production. When, as in 2022, input shortages prevented many companies from fulfilling their order books, they had to import much more, when possible. This increase in imports could therefore suggest that production would follow suit. Subsequently, when the backlog was filled, imports of inputs normalised, which is a precursor to slower production growth.

In terms of volume, imports of "other industrial products" (according to the national accounts definition, which includes intermediate goods) returned to their level of the fourth quarter of 2019 in the fourth quarter of 2023 (*Chart 3*), a low level, as GDP growth reached -0.4% q/q at the time. In addition, inventories changes (also according to the national accounts definition) contributed negatively, in cumulative terms, by 1 point for French growth in the third and fourth quarters of 2023. The breakdown of these changes in value (statistics not available in terms of volume) shows that nearly half of this negative contribution could have been explained by intermediate goods. The reduction in imports of this type of goods could explain this decrease.

Trade balance data from January 2024 suggests that imports continued to contract. Supply pressures could reappear due to the Red Sea situation. While at least a transient impact is likely, the PMI survey's delivery times indicators have not deteriorated as much as in 2022.

Less dynamic imports of intermediate goods would be consistent with very moderate growth of the French economy, at the beginning of 2024.

While the effect of reducing the trade in intermediate goods is to reduce the French trade deficit, something is also happening on the export side, particularly in relation to Germany.

FRANCE: DECOMPOSITION OF MANUFACTURED GOODS BALANCE (EUR BN)

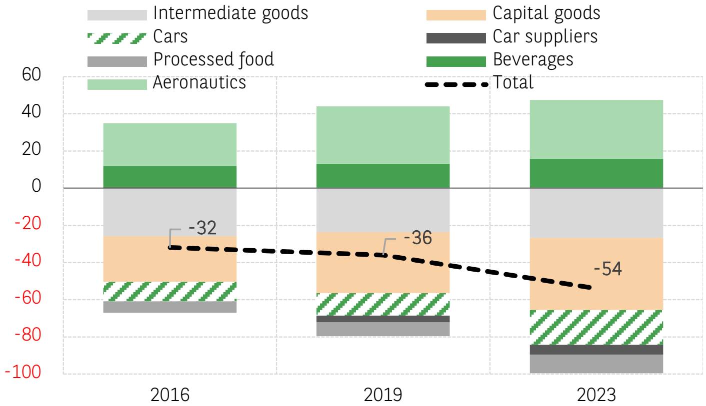

CHART 2 SOURCE: FRENCH CUSTOMS, BNP PARIBAS CALCULATIONS

FRANCE: IMPORTS OF OTHER INDUSTRIAL GOODS IN VOLUME (EUR BN)

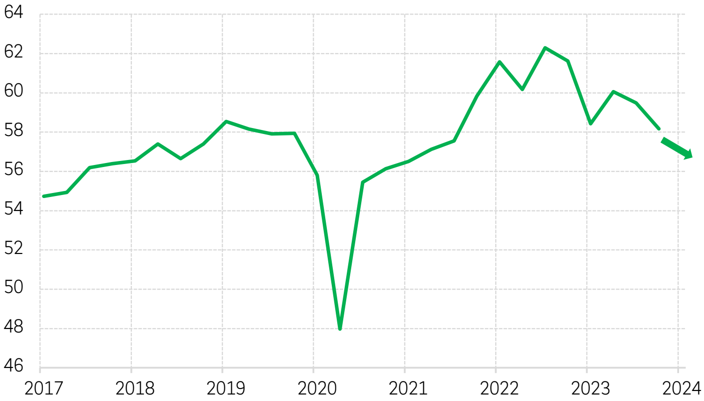

CHART 3 SOURCE: INSEE, BNP PARIBAS CALCULATIONS

The German economy stagnated with growth of -0.1% in 2023 and this is expected to remain at zero in 2024. The French economy is exposed to this via two channels: the fact that German consumers are buying fewer finished products (particularly French), and the drop in French inputs incorporated into German industry. The trend of French exports to Germany suggests that this second risk already started to materialise in 2023. Although the fall in these exports was, overall, only EUR 250 million in 2023 compared to 2022, this hides an increase of almost EUR 2 billion in the first half of the year, and a loss slightly higher in the second, against a backdrop of contraction in German GDP (-0.3% q/q in the fourth quarter of 2023). Intermediate goods accounted for the main declines in French exports to Germany (*Chart 4)*, particularly inputs of the chemical industry, as well as those used mainly in the automotive sector (electronic components) or also in construction (plastics, metals). This reflects the weakness of German industrial production, which is particularly noticeable in the chemical or automotive sectors, while activity in the construction sector is also suffering a marked decline.

What should we expect for 2024 and what is the outlook for 2025?

In 2024, assuming a stabilisation of the oil price, few changes are to be expected with regard to the French energy balance. Regarding manufactured goods, the improvement in the deficit for intermediate goods and the stabilisation of capital goods imports envisaged in the first half of the year (linked to the transitional fall in corporate investment) would allow a slight improvement in the trade balance to EUR 95 billion (despite a deterioration in the balance for the automotive sector, which seems to be continuing).

For 2025, our scenario anticipates both a return to French GDP growth (1.4% after a forecast of 0.7% in 2024) and a rebound in corporate investment (+1.1% in 2025 after -0.7% in 2024), two factors that should boost French imports of intermediate goods and capital goods. As a result, the trade deficit could once again exceed the symbolic threshold of EUR 100 billion, which would not be prevented by the foreseeable increase in aeronautical exports, insofar as they require imported inputs, which mitigates the increase in the surplus for the aeronautical industry, as was the case in 2023 in particular (*Chart 1*).

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FRANCE: CHANGE IN EXPORTS TO GERMANY, 2023 VS. 2022 (EUR BN)

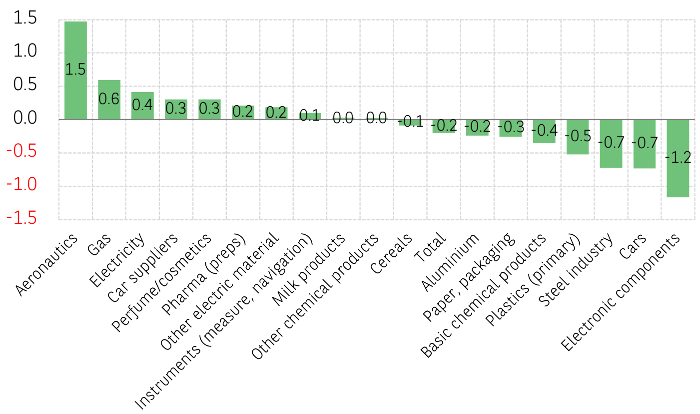

CHART 4 SOURCE: FRENCH CUSTOMS, BNP PARIBAS CALCULATIONS

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