

ECONOMIC PULSE

FRANCE: GOOD VIBES DESPITE BOTTLENECKS

The first indications for Q4 2021 suggest that the main confidence indicators are holding at high levels, especially business sentiment. The improvement in the French labour market observed over the past several months also seems to be continuing. With Q3 GDP growth recently confirmed at 3% q/q, France should have no trouble reaching our full-year 2021 forecast of 6.7%.

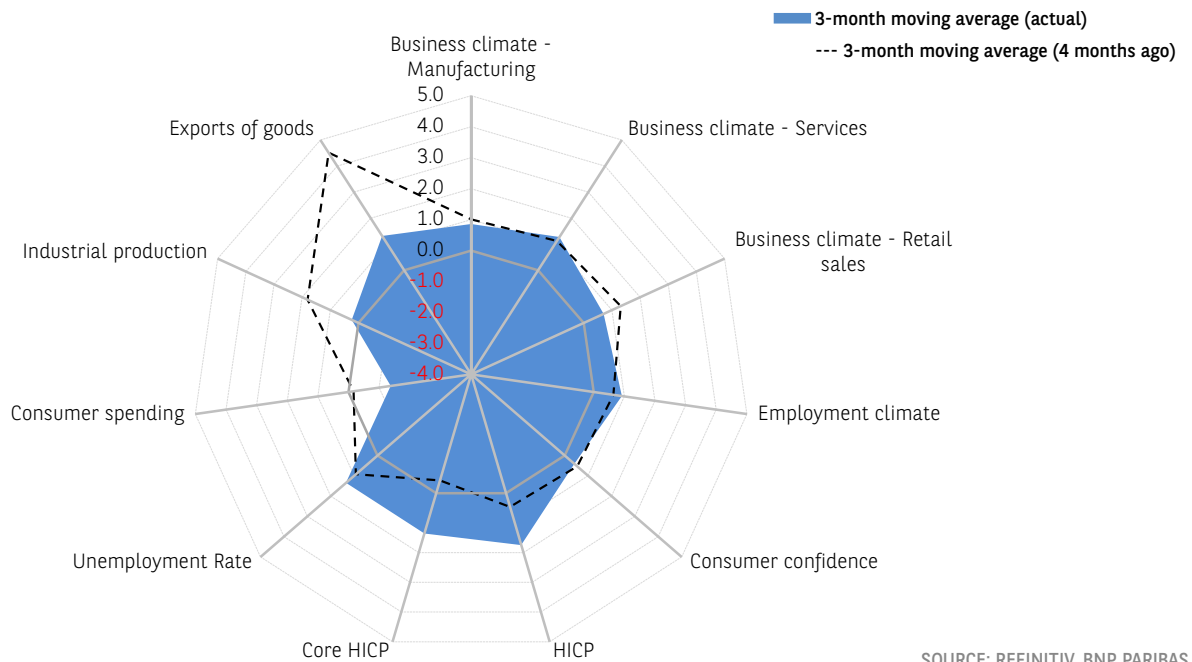
Even so, our Pulse seems to suggest that growth is slowing, held back by several headwinds. The first is the lag between order books and the turnaround time necessary for companies to meet demand. Order books have been full for several months, but supply disruptions are accumulating. For 44% of industrial companies, supply bottlenecks are the main factors limiting production according to the European Commission Q4 business survey. Consequently, they are struggling to meet demand, as illustrated by the relatively low level of inventory, mild growth of industrial production and the sharp increase in producer prices (+14.9% y/y in October 2021 vs. +9% three months earlier). The second headwind has to do with consumer behaviour, notably in relation to accelerating inflation (2.8% y/y in November). Higher energy costs are the main source of inflation, but they are beginning to spill over to other items on the consumer price index. Prices of manufactured goods were up 0.8% y/y in November. Year-on-year inflation has been in positive territory since August, bringing to an end nearly a decade-long decline in manufacturing prices.

At the same time, household consumption of goods has tended to erode (-0.7% over the 3-month period to the end of October, compared to the three previous months). Although industrial shortages are partly to blame (decline in new car registrations, partially reflecting the growing importance of electric vehicles), households have also maintained a big appetite for savings (67% consider it a good moment to save, which is historically high).

Exports could also provide a new source of growth. They have held below pre-Covid levels for longer compared to European neighbours, mainly due to the preponderant weight of aeronautics. In August 2021, however, exports of goods rose above the Q4 2019 level for the first time, and prospects look promising, with the INSEE's latest industrial survey reporting a strong improvement in export order books in aeronautics. Consequently, even though growth is slowing, the French economy should maintain a relatively robust pace of 0.6% q/q in Q4, assuming the health situation does not (overly) cloud the horizon.

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FRANCE: QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +5. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.