

## FRANCE

10

## STRENGTHS AND WEAKNESSES OF GROWTH

French growth weakened in 2023, as evidenced by the low figures for the business climate indicators in December. However, 2024 should kickstart the road to recovery. The major drop in energy prices from the levels seen at the start of 2023 will contribute to inflation continuing to fall, which is not expected to be jeopardised by most of the price-cap mechanism still in place for electricity being removed. The upturn in real wages, the healthy state of the aeronautics sector and the continued greening of the economy should enable a soft landing for growth in 2024, with an annual average figure of +0.6%. The expected slight rise in unemployment and the more pronounced increase in business insolvencies pose downside risks, however.

French GDP growth slowed down significantly in 2023, with an annual average of +0.8% according to our estimates, following on from 2.5% in 2022. It even fell to -0.1% q/q in Q3 (according to the data available at the time of writing). Although this negative GDP growth can partially be framed as a correction after the good Q2 performance (+0.6% q/q), particularly in terms of aeronautics and shipbuilding exports, growth was still considerably weaker in 2023 all the same. This was due to weak growth in household consumption (with inflation affecting food consumption in particular) and a drop in household investment. Conversely, corporate investment and foreign trade (with rebounds in aeronautics and electricity generation) boosted growth.

## A TALE OF REBOUNDS AND A PROGRESSIVELY GREENER ECONOMY

We believe that a couple of rebound effects stimulated growth in particular in 2023. The first rebound effect (adding 0.35 pp) relates to electricity. The production fall had resulted in France becoming a net importer in 2022, taking 0.4 points off growth. In 2023, it managed to be again a net exporter. The second rebound effect (adding 0.3 pp) relates to aeronautics exports. While the rebound effect from electricity generation seems to be a one-off, this second rebound effect is expected to be longer-lasting and to add another 0.3 points to French growth in 2024 too (if Airbus achieves its target of higher deliveries).

The transitions that France must successfully navigate should provide another prolonged boost to growth. First of all, there is the digital transition, which can be harnessed through corporate investments in information and communications, which we estimated grew by nearly 8% in real terms in 2023, thereby adding 0.3 points to GDP growth. Secondly, there are the efforts to green the economy, which are already having an impact. Electric vehicles made up more than half of the 15% increase in car registrations in 2023. At the same time, the renewable energy sector accounted for a third of the growth in electricity generation in 2023 and also boosted manufacturing output, with a 66% y/y annual average increase in engine and turbine production (excluding aircraft and vehicle engines) at the end of November. However, works to improve the energy performance of buildings, experienced a slowdown in volume terms over the first 3 quarters of 2023 (+2% y/y, following on from +3.8% in 2022) according to the French Confederation of Craftspeople and Small Construction Companies (Confédération de l'Artisanat et des Petites Entreprises du Bâtiment - CAPEB).

As renovation work on a building often goes hand in hand with the sale of a property, the fall in the number of sales (928,000 cumulatively over 12 months at the end of September 2023 compared to 1,138,000 a year earlier) likely contributed to this slowdown.

The budgetary support for greening should be sustained. France's "green budget" is enjoying additional financing, with a EUR 7 billion increase in spending on environmental planning (by allocating some of the money paid in as a result of the planned rise in gas and electricity taxes). This allocation should result in a significantly less procyclical French budget than in 2012-13, when the government was looking to sharply reduce the deficit against the backdrop of declining growth.

## LESS INFLATION, BUT MORE INSOLVENCIES

In Q3 2023, France was still one of the countries where prices were rising faster than wages (with basic monthly salaries rising at 4.2% y/y and inflation rising at 4.7% y/y, according to the French National Institute for Statistics and

## GROWTH &amp; INFLATION

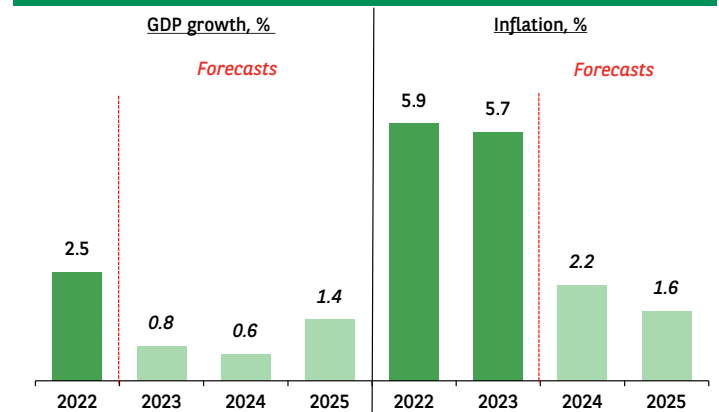


CHART 1

SOURCE: BNP PARIBAS GLOBAL MARKETS

Economic Studies CPI). While France had curbed its inflation more than its Eurozone neighbours in 2022 (due to the energy price cap), it experienced slower disinflation in 2023, with higher increases in gas and electricity prices (due to the energy price cap being partially phased out). Even though wage growth is expected to slow between 2023 (+4.4% for the basic monthly salary) and 2024 (+2.8% according to our forecasts), it is expected to outstrip average inflation (+2%), which would provide a boost for household consumption in 2024.

At the same time, companies have seen their costs rise. While energy prices and wages have contributed to this, this increase is also evident in volume terms, as their intermediate consumptions (IC) in volume terms stood at an unprecedented 52% of production in 2023 (over the first three quarters). This increase in the ICs explains the rather unusual and significant discrepancy between the growth in gross production (+1.7% y/y over the first 3 quarters) and the growth in sectors' gross value added (+1.1% y/y).

As the shock caused by high inflation dissipates, the shock on interest rates will continue to have an impact in 2024, albeit an expected progressively weaker one as the year goes on. However, the downturn in building sector activity, is expected to deepen, following the sharp decrease in order backlogs in 2023. It has already had a knock-on effect on business insolvencies. According to data from Banque de France, in Q4 2023, business insolvencies exceeded their Q4 2019 level by almost 25% in the building sector (a figure which also applies overall), hitting a level that has only been exceeded on two other occasions: between Q4 2008 and Q1 2016, and between Q4 1992 and Q2 1994. In 2022, Altarès had estimated that insolvencies threatened 143,000 jobs, equating to 3.4 jobs per insolvency. In 2023, 240,000 jobs were at risk, equating to 4.2 jobs per insolvency. This is a Damoclean sword posing an upside risk to the slight rise in the unemployment rate that we are forecasting (with the unemployment rate reaching 8% at the end of 2024, compared to 7.4% in Q3 2023) and which would prompt households to increase their saving rate (after already saving 17.4% of their gross disposable income in Q3 2023).

Stéphane Colliac

[stephane.colliac@bnpparibas.com](mailto:stephane.colliac@bnpparibas.com)

BNP PARIBAS

The bank  
for a changing  
world