

Winter is coming

The French economy is marked by growing signs of cooling, in terms of economic activity, employment and inflation. While growth has so far remained in positive territory, the INSEE business climate, which fell to 97 in November (compared to 100 between July and September), points to a deterioration. According to this survey, the decline in economic activity already present in part of the economy (housing, food trade) has spread to industry, new construction (excluding housing) and the motor vehicles trade.

Until recently, all these sectors had continued to benefit from a well-filled order book, which is now emptier (the backlog of orders having been processed and there being fewer new orders). In this context, household orders for private vehicles fell by 12% y/y in the first 10 months of the year (-26% for light commercial vehicles) according to the Plateforme de l'automobile. Against a backdrop of high interest rates, the proportion of French households planning to make a major purchase immediately fell to a new all-time low (5.2% in October according to the European Commission).

The slowdown in demand is contributing to the ongoing disinflation (4.5% y/y in October according to the harmonised index, compared to 7.3% in February and 5.7% in September). This is being reflected in the prices of manufactured goods (stable since April), alongside a drop in volatile components y/y (with food prices stabilising since June). The increase in services prices (3.2% y/y in October) is now the biggest contributor to inflation, supported by wage growth, but is expected to ease in 2024 as consumer prices and wages slow.

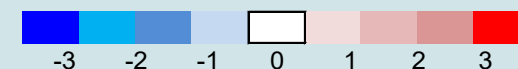
The deterioration in the labour market since Q2 is moving in this direction. Moreover, the wage slowdown seems to have already begun: in Q3, the gross monthly wage only increased by 4.2% y/y compared to 4.6% y/y in Q2. However, while payrolls contracted by 18,000 units in the private sector in Q3 after moderate creations in Q2, this can be explained in part by a trend reversal on apprenticeship contracts (-100,000 between March and August, a bigger drop than the usual seasonal movement, -60,000 between those same months in 2022).

Overall, the French economy seems to be moving towards stagnation, as reflected in our growth forecast and our nowcast for Q4 (0% q/q).

Stéphane Colliac (completed on 23 November 2023)

France: economic indicators monthly changes*

	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23
Business climate Manufacturing	0.2	0.1	0.2	0.3	0.4	0.1	-0.1	0.0	0.1	-0.4	-0.1	-0.1
Business climate Services	0.4	0.4	0.4	0.5	0.5	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Business climate Construction	0.8	0.9	0.9	0.7	0.7	0.7	0.5	0.4	0.3	0.4	0.3	0.1
Business climate Retail sales	-0.4	-0.1	-0.1	0.0	-0.3	0.0	-0.3	0.2	0.6	0.5	0.3	-0.2
Employment climate	0.8	1.0	1.1	1.0	1.0	1.0	0.6	0.6	0.5	0.1	0.5	0.2
Consumer confidence	-1.4	-1.6	-1.6	-1.6	-1.7	-1.5	-1.5	-1.3	-1.2	-1.2	-1.4	-1.3
HICP	4.1	3.7	3.8	3.8	3.3	3.4	2.7	2.3	2.1	2.5	2.4	1.7
Core HICP	4.3	4.2	4.0	4.3	4.1	4.2	3.6	3.6	3.3	3.0	2.5	2.4
Unemployment Rate	1.9	1.9	2.0	1.9	1.9	1.7	1.7	1.7	1.6	1.6	1.6	
Consumer spending	-1.0	-1.2	-0.7	-0.7	-0.6	-0.9	-0.7	-0.6	-0.2	-0.5	-0.8	
Industrial production	0.1	0.3	-0.3	0.2	0.1	0.3	0.4	0.1	0.5	0.0	0.0	
Exports of goods	1.1	1.1	-0.1	0.7	0.5	0.2	0.6	0.0	0.2	-0.8	-1.0	



* 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)			
	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q4 2023	Q1 2024	2022 (observed)	2023	2024
	-0.0	0.1	0.6	0.1	0.3	0.0	0.0	0.1	2.5	0.9	0.7

See the [Nowcast methodology](#). Contact: [Tarik Rharrab](#)
Source: Refinitiv, BNP Paribas

