



## EcoBrief

### **France: the business climate continues to improve in February 2023, but inflation persists**

**The improvement is evident in the services sector, manufacturing industry and in the automotive retail trade. However, the construction sector is an exception, against a backdrop of a downturn in activity in new housing. Inflationary pressures are expected to increase in the retail sector.**

The business climate improved again in February according to INSEE, with a composite indicator which rose 1 point to stand at 103. Everything is looking a little better, or almost everything. This improvement is in fact being supported by:

- The services sector, for which the business climate index, at 106, is at its highest since August 2022, buoyed in particular by strong performances in the information and communication sector and in accommodation and catering.
- The manufacturing industry, where the business climate index increased by one point for the third time in a row to stand at 104, supported by a continued improvement in the balance of opinion in relation to recent production. This improvement, which is notable in the agri-food industry, is to be welcomed in the context of supply-side tensions, but inventories remain low in the sector.
- The retail trade and trade of vehicles sector saw its composite business climate index improve. However, there is a disparity. The good numbers from the trade of vehicles sector explain this increase, with a climate index of 104, above its historical average (100) over the past three months thanks in particular to an improvement in the indicators for past and expected sales. On the other hand, the retail trade is not showing any particular improvement and has suffered from a business climate index of below 100 for a year (97 in February).

Against this generally positive backdrop, there are a few notable exceptions. The construction sector continues to deteriorate, admittedly from a high level, with a business climate reading that has declined from 115 to 112 between December and February. Past activity in new housing is a particular impediment, with a balance of opinion of -15 in February (-9 in January), the largest deterioration in the index (outside the Covid period) since April 2016. However, this past activity remains on a positive trend in other new buildings (excluding housing) and in maintenance/improvement.

The balances of opinion on expected selling prices are also showing an upturn in retail trade with a balance of 53 in February (45 in January), the highest figure since the series began (January 1991). This balance of opinion has even reached 73 in the food trade, an element which highlights that food inflation could increase even further, while it has already reached 14.4% y/y in January (according to the harmonised index). In the services sector, the balance of opinion on expected selling prices fell slightly, from 20 in January to 17 in February, but remains at a historically high level (historical average at -2). At the same time, inflationary pressures are moderating in the manufacturing and construction industries.

**Stéphane Colliac**  
Senior Economist, France

