FRANCE

MOVING TOWARDS RECOVERY

Just as in 2022 and 2023, the French economy got off to a weak start this year and is expected to see its growth accelerate in Q2. Although not in the same way as in previous years, headwinds affected the French economy in Q1 2024. Beyond this purely cyclical upturn, in order to return to more durable growth, we will need to wait for the return of French consumers, which we also expect to see in Q2. And lastly, corporate investment should once again bolster French growth, with the implementation of the France Green Industry plan in particular.

During the second half of last year, the French economy had just experienced six months of stagnation, following another period of stagnation at the turn of 2022-2023. The latter had been followed by a significant rebound (growth of 0.6% q/q in Q2 2023), but this was short-lived. Will it be different this time round? The answer is not that simple because, for the first time, there was no growth support from domestic demand items in Q4 2023: household consumption stagnated and corporate and household investment declined. Our scenario for 2024 envisages a gradual improvement, in Q2 rather than in Q1. Will we have to get used to seeing the French economy start slowly in Q1 and then pick up from Q2 onwards?

Q1: ANOTHER MISSED START

2024 may well have got off to a modest start too. Q1 2022 had suffered from the sudden acceleration of the inflationary crisis and from health restrictions linked to the Omicron variant, while the start of 2023 was affected by the risk of energy shortages. What will happen in 2024?

Several negative factors are at work: attacks on vessels in the Red Sea that disrupted supplies, further closures of automotive plants and a drop in production. At the same time, the further decline in imports of intermediate goods in January (French customs figures) does not bode well for an immediate return to GDP growth. Public finances were probably a factor too. At the same time, household consumption once again underperformed in Q1. In fact, even though inflation fell sharply (2.4% y/y in March according to the harmonised index, compared to 5.7% y/y in September 2023), the rise in the cost of services (insurance, transport), along with the partial withdrawal of the energy cap, affected household confidence in Q1, whose consumption of goods was eroded over January-February.

Alongside the energy cap, other support measures were removed (i.e., green bonus for company car fleets) or came into force belatedly (revamping of green bonus for private individuals' car purchase). Added to all this is maintenance of oil refineries, which required longer than usual shutdowns in Q1 2024. And lastly, activity in the building sector was affected by the cold weather in January. The balance of opinion on activity in new housing reached -37 in January, -39 in February, before recovering to -31 in March (INSEE business climate survey in the building industry).

Q2 2024: THE RETURN OF GROWTH?

It is likely that French companies did not achieve the levels of production they wanted in Q1 and that they might manage this in Q2 2024.

Moreover, demand is expected to return, with the dissipation of the last residual inflationary pockets still noticeable in Q1. At the same time, despite significant cumulative inflation (12% since autumn 2021, of which 21% on food or 6.5% on manufactured goods), prices stabilised for a significant share of household consumption. Prices of manufactured goods only increased by 0.1% y/y in March, and could quickly move into negative territory (production prices fell by 5.5% y/y in February 2024).

An uptick in households' willingness to spend could therefore result from price drops, particularly on typical everyday products (food) or more exceptional purchases, such as a car. What might trigger this kind of price cut? For cars, the price increase in the past (11% since autumn 2021) ultimately impacted demand, which should encourage manufacturers to lower their prices against the backdrop of cheaper new models (e-C3, R5 EV) and/or an additional green bonus (on top of what the government is proposing). Also, the adoption of more stringent criteria in terms of electrification of company fleets (financial penalties, which are being discussed in the National Assembly, would apply from 2024) could also bolster demand.

GROWTH & INFLATION

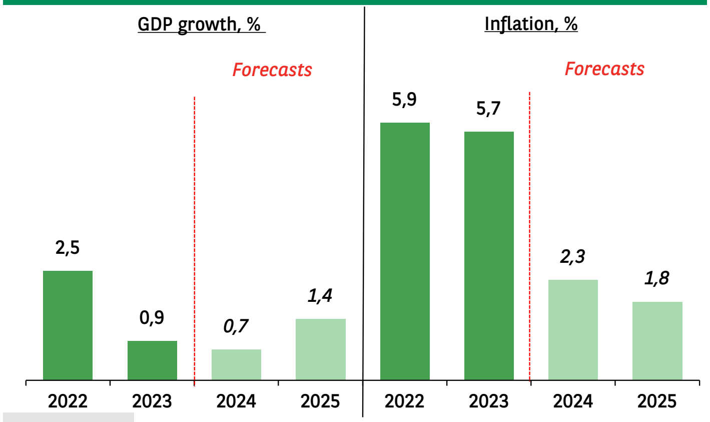

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

FOLLOWED BY: IMPLEMENTATIONS OF PLANS

France has been developing an industrial policy for several years now: corporate investment has benefited from tax incentives (extra depreciation measure in 2016), followed by aid from the Covid-19 period onwards (France Relance recovery plan). Alongside the France 2030 investment plan, the new France Green Industry Investment plan is expected to provide a new boost, with the entry into force in March 2024 of the new tax credit for investments in green industries (C3IV). In addition, the impact of the monetary tightening implemented by the ECB in 2022-23 is expected to ease. As a result, after a more negative period for corporate investment (which started in Q4 2023, -0.9% q/q), this investment is expected to rebound in 2024.

Overall, 2024 should therefore see the return of two important pillars of French growth (household consumption and corporate investment), and herald an even better 2025 (with a growth forecast of 1.4%).

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