FRANCE

SERVICES DRIVE GROWTH

Inflation and rising interest rates have resulted in the landing of domestic demand in the private sector overall (households and companies), without preventing French growth from maintaining a moderate pace (1.1% in 2023, 1.2% in 2024 according to our estimates), as a result of a drop in imports and therefore a positive contribution from net exports. Growth was also driven by service output (investment by companies in information and communications is even expected to overtake construction soon). This support is expected to drive stable overall growth in 2025, at 1.2%.

According to our estimates, French growth is expected to continue in 2024. This is paradoxical, given that household and corporate investment is falling, while growth in consumption should remain as modest in 2024 as in 2023, despite falling inflation and the one-off favourable effect of the Olympic Games. Nevertheless, growth has continued at a moderate pace (1.2% expected in 2024, after 1.1% in 2023). From a demand point of view, this can be explained by a strong positive contribution from foreign trade (estimated at 1.1 points), firstly, because France is importing less (positive impact of falling domestic demand, largely satisfied by imports) and, secondly, due to the rebound of two of its main trade surpluses (aviation and electricity). As for supply, service output alone can explain growth, while construction is declining sharply and industry more moderately.

GROWTH EXPECTED TO REMAIN CLOSE TO CURRENT PACE

H1 2024 was marked by stable household consumption volumes, even though their nominal gross disposable income (GDI) remained strong. It should even increase by 4.3% in 2024, according to our estimates. As a result, with disinflation now quite clear (2.2% y/y in August 2024, compared to 5.7% a year earlier, according to the harmonised index), household purchasing power (real GDI) should have increased by 1.5% in 2024 according to our estimates. An increase in real GDI which, combined with the sluggishness of consumption, has favoured a rise in the savings rate (17.9% of GDI in Q2).

A restraint in spending that has had an unexpected impact: French foreign trade saw a surplus in terms of volume, in the national quarterly accounts. Imports of goods and services have fallen below exports since Q4 2023, and the surplus has only increased since then to nearly EUR 3 billion in Q2 2024. This might be surprising, as there is a big difference with figures for the trade balance on goods as calculated by Customs (deficit of EUR 80 billion in 2024 according to our forecasts). But this figure is in terms of value and does not include services. The price effect is unfavourable, something we see whenever energy prices are high (which is currently the case, despite the recent drop in energy prices). The surplus on services, on the other hand, has changed little when measured in volume. Good news therefore came from goods, with mainly declines in imports of other industrial products (textiles, home and personal care) and capital goods. These decreases reflect both a phenomenon of deconsumption on goods (-4% compared to the end of 2021), linked to inflation and persisting despite ongoing disinflation, and the 4% y/y drop in tangible investment (goods and construction) by non-financial corporates (NFC). At the same time, the upturn in aviation and electricity exports has helped to restore balance for these two items.

Overall, this trade surplus in volume is expected to help growth remain close to 1%, as was the case, on average, between 2013 and 2015, the last period when the sluggishness of domestic demand had translated into a surplus of the same order. Hence a growth forecast of 1.2% once again in 2025.

GROWTH AND INFLATION

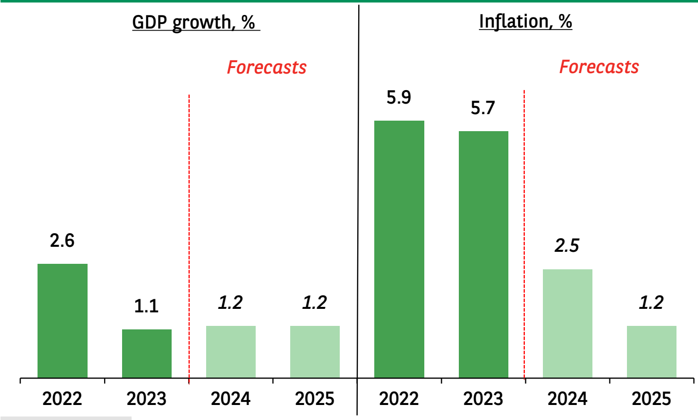

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

SOFTWARE TO TAKE THE LEAD OVER CONSTRUCTION

The financial situation of companies has been deteriorating for the past year, admittedly from a good starting point. While their value added has stabilised, the increase in labour costs (directly through wages and social contribution, indirectly through production taxes on the wage bill) explains the drop to 30.8% in Q2 2024 in their margin rate (versus 33.3% a year ago), compared to an average level since 2010 of 31.1%. The sharp slowdown in nominal value added and pressure on margins should prompt companies to be more conservative in terms of hiring (with a foreseeable stabilisation of employment, while high job creation still prevailed in Q1) and wages (gross monthly salary should increase from 2.8% in 2024 and 1.6% in 2025, according to our forecasts).

At the same time, the rise in net interest expenses for companies has reduced their gross savings, which, in Q2, only represented 80% of their investment (compared to a ratio close to 100% for most of the last 10 years). The result is a record potential financing need excluding changes in inventories in Q2 (nearly EUR 7 billion, i.e., 6% of their gross operating surplus, GOS), which companies were able to reduce (to 3 billion, i.e., 2.7% of their GOS), precisely by destocking. We estimate that this destocking should remove nearly 0.6 points from French growth this year, after already -0.4 points in 2023.

If a financing need has arisen, this is also because corporate investment has only partially decreased. While tangible investment has contracted by 4%, intangible investment is up 2.7% y/y (a well-established trend for nearly 10 years). Symbolically, NFC' investment in software (information & communication, EUR 19.7 billion in Q2 2024) is expected to quickly exceed their investment in construction (down to 19.8 billion in Q2), which had so far been their principal expenditure item. A transition to services, which is also noticeable in household consumption, and which should continue to drive growth in 2025.

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