

Sluggish growth rather than recession?

According to Insee, the business climate in the French manufacturing industry was stable over the last few months. Deterioration was seen in services, albeit gradual, with the index sliding from 107 in August to 104 in December, before climbing back up to 106 in February. This picture is in keeping with a slower pace of growth, while avoiding recession.

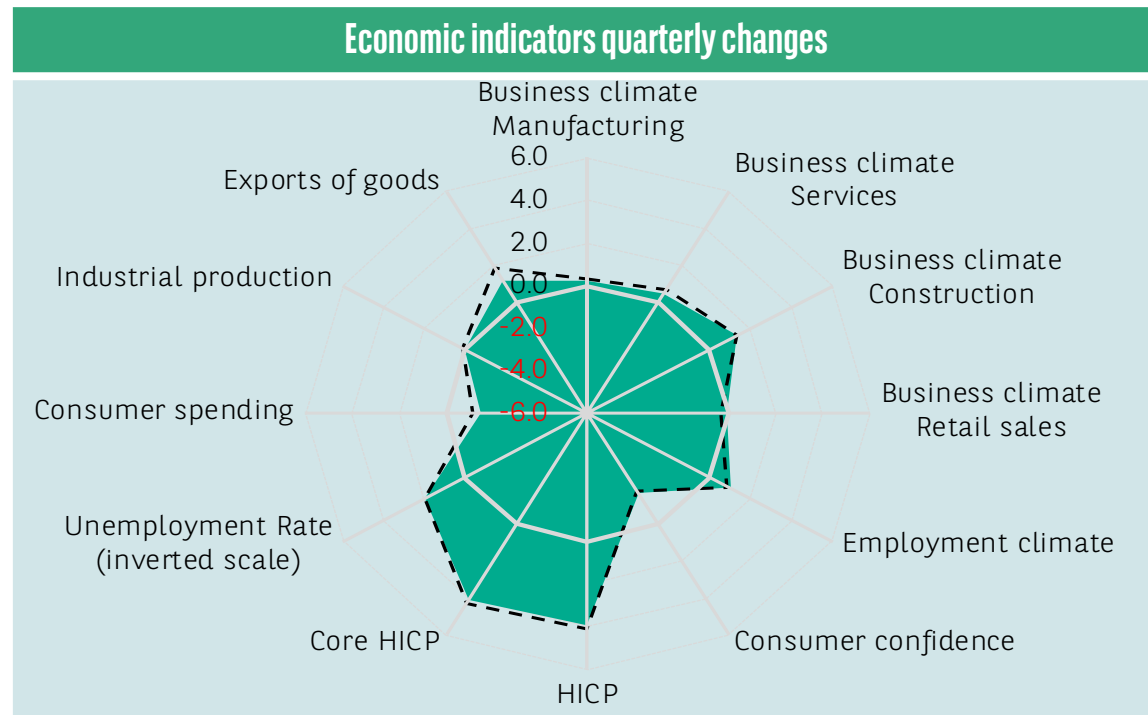
Consumer confidence has fluctuated since June 2022 within a shorter time frame, but is around 20 points below the historic average. This was reflected in Q4 by a simultaneous drop in consumer spending (-0.9% q/q) and in household investment (-0.2 q/q).

Also since June 2022, inflation has fluctuated around 7% y/y (harmonised index), the level seen again in January 2023. This conceals contrasts in the main components, with inflation in food prices gaining pace (14.4% y/y in January) and a relative slowdown in services (3.5% y/y in January). The larger proportion of companies expecting selling prices to rise in Insee's services survey suggests that underlying inflation is likely to remain high (4.2% y/y in January).

Following the brisk level of job creations over the first three quarters of 2022 (around 300,000 in the private sector), recent signs from the job market have been less clear, with employment stabilising in Q4. However, this may be due to the fear (now overcome) of a decline in activity due to energy supply constraints. Insee's employment climate index, which reached 110 in February, seems to support the idea that this was a temporary situation.

Our growth nowcast for Q1 2023 suggests further improvement in activity (+0.1% q/q) following growth of 0.1% q/q in Q4. This situation is more favourable than our November 2022 scenario suggested (-0.4% q/q), which factored in energy prices having a more significant impact on production, a risk that has now been generally overcome.

Stéphane Colliac



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 -6 and +6. In the radar chart, the green 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.

GDP growth											
Actual			Nowcast	Forecast	Carry-over	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
0.5	0.2	0.1	0.1	-0.4	-0.1	0.2	0.2	0.1	2.6	0.0	1.0

[See the Nowcast methodology](#)
Source: Refinitiv, BNP Paribas

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