

Moving towards “stop and go” growth?

The business climate surveys from the French National Institute of Statistics and Economic Studies (INSEE) deteriorated in April and May, raising fears that the upturn in business activity seen during the first quarter (+0.2% q/q, following on from 0% q/q during Q4) was temporary to a certain extent. As a result, the exceptional effects of this upturn (related to / brought about by ? a further increase in manufacturing output at the very start of the year and subsequent positive secondary effects on service output and employment during the first quarter), seem to have quickly evaporated. According to the composite business climate index, the loss of momentum seen during April worsened during May and confidence in services even hit its lowest levels since November 2016 (excluding the Covid period), standing at 101.

By contrast, there was a slight upturn in household confidence during April (standing at 83 in April, compared with 82 in March). However, this increase is still not enough to offset the eroded confidence being experienced among businesses. As a result, household consumption is expected to remain close to its low point observed since the fourth quarter, when it had fallen by -1% q/q before stagnating during the first quarter of 2023.

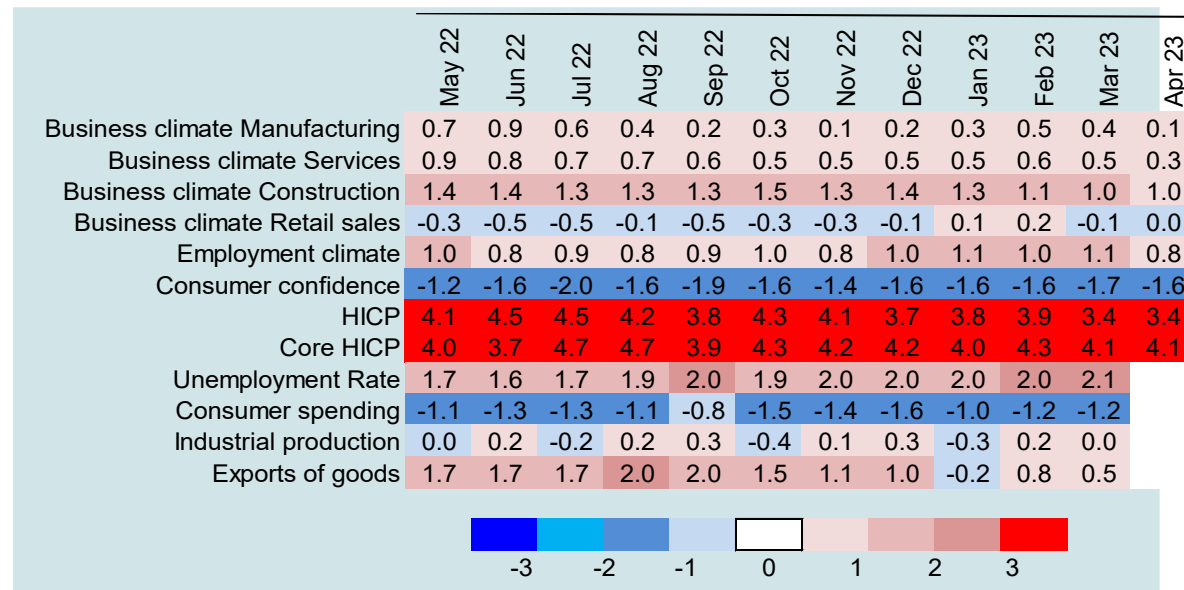
The fall in inflation is too recent to affect household spending, with inflation peaking at 7.3% y/y in February (harmonised index), the drop in food inflation remaining relatively small compared to its peak (15% y/y in April, compared to 15.9% y/y in March) and core inflation rising further (4.7% y/y in April). However, a number of factors are heralding the potential start of disinflation, with fresh food prices beginning to fall (following a rise of 11% between December and March, a temporary situation as these price increases were driven by growing fresh foods in greenhouses in winter, with a first drop of 2.9% m/m being recorded in April), and the balance of opinion on the expected increase in sales prices in the manufacturing sector falling (from 47 points in December 2022 to 3 in May 2023).

The labour market is still relatively vibrant, with a net job creation of 42,000 during the first quarter of 2023 according to INSEE, which is close to the level seen during the fourth quarter of 2022. However, the breakdown shows that market services, excluding temporary employment, were a key contributor (58,000 jobs created), but could not maintain this high rate (with Insee's employment climate index falling from 110 in March to 106 in May). At the same time, the net job losses seen in temporary employment (21,000 jobs) and in the construction sector (3,000 jobs, for the first time since Q4 2016) hint that a downturn may be getting underway.

We are forecasting growth of 0.2% q/q during the second quarter of 2023, i.e. the same pace as during the first quarter, before a sharp slowdown expected during the second half of the year: however, our nowcast (0% q/q) indicates that the slowdown may have started as early as Q2, a potential trend which will be monitored in future business climate surveys.

Stéphane Colliac (article completed on 25 May 2023)

France: economic indicators monthly changes



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)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.5	0.1	0.0	0.2	0.4	0.0	0.2	0.0	2.6	0.5	0.6

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



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