

FRENCH FOREIGN TRADE: HINDERED BY DETERIORATION IN THREE AREAS

Stéphane Colliac

In 2022, the contribution of French foreign trade to GDP growth was one of the most negative in its history (-0.8 percentage points), hindered by deterioration in three areas.

The first, the rise in energy costs, brought the trade deficit (trade in goods) to an unprecedented level. In addition to "price effects" (mainly the rise in the price of hydrocarbons), there were also "volume" effects, with the balance on electricity and gas storage in particular shifting into deficit. We estimate that these "volume" effects reduced French growth by around 0.4 points in 2022.

The second, and more structural, deterioration relates to manufactured goods. This deterioration was accentuated in 2022 in both nominal and real terms. The strong performance of corporate investment have had a negative impact through the widening of the deficit on capital goods.

The third deterioration relates to the services sector and in particular to maritime freight, whose favourable momentum reversed during 2022, with a downturn in "price" effects, in addition to deterioration in real terms.

So, while the improvement in the surplus in the services sector helped to some extent to balance the deterioration in the deficit on goods up to the 1st quarter of 2022, subsequently this was no longer the case and the result was the appearance of a significant current account deficit.

FRANCE: TRADE BALANCE BY PRODUCT

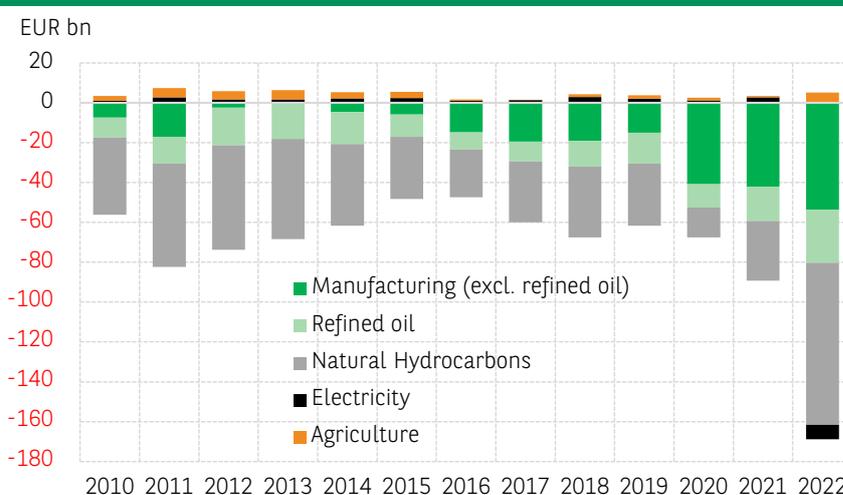


CHART 1

SOURCE: CUSTOMS, BNP PARIBAS CALCULATIONS

In 2022 France recorded the highest trade deficit in its history, at almost EUR 164bn, which was almost double that of 2021 (and a widening of nearly 100bn compared to 2019), largely attributable to the energy balance (chart 1).

In 2022 the average price of a barrel of Brent reached USD 90, a similar level to that previously seen in 2012 (USD 87). However, the energy balance appears much worse than at that time (85bn euros compared to 50bn) for two main reasons. Firstly, a simultaneous increase in the price of gas (TTF), multiplied by more than 5 times over the period, and, secondly, a shifting into deficit in the electricity balance (around EUR 7.5bn compared to a surplus of around 2.5bn in 2021). In addition, the deficit relating to refined oil (usually included in the manufactured goods balance) was also wider (EUR 27bn euros). Although the outbreak of war in Ukraine has had an unfavourable impact, it does not explain everything (electricity production has fallen too because of various technical problems in the nuclear power plants).

However, compared to 2012, the most structural deterioration remains the balance of trade in manufactured goods. Excluding refined oil, the deficit reached EUR 54bn in 2022, compared to a close-to-zero balance in 2012. The greater use of imports went hand in hand with the reduction in the production capacity of French industry following the 2008 crisis. This low level of production capacity which, in the 4th quarter of 2022, was still some 20% lower than its 2007 level, is a phenomenon more evident in France than in neighbouring countries¹.

¹ See Stéphane Colliac, "French industry: a challenge of scale", *EcoFlash*, BNP Paribas, February 2022

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ENERGY WEIGHED ON GDP GROWTH

As well as a deterioration in nominal terms, which can be explained by “price” effects, the widening of the trade deficit was also the result of a worsening in volume, linked in particular to the increase in imports of energy. The latter played a significant role in the negative contribution of foreign trade (-0.8 percentage points) to French GDP growth in 2022.

Our calculation of GDP excluding energy (excluding what is directly attributable to it under a demand-side approach to GDP: exports, imports and household energy consumption²) confirms that these exceptional elements hampered growth in 2022. According to our estimates, growth would have been 3% “excluding energy” compared to the actual 2022 figure of 2.6%.

In detail, while quarterly GDP growth “excluding energy” would have been higher than growth “including energy” between the 1st quarter of 2021 and the 3rd quarter of 2022, it was lower in the last quarter of 2022 (chart 2). Indeed, although growth was marginally positive in the 4th quarter of 2022 (at +0.1% q/q), this was largely due to the drop in imports of energy (-9.1% q/q) linked to the significant preventive storage put in place up to the 3rd quarter.

The French economy has therefore, for the time being, avoided a contraction in its GDP and a potential entry into recession. Even if these exceptional factors (preventive storage of gas, risk of constraints on the production of electricity) were to be repeated in 2023, a likely reduction in their magnitude makes possible a positive surprise on growth compared to our current forecast (zero growth in 2023).

MANUFACTURING INDUSTRY: THE DETERIORATION CONTINUES

The widening of the deficit on manufactured goods has arisen in part from the aeronautical sector (one of the sectors usually generating the largest surpluses in France), which is suffering from a drop in activity compared to the pre-Covid situation. The surplus in the aeronautical sector fell by around EUR 10bn between 2019 and 2022, mainly due to the fall in Chinese demand, as well as supply constraints (supply and labour difficulties).

The deterioration in the goods trade balance (green bar in chart 1) has other causes too, evidenced by the examination of national accounts data on exports and imports of goods and services in real terms.

The balance on manufactured goods (excluding refined oil) deteriorated slightly more in 2022 (chart 3), along with the rise in manufacturing production (+1.9% in 2022) and corporate investment (+3.5% in 2022). These increases were matched by a widening of the deficits on capital goods and other industrial products, through the imports they required.

The deterioration in production capacity of the industry sector, following the 2008 crisis (chart 4), has favoured an increase in the import content of French growth, which helps explain this structural widening of the balance on goods.

FRANCE: REAL GDP GROWTH, INCLUDING AND EXCLUDING ENERGY

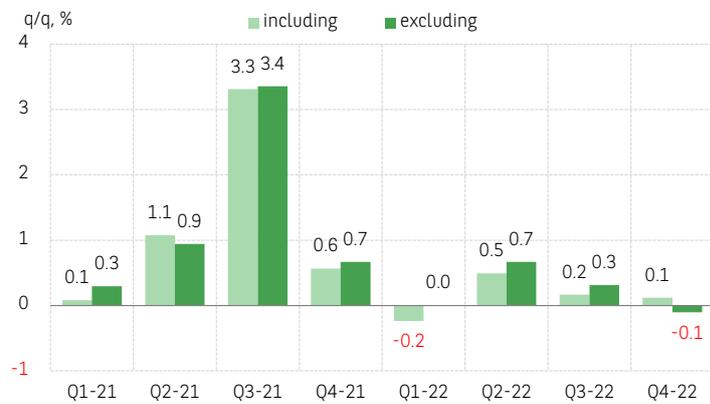


CHART 2

SOURCE: INSEE, BNP PARIBAS CALCULATIONS

FRANCE: TRADE BALANCE OF GOODS AND SERVICES AT CONSTANT PRICES

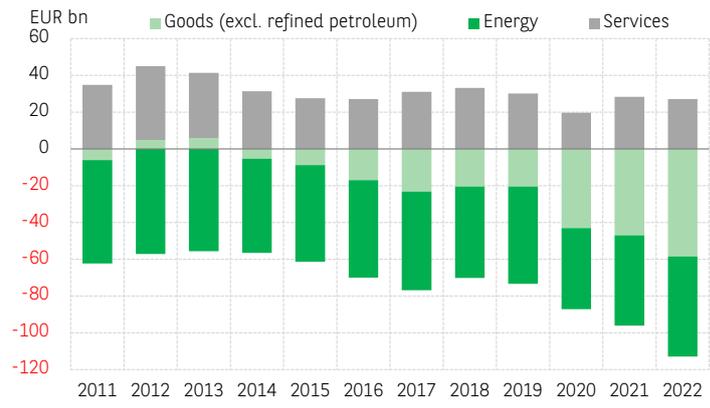


CHART 3

SOURCE: INSEE, BNP PARIBAS

FRANCE: PRODUCTION CAPACITY IN THE MANUFACTURING SECTOR



CHART 4

SOURCE: BANQUE DE FRANCE, INSEE, BNP PARIBAS CALCULATIONS

² INSEE only publishes changes in inventories by product in nominal terms, not in real terms, which does not allow us to correct our GDP growth estimate by also excluding the changes in energy stocks.

SERVICES SECTOR: END OF THE “EXCEPTIONAL” EFFECTS

The surplus in the services sector significantly widened in 2021 and in the 1st half of 2022. Up to the 1st quarter of 2022, this largely offset the worsening in the balance of goods. The current account balance (which also incorporates services and factor income) therefore remained close to zero. However, this relative equilibrium deteriorated throughout 2022. Firstly, with the increase in the deficit on goods (*chart 1*), and then because the surplus on services partly vanished (*chart 5*):

- The post-Covid catch-up effects on tourist inflows had largely materialised as soon as the 2nd quarter from the 2nd quarter onwards (excluding Asian tourists). They led to a temporary increase in the surplus in the tourism sector. This then normalised, with the increase in tourist outflows from the 3rd quarter onwards ;
- The surplus on transport services, evident from 2020, began to fall sharply from the 4th quarter of 2022 with the downward reversal of the “price” effects (confirmed by data from the beginning of 2023, including a further drop in the Baltic Dry Index).

The result was a widening of the current account deficit during the year, which reached EUR 54bn euros in 2022, following a surplus of 10bn in 2021. At the same time, the other components of the current account balance (income and transfers) were relatively stable.

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FRANCE: BALANCE OF TRADE IN SERVICES

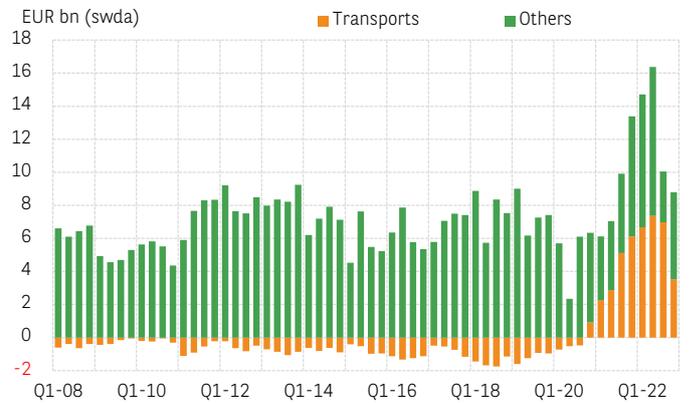


CHART 5

SOURCE: BANQUE DE FRANCE, BNP PARIBAS CALCULATIONS

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