

France: a “bubble” of optimism set to evaporate

In February 2022 the announcement of the lifting of restrictions linked to Covid-19 provided grounds for renewed optimism, but this was short-lived since the outbreak of the war in Ukraine put an end to it. In February 2023, although to a lesser extent, INSEE's business climate survey rebounded, by 1 point to 103, reaching its highest level since August 2022. It was supported by the services sector and by industry, a sign of a winter that passed off better than expected in terms of energy supply.

Consumer confidence has not yet reflected this increase in optimism. This index fell by 1 point to 82 in February and is around 20 points below its historic average since June 2022. The balance of opinion on past price increases reached 74, the highest since October 1976. Moreover, French households are not expecting any improvement, particularly in terms of their standard of living.

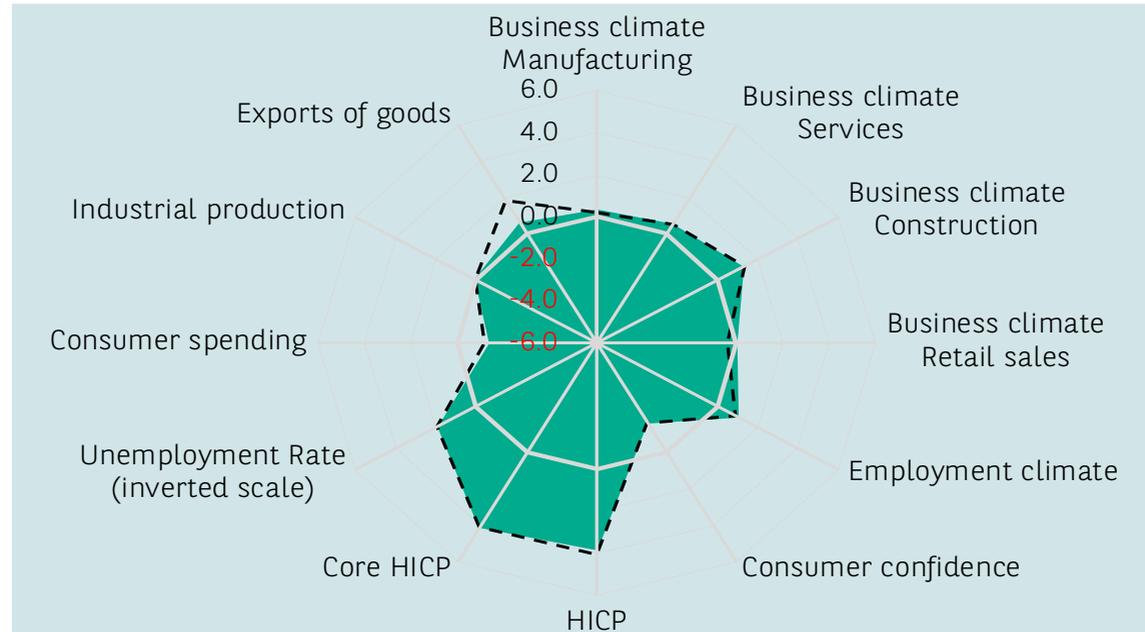
Inflation dynamics explain this consumer pessimism, with a figure of 7.3% y/y (harmonised index) in February, higher than the previous peak of 7.1% y/y in November 2022, due to a significant acceleration in food inflation (14.8% y/y in February) driven by fresh products (+7.8% in February 2023 compared to December 2022). The sharp drop in energy inflation should bring headline inflation down from March, but core inflation (4.5% y/y in February) is likely to persist.

The average wage per head increased by 5.6% in 2022 (average inflation of 5.9%), supported by an acceleration in hourly wages during the year and the payment of bonuses (including value-sharing premium or PPV). At the same time, job creation was strong in 2022 (+337 K), but its momentum slowed in the 4th quarter (+44 K) as post-Covid rebound effects vanished and the economic activity slowed down, particularly in scientific and technical activities (outsourcing activities).

After a slight increase in French GDP of 0.1% q/q in the 4th quarter of 2022, we expect flat growth in the 1st quarter of 2023 (which our nowcast confirms), with a further drop expected in both consumption and household investment. The INSEE and Banque de France forecasts for the 1st quarter of 2023 are a little more favourable (+0.1% q/q).

Stéphane Colliac (article completed on 20/03/2023)

France: economic indicators quarterly changes



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.

France: GDP growth

Actual			Carry-over	Nowcast	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.5	0.2	0.1	0.3	0.0	0.0	0.2	0.2	2.6	0.5	0.9

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



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