FRANCE

AND YET IT MOVES

The French economy is characterised by a modest but positive growth, a statement that is all the clearer following the changeover of the national accounts to the 2020 base and the publication of the 2023 annual accounts, which led INSEE to raise its 2023 GDP estimate by almost EUR 20 billion. However, there are winners and losers from this growth. In 2024, it should be sustained mainly by market services, which account for the bulk of job creation and growth in demand. However, this growth in services substitutes that for goods, while inflation and interest rate shocks continue to weigh on investment.

The recent publication of the 2023 annual accounts by INSEE coincided with the changeover to the 2020 base for the national accounts, two statistical advances that have given a more positive picture of French growth than was previously the case. Growth in household consumption has certainly slowed considerably compared with 2022 (+3%), to +0.9% in 2023, but it has not stagnated. The very low level of household confidence has resulted in a switch between consumption of goods (-1.6% in 2023) and services (+3.1% in 2023), rather than a contraction in overall spending. GDP growth now stands at 1.1% in 2023 (0.9% in a previous estimate), and Q1 2024 (at +0.2% q/q) was in line with this performance: growth that was admittedly limited but positive.

GROWTH IN 2024: THE SAME AS IN 2023?

We expect growth in 2024 to be the same as in 2023. The starting point is relatively comparable, although the situation is slightly more favourable today, with a carryover of 0.6 points at the end of Q1 2024, compared with 0.5 points in Q1 2023. The improvement in the business climate should also be noted: the services PMI reached its highest levels since May 2023 in April-May 2024 (51.3 and then 49.3).

However, the household confidence index halted its rebound halfway through the year: at 100 before the acceleration in inflation (in October 2021), it fell to a low of 80 in July 2022, before returning at the end of 2023 to a level close to that in May 2024 (90), where it had stagnated for five months. Households are therefore likely to continue to restrain their spending in the short term, a likelihood heightened by the political uncertainty surrounding the forthcoming general election.

The two potential supports for consumption are expected to have only a moderate and gradual impact. Disinflation, which was significant until March (at 2.4% y/y according to the harmonised index, compared with 5.7% y/y in September 2023), has come to a halt. Inflation has even risen again (2.6% y/y in May) and is set to remain slightly higher until August, due to the rise in energy prices (increase in gas prices in July) and service prices (effect of the Olympic Games on the cost of transport services and accommodation). Although gross monthly wages (+3.3% y/y) rose faster than inflation (+3% y/y) in Q1 2024 for the first time in three years, this pause in disinflation should limit further gains in purchasing power in Q2.

The fall in the savings rate (to 17.6% of gross disposable income in Q1 2024) would constitute the second potential support for household consumption. However, given the current context, this fall should remain limited. Overall, household consumption is expected to accelerate only moderately in 2024 (+1.3%) compared with 2023 (+0.9%), with growth coming entirely from services.

At the same time, exports of goods and services should be sustained by favourable trends in aeronautics, energy and tourism. Net of imports, the contribution of foreign trade to growth should increase from +0.5 points in 2023 to +0.7 points in 2024 (this positive contribution in two consecutive years is a rare phenomenon). These two sources of support for the economy – household consumption and exports – would barely offset the impact of the expected fall in investment, and GDP growth would remain at 1.1% in 2024 as in 2023.

GROWTH AND INFLATION

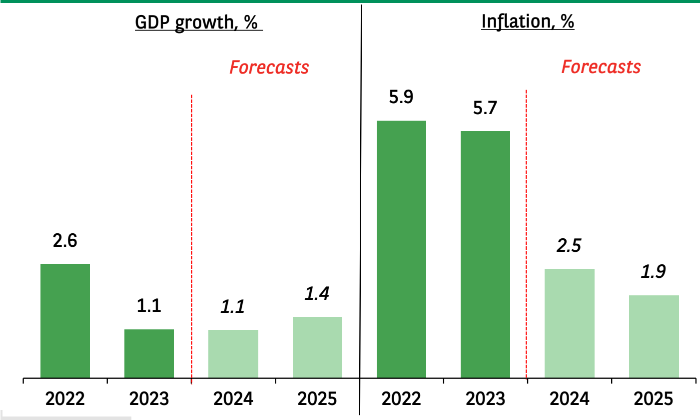

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

LESS INVESTMENT IN 2024, BUT SERVICES CONTINUE TO SUSTAIN THE MOMENTUM

We expect investment to fall by 1.1% in 2024 as a result of the rise in interest rates. Household investment would continue to fall (-5.7% in 2024), taking it to almost -18% between mid-2021 and the end of 2024. Only 282,000 homes were started between May 2023 and April 2024 (-22.3% y/y), a level not seen since 1993 (274,000). In the existing home market, transactions totalled 822,000 units in Q1 over a 12-month period (-23.2% y/y), although they are still higher than the levels recorded up to 2016. Public investment, supported by preparations for the Olympic Games until mid-2024, is expected to suffer a setback from Q3 onwards, before stagnating in 2025 as a result of fiscal savings measures.

Finally, investment by non-financial companies (NFCs) is forecast to fall by 0.7%, before a moderate rebound in 2025. The rise in interest rates is penalising their investment in goods and construction: -3% and -2.5% respectively in Q1 2024 compared with the peak in Q3 2023. However, total investment by NFCs was strong between 2019 and 2023 (+10.2%), driven entirely by market services.

This rise in services is reflected in the dynamics of the labour market and business creations: since the end of 2019, almost nine out of ten new jobs and nine out of ten new businesses have come from the services sector. In Q1 2024, the services sector was responsible for the entire net creation of 75,000 salaried jobs, according to INSEE.

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