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EcoBrief

France: one swallow does not a summer make

The upturn in the INSEE business climate indicator in February was not confirmed in March although, despite the downturn noted, this indicator remains above levels seen between September 2022 and January 2023. Although the March survey highlights forthcoming disinflation, this drop remains relative and is not general. At the same time, we are seeing continued pressure from household demand, with the confirmed weakness of retail trade (excluding automotive) and the renewed deterioration of the business climate in construction.

In France, the INSEE business climate indicator fell in March to 103.1, compared to 103.5 in February, primarily due to developments seen in services (104.7 in March, -1.5 points compared to February with a return to January's level).

At the same time, this business climate survey suggests an inflation rate that is expected to shrink, with a balance of opinion for companies planning to increase their prices in the next three months, by 41 in the building sector (54 in January 2023), 29 in the manufacturing industry (33 in January) and 14 in services (20 in January). Conversely, retail (excluding automotive) is not experiencing the same momentum, with a balance of opinion at 52 (a record high).

This anticipated disinflation therefore remains relative, and the sectors most directly dependent on household demand are seeing their confidence indices fall:

- Construction, with an index of 111 in March (-3.5 points in 3 months), singularly affected by the sub-index on past activity in new housing (balance of opinion at -9.5 in March, negative for the 10th consecutive month), against a backdrop of a falling number of building permits (the total authorised housing surface area reached 2.5 million m² in January and has only been lower in January twice in 20 years, in 2015 and 2016).
- Retail trade (excluding automotive), where the business climate index (at 96 in March) remains below 100 for the 13th consecutive month.

This sluggish demand emphasises the continued weakness of new orders which, beyond the period when companies can draw on their accumulated order books, will ultimately impact further the activity of French companies.

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