FRANCE

Widespread weakness in demand

The downturn in economic surveys highlights a drop in demand (contraction of balance of opinion on global and export order books), particularly in the manufacturing sector. The sectors most sensitive to the economic cycle (chemicals, plastics, metals, packaging, wholesale trade and transport services) are all experiencing a marked drop in their synthetic confidence index. In the construction sector, the balance of opinion on the activity in new housing fell again to -22.5 in July (-10.7 in April). By contrast, leisure-related services, information-communication, transport equipment and part of the construction sector (new building excluding housing, maintenance-renovation) are still growing.

Household confidence averaged 82 between June 2022 and May 2023, a level from which it deviated very little until June 2023, when it rebounded to 85. This improvement is linked to the marked reduction in inflation expectations (indicator at -55 in June). However, households consider that the opportunity to save is still high (+33 in June), while the opportunity to make major purchases has deteriorated further (-47 in June, a record low outside the Covid period), boding ill for any upturn in spending.

Disinflation is now fairly clear (5.5% y/y in June according to the harmonised index, compared to 7.3% in February). This is primarily driven by the drop in energy costs (-3% y/y in June), while food inflation fell from its peak (13.6% y/y in June compared to 15.9% y/y in March), a disinflation that should continue, as seen with the disinflation in manufactured products (selling prices outlook at 7.1 in July compared to 43.9 in December 2022). Services inflation is expected to demonstrate slightly more persistence, but at around the current level of inflation (2.9% y/y in June).

The labour market remains a resilient factor, both in terms of job creation (92,000 net new jobs in Q1, although there are areas of weakness in construction and temporary work) and wage increases (which we expect to reach 5% in 2023, and even 6.7% for broad compensations, including bonuses and variable pay). However, the momentum of the labour market seems to have slowed, with the employment climate deteriorating to 106 in June-July from 110 in April.

We forecast growth of 0.2% q/q in Q2, a figure close to that seen in Q1, due to consumption of household services (mainly leisure), as well as transport equipment. However, economic surveys highlight a downward risk, which is reflected in our nowcast (0.1% q/q).

Stéphane Colliac (article completed on 20 July 2023)

France: economic indicators monthly changes

	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23
Business climate Manufacturing	0.6	0.4	0.2	0.3	0.1	0.2	0.3	0.5	0.4	0.1	-0.2	0.1
Business climate Services	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.6	0.5	0.3	0.2	0.2
Business climate Construction	1.3	1.3	1.3	1.4	1.3	1.4	1.3	1.1	1.0	1.0	0.7	0.6
Business climate Retail sales	-0.5	-0.1	-0.5	-0.3	-0.3	-0.1	0.1	0.2	-0.1	0.1	0.0	0.2
Employment climate	0.9	0.7	0.9	1.0	0.8	1.0	1.1	1.0	1.1	1.0	0.5	0.5
Consumer confidence	-2.0	-1.6	-2.0	-1.6	-1.4	-1.6	-1.6	-1.6	-1.7	-1.5	-1.5	-1.2
HICP	4.5	4.1	3.7	4.3	4.1	3.7	3.8	3.9	3.4	3.4	2.8	2.3
Core HICP	4.7	4.7	3.9	4.3	4.2	4.2	4.0	4.3	4.1	4.1	3.6	3.5
Unemployment Rate	1.9	1.9	2.0	1.9	1.9	1.9	2.0	1.9	2.0	2.0	2.0	
Consumer spending	-1.2	-1.0	-0.7	-1.5	-1.3	-1.6	-1.1	-1.2	-1.0	-1.2	-1.0	
Industrial production	-0.2	0.2	0.3	-0.4	0.1	0.3	-0.3	0.2	0.1	0.3	0.5	
Exports of goods	1.7	2.0	2.0	1.5	1.1	1.1	-0.2	0.7	0.5	0.2	0.5	

-3 -2 -1 0 1 2 3

The Indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero. Positive (negative) values indicate the number of standard deviations above (below) the mean value.
Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Nowcast	Forecast		Annual forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.5	0.2	-0.0	0.2	0.4	0.1	0.2	0.0	2.5	0.5	0.6

See the Nowcast methodology. Contact: Tarik Rharrab
Source: Refinitiv, BNP Paribas