

# ECONOMIC PULSE

## FRANCE: DECLINE IN ACTIVITY INDICATORS IN OCTOBER

The first indicators available for October, both for household consumption and for industrial production, suggest that GDP growth would have entered into negative territory at the start of the fourth quarter. Our scenario is based on -0.3% q/q.

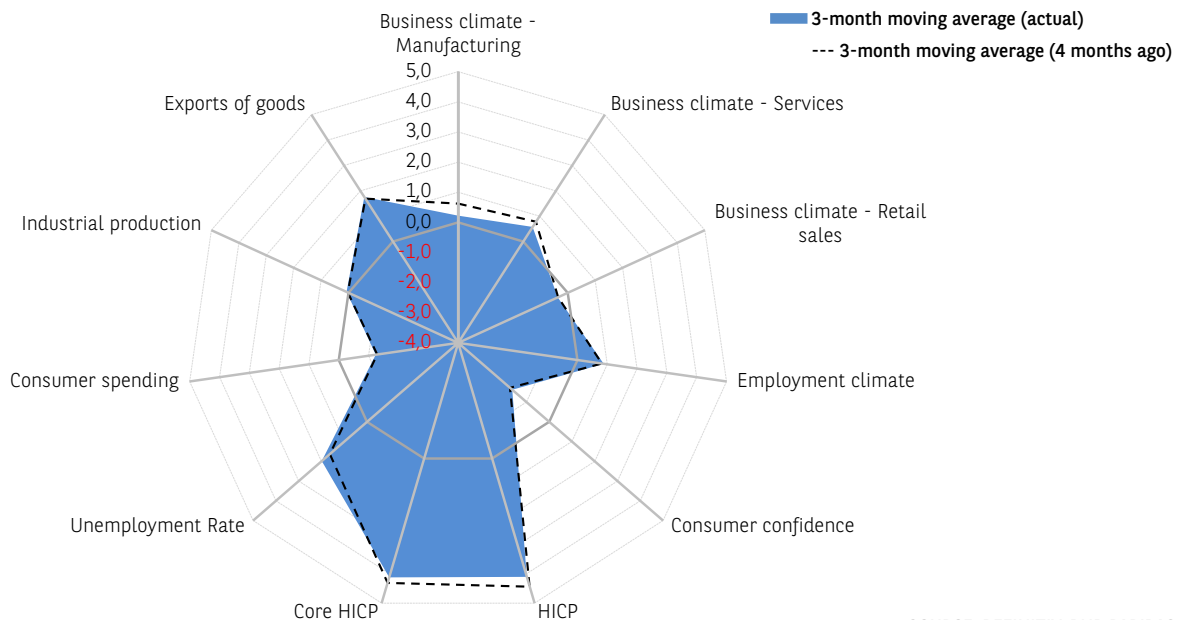
Household consumption fell 2.8% m/m in October, penalised by the acceleration of inflation, particularly in food. This negative effect was compounded by the impact of fuel shortages, which reduced the presence of consumers in shopping centres in the middle of the month. Finally, two-thirds of the very sharp drop in energy consumption (energy, water and waste items) of 10.2% m/m could be explained by real savings efforts [according to French electricity transmission network (RTE) estimates] and almost a third of it by the very mild climate in October. These efforts seem to have continued in November according to RTE data. The INSEE survey on the business climate in retail trade in November indicates a rebound in sales following the end of fuel shortages: a rebound which should nevertheless remain relative given the dynamics of inflation, which is expected to accelerate to almost 7% at the beginning of 2023 (compared to 6.2% y/y in November).

The fall in energy consumption is reflected in the decline in energy production (-6.9% m/m in October). This evolution is seasonally adjusted: it underlines the fact that nuclear-based production has remained well below its usual increase in early autumn. RTE data suggests that the gap with non-seasonally adjusted numbers rather increased in November. The decrease in this production contributed to the 2.6% m/m decline in industrial production in October, which is also explained by the significant drop in manufacturing production (-2%). This deterioration comes after the high levels of production observed in August and September. A production effort seems to have been made before the winter in order to release a surplus intended to be partly stored (inventories contributed 0.3pp to the growth of GDP in the 3rd quarter). High inventory levels would allow for a subsequent slowdown in the production. The weakening of the indicator concerning recent production in the INSEE business climate survey (whether in industry, construction or even services) in November supports this. Overall, industrial production may have fallen by 3% in the fourth quarter q/q according to our estimates.

All these elements show a French economy that is preparing for winter, and to face both the risk of potential energy shortages and subsequent price shocks. Companies are already experiencing this price increase and households will be exposed to it with the rise of regulated gas and electricity prices by 15% respectively in January and February. This anticipation involves lower spending that should further increase household savings rates. The latter could reach almost 18% in the fourth quarter, according to our forecasts. This rate should be among the highest since the French economy erased the Covid-19-related GDP loss in Q3 2021. The data published for October support our scenario of negative growth (-0.3%) in the fourth quarter. In its estimate published on 8 December, the Banque de France anticipates a growth of +0.1% while in its economic outlook update of 6 October, the INSEE expected stagnation.

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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.

