

Shock after shock, demand wanes

French economic indicators point to a slowdown in growth. INSEE's business climate in the manufacturing industry has deteriorated. It stands at 101 in June, below its average level during the Q1 (104) and was in May (99) below its long-term average (100) as well as wholesale trade (94) and non-automotive retail trade (94). In particular, the balance of opinion on order books in the manufacturing sector was in June (-17) below its levels observed in December (-15) and March (-13). The service sector index fell to 102 in May and June, the lowest since January 2017 (excluding Covid).

Household demand should not recover in the short term, with confidence remaining very low in May at 83 (its average level observed between October 2022 and that date). Above all, the proportion of households that consider it favourable to make major purchases now reached an all-time low in April, at 6.5%, as a result of the rise in interest rates. The drop in household investment in the Q1 illustrates this negative impact (-2.3% q/q).

Disinflation has begun (6% y/y in May according to the harmonised index, compared to 7.3% y/y in February), thanks to a sharp reduction in energy inflation (2% y/y in May, compared to 28% y/y in May 2022) and a drop of almost 2 percentage points in two months in food inflation (14.9% y/y in May). Core inflation (4.3% y/y in May) also fell moderately (4.7% y/y in April), mainly due to manufactured goods. This disinflation is expected to accelerate as the decline in energy costs spreads across the economy, which is expected to take some time (along with companies' ability to renegotiate their contracts).

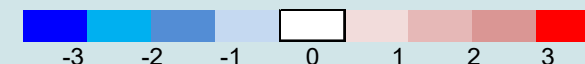
The dynamism of the labour market kept up in Q1 (92,000 net jobs created), mainly in non-temporary market services. However, an onset of deterioration is apparent in certain sectors: 1,500 job losses in construction (first losses since Q4 2016) and 18,000 fewer temporary jobs. At the same time, INSEE's employment climate fell from 110 in March to 105 in June.

Our forecast of +0.2% q/q growth in Q2 (after a figure similar in Q1) is based on household service consumption (tourism in particular). However, our nowcast (0% q/q) highlights the risk of a downward surprise, due to a drop in demand for industry, construction and business services.

Stéphane Colliac (article completed on 22 June 2023)

France: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
Business climate Manufacturing	0.9	0.6	0.4	0.2	0.3	0.1	0.2	0.3	0.5	0.4	0.1	-0.2
Business climate Services	0.8	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.6	0.5	0.3	0.2
Business climate Construction	1.4	1.3	1.3	1.3	1.5	1.3	1.4	1.3	1.1	1.0	1.0	0.7
Business climate Retail sales	-0.5	-0.5	-0.1	-0.5	-0.3	-0.3	-0.1	0.1	0.2	-0.1	0.1	0.0
Employment climate	0.8	0.9	0.7	0.9	1.0	0.8	1.0	1.1	1.0	1.1	1.0	0.5
Consumer confidence	-1.7	-2.0	-1.6	-2.0	-1.6	-1.4	-1.6	-1.6	-1.6	-1.7	-1.6	-1.5
HICP	4.5	4.5	4.2	3.8	4.3	4.1	3.7	3.8	3.9	3.4	3.4	2.8
Core HICP	3.7	4.7	4.7	3.9	4.3	4.2	4.2	4.0	4.3	4.1	4.1	3.6
Unemployment Rate	1.6	1.9	1.9	2.0	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Consumer spending	-1.1	-1.2	-1.0	-0.7	-1.5	-1.3	-1.6	-1.1	-1.2	-1.0	-1.2	-1.2
Industrial production	0.2	-0.2	0.2	0.3	-0.4	0.1	0.4	-0.3	0.2	0.1	0.3	0.3
Exports of goods	1.7	1.7	2.0	2.0	1.5	1.1	1.0	-0.2	0.7	0.5	0.2	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)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.5	0.2	-0.0	0.2	0.4	0.0	0.2	0.0	0.6

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

