

Deterioration in industry

The first hard data for July were relatively good (manufacturing production up 0.7% m/m). Nevertheless, economic surveys point to a deterioration. Insee's business climate indicator was stable at 100 during the last 5 months (from May to September), while manufacturing confidence was below 100 during the last 2 months (99 in September) which itself was particularly affected by the deterioration in the indicator relating to recent production (-6 in September et -4 in August, compared to +9 in July), especially in the transport equipment sector.

While the business climate trend is deteriorating, the trend is improving for household confidence, which has recovered by a few points in recent months (to 85 points in August, although still 15 points below its historical average). However, the improvement is more limited in terms of willingness to buy. In this way, households are continuing to save a lot (18.8% of their gross disposable income in Q2), not so much as a precaution, because they have little fear of unemployment (opinion balance at 16 in August versus 33 as a historical average), but because high rates reduce immediate purchasing opportunities.

Against this backdrop, the rebound in inflation in August has come at a bad time (from 5.1 to 5.7% y/y according to the harmonised index). It comes from the energy component, with a monthly increase of almost 7%, a figure close to that of March, June or October 2022, when this development had an impact on consumption. However, disinflation remains in place, but it remains unevenly distributed. Inflation on manufactured goods and services, at 3.1 and 3% y/y respectively in August, is 1 pp below its average level over the past 12 months for the former and close to this level for the latter.

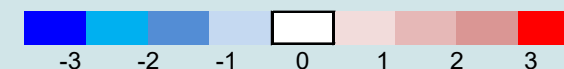
Apart from the exceptional factors related to transport equipment that buoyed growth in Q2, the rest of the economy experienced a stagnation that is beginning to be reflected in labour market developments. Job creation was more moderate in Q2 (21,000 compared to 102,000 in Q1) and the Insee employment climate fell significantly in August to 102 – still in the expansion zone, but indicating that job creation is expected to weaken in H2.

We expect growth to suffer a reversal in Q3 and GDP to decline by -0.2% q/q, after the positive surprise in Q2 (+0.5% q/q). Exports of transport equipment, which were very high in Q2, should be slightly lower in Q3. Moreover, the rest of the economy shows a momentum close to stagnation. However, there is an upside risk, underlined by the various indicators already published and summarised by our nowcast (+0.2% q/q).

Stéphane Colliac (completed on 21 September 2023)

France: economic indicators monthly changes

	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23
Business climate Manufacturing	0,3	0,4	0,2	0,1	0,2	0,4	0,4	0,1	-0,1	0,0	0,1	-0,4
Business climate Services	0,6	0,5	0,4	0,4	0,4	0,5	0,5	0,3	0,2	0,2	0,2	0,1
Business climate Construction	0,8	0,9	0,8	0,9	0,9	0,7	0,7	0,7	0,5	0,4	0,3	0,4
Business climate Retail sales	-0,3	-0,3	-0,4	-0,1	-0,1	0,0	-0,3	0,0	-0,3	0,2	0,6	0,5
Employment climate	1,0	0,9	0,8	1,0	1,1	1,0	1,0	1,0	0,7	0,6	0,5	0,0
Consumer confidence	-2,0	-1,6	-1,4	-1,6	-1,6	-1,6	-1,7	-1,5	-1,5	-1,2	-1,2	-1,2
HICP	3,7	4,2	4,1	3,7	3,8	3,9	3,3	3,4	2,8	2,3	2,1	2,5
Core HICP	3,9	4,3	4,2	4,2	4,0	4,3	4,1	4,2	3,6	3,6	3,3	3,0
Unemployment Rate	2,0	1,9	1,9	1,9	2,0	1,9	1,9	1,7	1,7	1,7	1,6	
Consumer spending	-0,7	-1,5	-1,3	-1,6	-1,1	-1,1	-1,0	-1,2	-1,0	-0,8	-0,4	
Industrial production	0,3	-0,4	0,1	0,3	-0,3	0,2	0,1	0,3	0,4	0,0	0,5	
Exports of goods	1,9	1,5	1,1	1,1	-0,1	0,7	0,5	0,2	0,6	0,1	0,2	



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)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q3 2023	Q4 2023	2022 (observed)	2023	2024
0,3	0,1	0,0	0,5	0,8	0,2	-0,2	0,0	2,5	0,7	0,5

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



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