

France: An obstacle race

The French economy remains weak, although it is showing signs of stabilisation. The Insee business climate indicator remained stable at 95 in January, while the composite PMI rebounded slightly (47.6 in January compared to 47.5 in December).

However, since October, both indices have remained below their average value over the previous six months (98.6 for the Insee index, 49.8 for the composite PMI). This lower level in both Q4 2024 and Q1 2025 is consistent with growth of about +0.1% q/q, compared to +0.2% previously. In Q3, the effect of the Olympic Games (OG) added 0.2 points (hence total growth of +0.4% q/q), an exceptional effect that was subtracted from GDP in Q4 (0.1 - 0.2 = -0.1% q/q). Our nowcast confirms stable growth excluding the OG effect in Q1 2025, hence a forecast of 0.1% q/q (see chart).

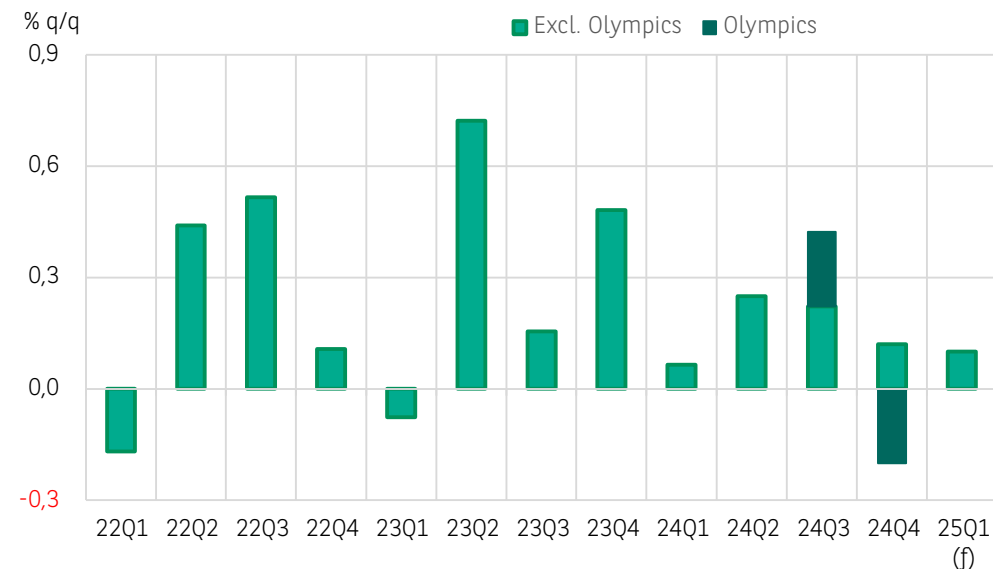
Household confidence was excessively affected by their fears of a rise in unemployment, an understandable concern, given the increase of 4% q/q in Q4 (the largest increase since the 2008 crisis, excluding Covid) in the number of category A job applicants. However, it is likely that the labour market has, like activity, experienced a negative impact from the OG, accentuating the deterioration in Q4. Moreover, in January, household confidence wiped out half of the 6-point drop observed between September and December, rising to 92 (helped in particular by the relative abating of unemployment concerns). Although the improvement is noteworthy, this is still a very low level of confidence.

Demand is expected to remain subdued in Q1, in particular due to the extension of the 2024 budget for the first few months of the year, which is expected to negatively affect public consumption (stable budget for key government functions, including defence) or expenditure linked to aid (MaPrimeRénov for households or France 2030 for corporate investment), before the likely adoption of the 2025 budget by 49.3 allows a rebound in this expenditure in Q2, hence an upward risk on our growth forecast (0.2% q/q).

As a result, disinflation is still not encouraging a significant recovery in household consumption. But its continuation remains a favourable factor: inflation (harmonised index) is expected to fall from 1.8% y/y in January to 1.1% in February according to our forecasts, under the effect of a drop of 15% in the regulated electricity tariff (compared to nearly +10% in February 2024). However, this disinflation is spreading more slowly to services, and core inflation remains at 2%.

Stéphane Colliac, article completed on 5 February 2025

French GDP growth



Source : Insee, Macrobond, BNP Paribas forecast

GDP growth

Actual				Carry-over	Nowcast	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q1 2025	Q2 2025	Q3 2025	2024 (observed)	2025	2026
0.1	0.3	0.4	-0.1	0.2	0.1	0.1	0.2	0.2	1.1	0.7	0.9

See the Nowcast methodology. Contact: Tarik Rharrab

Source: Refinitiv, BNP Paribas