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“ WHILE FRENCH GROWTH REACHED 1.1% IN 2023 AND 2024, UNCERTAINTIES, PARTICULARLY OF A POLITICAL NATURE, ARE EXPECTED TO DRIVE GROWTH SLIGHTLY DOWN IN 2025 (0.7% ACCORDING TO OUR FORECASTS). HOWEVER, WE ARE PROBABLY OVER THE WORST AND GROWTH IS EXPECTED TO STRENGTHEN FROM Q2 ONWARDS.

ECONOMIC RESEARCH

BNP PARIBAS

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FRENCH GROWTH: IS THE WORST OVER?

While French growth reached 1.1% in 2023 and 2024, uncertainties, particularly of a political nature, are expected to drive growth slightly down in 2025 (0.7% according to our forecasts). The difference can be explained primarily by the weak growth carry-over after Q4 2024 and Q1 2025. However, we are probably over the worst and growth is expected to strengthen from Q2 onwards. In fact, implementation of the 2025 budget should restore confidence and allow an increase in public consumption compared to Q1 (when it was penalised by renewal of the 2024 budget). Basically, we think that the momentum of the transition to services - accompanied by strong business creations - has not been interrupted. Accordingly, the fundamentals of French growth are preserved.

PAST EVENTS LEAVE THEIR MARK

France has a real budget and this is not just a renewal of the 2024 budget. So, the economy is expected to emerge from a period of three quarters during which adverse effects prevented France from reaching what Insee considers to be its trend pace (0.2% q/q per quarter, excluding exceptional effects).

No salvation in Q3 2024, apart from the Olympic Games. According to Insee estimates, while the Olympic Games (OG) contributed nearly 0.3 points to French growth, the effects of crowding-out (reduction in public works activity, rather disappointing commercial and tourism activities outside the OG, etc.) deducted nearly 0.1 points: 0.2% + 0.3% - 0.1% = 0.4%.

In Q4 2024, the effect of the no-confidence vote. A repeat of Q3, but for a different reason: the uncertainty that peaked following discussions on the budget that led to the no-confidence vote against the Barnier government. While the exceptional effects associated with the OG were the opposite in terms of Q4 GDP (direct effect and crowding-out effect), and starting from trend growth still at 0.2%, resulting in GDP growth of -0.1% (according to preliminary estimates), the suggestion is a cost associated with this uncertainty of around 0.1 points: 0.2% - 0.3% + 0.1% - 0.1% = -0.1%.

In Q1 2025, the renewal of the 2024 budget very probably impacted growth. The shock should be 0.1 points once again (according to our estimates), maintaining weak growth (+0.1% q/q according to our forecasts, once again below trending growth): 0.2% - 0.1% = 0.1%. France began the year without being able to implement part of its public policies. This has delayed the increase in spending in sovereign areas (defence, security, justice) and disbursements of aid programmes (as no budget had officially specified the scope of the new envelope for 2025), such as MaPrimeRénov'.

Conclusion: GDP growth weakening in 2025. Our forecast for 2025 is +0.7% as an annual average. Growth is therefore expected to be lower than in 2023 and 2024, at 1.1% in both years, primarily due to a lower growth carry-over (0.4% at the end of Q1 2025, compared to 0.7% a year earlier). The difference can be explained by the impact of the 2025 budget, through negative carry-over effects (uncertainty, late implementation), for 0.2 points, and its consequences for growth once adopted, for 0.2 points, due to higher taxation and lower spending (effects on public spending, and therefore on investment and public consumption; on private investment, due to a reduction in public support).

NEGATIVE CYCLICAL ELEMENTS BUT MORE POSITIVE STRUCTURAL ELEMENTS

In our view, the budget proposed by the Bayrou government seems more credible than the budget of the Barnier government, particularly in terms of growth forecasts (0.9%, down 0.2 points compared to that of the Barnier government) and the budget deficit (5.4% of GDP, versus 5% for the Barnier government). The reduction in this deficit is no longer based on a reduction in the social security deficit, and less on the decrease in local authority spending than before (EUR 2.2 billion compared to 5 billion initially), leaving the government budget to make most of the cuts to be made in spending (EUR 8.8 billion). This effort is more narrowly distributed but more likely to succeed, as the government has more control over its own spending than local authorities or social security.

What the budget is expected to impact. In order to reach a more credible budget deficit target, choices have been made in terms of reducing spending:

• Reduction in support for employment (nearly 4 billion in budget cuts), even though momentum in the labour market has weakened significantly (50,000 net job losses in the private sector in Q4 2024). We forecast 100,000 net job losses in 2025 (the first excluding the Covid period) and an increase in unemployment of around 8.5%. However, fear of unemployment weakens the likelihood of a drop in the level of household savings.

• Reduction in support for investment and decarbonisation in 2025: spending on France 2030 and MaPrimeRénov' will shrink. In addition, the drain of EUR 1.6 billion in additional employer contributions is expected to contribute to the deterioration of corporate margins (around 30% on average in 2025 compared to a level we estimate at 31% in Q4 2024), which should also lead companies to revise their investment outlook downwards again this year (-1.3%, after already reaching -1.6% in 2024).

Uncertainty is different, but still there. In view of these elements, other barriers could have an impact, notably on the international context. Uncertainty is high, as everything depends on US political decisions, directly (trade policy) and indirectly (impact on US inflation and therefore on global interest rates). These assumptions could affect investment prospects (in addition to the causes already discussed).

Structurally, the basis for growth is preserved. To cope with the headwinds and uncertainties (past, present and future), France does have some strengths. These are based on several areas of momentum and are not specific to France (service innovations, decarbonisation), but, in this context, France is doing well:

• France is able to create companies, with an increase in creations that continued unabated in 2024 (+5.4%).

• France has significantly improved the functioning of its labour market: proof of this is the strength of job creation after Covid, along with the development of apprenticeships and self-employment, which have brought more flexibility to companies.

• France has a comparative advantage in services, particularly in those linked to intellectual property and technology (investment in this area represented nearly 5.5% of GDP in 2024, significantly more than in the other major Eurozone countries).

• Aeronautics and agriculture, in which production was affected in 2024 (due to supply constraints for the former and climate constraints for the latter), are expected to regain their usual weight in French growth in 2025.

• Public spending in sovereign areas is expected to increase (including EUR +3 billion in military spending in 2025), which should boost public consumption. An effort that needs to be intensified, as Ursula von der Leyen discussed at the Munich Security Conference the prospect of a surge in Europe's defence spending to ultimately reach 3% of GDP.

Recent data show that, despite a less favourable economic climate that is likely to weigh on the labour market's capacity to create jobs in 2025, these balances are not affected.

While this base should generate less growth in 2025 (in activity, investment and employment), the balance of risk is perhaps a little more even than one might think at first glance (good news of the adoption of the budget, impacts of lower interest rates and disinflation in France and Europe), hopefully with less disruption by the next fiscal process. However, this is not expected to translate into a sharp rebound in 2026 (growth forecast at 0.9%).

AND WHAT IF A MORE POSITIVE SCENARIO EMERGES?

There is a trajectory to materialise the government's growth forecast. Compared to the assumptions we apply in our forecast, this presumes that adoption of the budget favours a positive confidence shock (cancelling out the cost of its non-adoption in Q4 2024 and in Q1 2025). In other words, the negative impact, linked to cuts in spending and higher taxation (including + EUR 12 billion for companies), may be offset by a drop in the level of household savings and a favourable impact of the fall in risk premiums.

The adoption of the 2025 budget reduced the spread between Germany and France by nearly 10 bps, but the latter, at nearly 70 bps, remains 20 bps above its pre-dissolution level. The German 10-year rate is 20 bps lower than its level on 7 June 2024, while the French rate is close to its own level (3.1%). However, lower rates can boost investment (households and companies) and, while not making a rebound possible, at least limit its contraction. When we look at the German economy, which saw rates fall more than in France, the rebound in new factory orders (+4% between August and December 2024, measured as a 6-month moving average), which can be explained by new orders for capital goods, could be one of the first signs of improvement on the investment front.

In France, this could be translated by more favourable exports than in 2024 for machinery and equipment, as well as for industrial inputs. We can also expect a rebound in second-hand transactions on properties: interest rates are slightly lower than at their peak and the decline in prices seems to be a thing of the past. So it is less relevant than before to wait to buy.

Stéphane Colliac

ECONEWS

Find our scenario and forecasts

ADVANCED ECONOMIES

United States

Inflation means interest rate cuts will not be imminent. Measured by the CPI (SA data), inflation was surprisingly up in January 2025. In addition, the monthly pace of the headline index (+0.5%, EST: +0.3%) is the fastest since August 2023, bringing the annual variation to +3.0% (+0.1 pp). Core inflation also accelerated (+0.4% m/m, +0.2 pp; +3.3% y/y, +0.1 pp), driven by transport prices. For Jerome Powell, these figures argue for maintaining a "restrictive policy" in the absence of "significant progress" towards the inflation goal. Production prices are following this lead (+0.4% m/m, EST: +0.3%), but in terms of sub-components, these are reassuring as regards the PCE index (the Fed's preferred metric for inflation). Retail sales fell by 0.9% m/m in January, the sharpest monthly drop since March 2023. Manufacturing production also fell (-0.1% m/m) due to motor vehicles (and parts) and non-durable goods, but the total industrial production index appreciated (+0.5% m/m) with the rebound in utilities.

Tariffs, ongoing but not done. Donald Trump signed an executive order increasing tariffs on all steel and aluminium imports to 25%, compared to 10% currently, with effect from 12 March. He also signed a memorandum calling for his administration to prepare to impose "reciprocal" tariffs on all US trade partners; these tariffs are equivalent to those applied by each of these countries to imports of similar goods from the US. According to the US President, this includes taxes and VAT in particular. These measures could take effect from April. And lastly, Trump announced that he would soon be imposing tariffs on car imports.

Euro area

Marginal revisions to the GDP data in Q4 2024. The second GDP estimate showed an upward revision to 0.1% compared to 0.0% for the initial figure (0.052% compared to 0.029% to be precise). Employment was up 0.1% q/q, the lowest growth in four years. **Industrial production fell in December (-1.1% m/m**, of which -8.9% for automotive and -4.5% for petrochemicals). In view of the rapid developments in Ukraine, Ursula von der Leyen, President of the European Commission, announced that she would soon propose the suspension of European budget rules to allow Member States to increase their defence spending. On his part, the frontrunner to be Germany's next Chancellor, Friedrich Merz, is open to the idea of common borrowing to fund Europe's defence.

France **The unemployment rate fell from 7.4% in Q3 to 7.3% in Q4**, as a result of a drop in youth employment rate. At the same time, 12.8% of 18-29-year-olds are not in training or employment, a percentage not seen since before Covid (before the significant rise in apprenticeships). Gross monthly wage was up 2.8% y/y in Q4 (+2.7% in Q3), due in particular, to the anticipated 2% increase in the minimum wage [SMIC] on 1st November 2024. The Bank of France is expecting growth of between 0.1% and 0.2% q/q in Q1 2025 (business survey).

Italy **Industrial production is at its lowest level since the Covid-19 crisis** (-7.1% y/y) due to a drop in all components, except energy (+5.5%). The transport equipment sector was hit hardest (-19.4%), closely followed by textiles and related products (-16.2%).

Switzerland **Inflation continued to fall** (HICP at 0.2% y/y in January), as electricity prices fell by around 10% in January. The core index was up slightly (+0.9% y/y), but remains within the SNB's target range (0%-2%).

Japan **Fears of a trade war have not completely gone away.** The visit to the US by Japan's Prime Minister Shigeru Ishiba resulted in several announcements and statements of intent aimed at defusing any potential tension. Japanese investments in the US will increase from USD 800 billion to USD 1,000 billion and Japanese purchases of US LNG will increase. However, Japan is not expected to escape "reciprocal tariffs" as President Trump reasserted the need to eliminate the US trade deficit with Japan.

United Kingdom **Low and deceptive growth.** Real GDP grew by 0.1% q/q in Q4 2024, driven by inventories (contribution of 1.7 points) and, to a lesser extent, by public consumption (contribution of 0.2 pp). Household consumption stagnated. Corporate investment and exports of goods and services are contracting significantly. The property market is losing momentum, according to the RICS survey. Although positive, the balance of opinion on sales expectations fell in January for the third consecutive month and reached its lowest level since April 2024.

COMMODITIES

The gap between oil supply and demand has narrowed according to the latest forecasts from the International Energy Agency (IEA) and OPEC. The IEA revised upwards its forecasts for growth in global oil demand for 2025, to +1.1 mb/d (+0.05 mb/d), and revised downwards its forecasts for global production to +1.6 mb/d (-0.2 mb/d).

OPEC left its forecasts for growth in demand unchanged for 2025 and 2026 (+1.4 mb/d), while the change in non-OPEC+ production was revised slightly downwards for 2025 and 2026 to +1.0 mb/d (-0.1 mb/d).

On its part, the EIA (US Energy Information Administration) left its forecasts for growth in demand in 2025 unchanged (+1.3 mb/d) and revised these forecasts slightly upwards for 2026 to +1.1 mb/d (+0.1 mb/d). Growth in global production was revised upwards for 2025, to +1.8 mb/day (+0.2 mb/day), and for 2026, to +1.6 mb/day (+0.3 mb/day).

MARKETS OVERVIEW

Bond Markets

	in %	in bps			
	14/02/2025	1-Week	1-Month	Year to date	1-Year
Bund 2Y	2.13	+5.3	-20.2	+6.8	-72.0
Bund 5Y	2.19	+5.3	-19.4	+8.1	-14.1
Bund 10Y	2.40	+4.6	-22.6	+3.5	+7.7
OAT 10Y	3.03	+1.5	-36.6	-9.2	+26.7
BTP 10Y	3.41	+5.1	-32.5	-1.6	-45.5
BONO 10Y	3.02	+6.0	-26.9	-0.4	-16.2
Treasuries 2Y	4.28	-2.7	-9.5	+3.0	-30.0
Treasuries 5Y	4.34	-0.8	-25.8	-4.1	+9.3
Treasuries 10Y	4.48	-0.8	-30.8	-9.3	+20.0
Gilt 2Y	4.22	+3.0	-13.1	+6.8	-33.9
Treasuries 5Y	4.27	+3.4	-35.4	-7.8	+34.3
Gilt 10Y	4.50	+2.0	-38.6	-6.9	+38.4

Currencies & Commodities

	Level	Change, %			
	14/02/2025	1-Week	1-Month	Year to date	1-Year
EUR/USD	1.05	+1.6	+2.1	+1.5	-2.0
GBP/USD	1.26	+1.6	+3.4	+0.8	+0.5
USD/JPY	152.17	+0.5	-3.7	-3.2	+1.0
DXY	111.99	+7.9	+11.5	+10.5	+6.1
EUR/GBP	0.83	-0.0	-1.3	+0.7	-2.5
EUR/CHF	0.94	+0.3	+0.2	+0.5	-0.7
EUR/JPY	159.90	+2.1	-1.7	-1.7	-1.0
Oil, Brent ($/bbl)	75.01	+0.4	-6.7	+0.4	-9.0
Gold ($/ounce)	2900	+1.0	+8.5	+10.5	+45.8

Equity Indicies

	Level	Change, %			
	14/02/2025	1-Week	1-Month	Year to date	1-Year
World					
MSCI World ($)	3899	+1.7	+5.9	+5.2	+19.4
North America					
S&P500	6115	+1.5	+4.7	+4.0	+22.3
Dow Jones	44546	+0.5	+4.8	+4.7	+15.9
Nasdaq composite	20027	+2.6	+5.2	+3.7	+26.3
Europe					
CAC 40	8179	+2.6	+10.2	+10.8	+6.5
DAX 30	22513	+3.3	+11.1	+13.1	+32.9
EuroStoxx50	5493	+3.2	+10.3	+12.2	+16.7
FTSE100	8732	+0.4	+6.5	+6.8	+15.4
Asia					
MSCI, loc.	1443	+1.0	+3.4	+0.7	+8.9
Nikkei	39149	+0.9	+1.8	-1.9	+3.8
Emerging					
MSCI Emerging ($)	1125	+1.5	+6.9	+4.5	+12.7
China	73	+7.4	+19.0	+13.2	+41.3
India	949	-3.3	-3.0	-7.7	-0.9
Brazil	1367	+3.1	+14.4	+16.2	-18.4

Performance by sector

Eurostoxx600

Year 2025 to 14-2, €

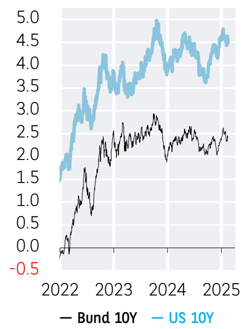
+15.6%	Banks
+12.7%	Consumption Goods
+11.3%	Technology
+10.4%	Industry
+9.8%	Financial services
+9.3%	Oil & Gas
+9.1%	Chemical
+9.0%	Construction
+8.9%	Media
+8.8%	**Eurostoxx600**
+8.5%	Commodities
+8.0%	Telecoms
+7.3%	Insurance
+6.0%	Retail
+5.9%	Health
+4.3%	Food industry
+4.3%	Real Estate
+2.0%	Travel & leisure
-0.0%	Utilities

S&P500

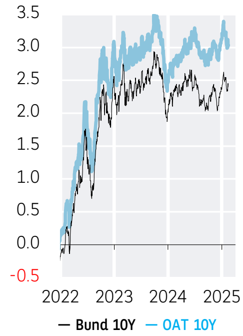
Year 2025 to 14-2, $

+12.7%	Retail
+11.6%	Telecoms
+11.5%	Bank
+8.7%	Healthcare
+8.5%	Media
+7.4%	Consumer Services
+6.9%	Real Estate
+6.8%	Materials
+5.8%	Commercial & Pro. Services
+4.2%	Consumer Discretionary
+4.2%	Utilities
+4.1%	Energy
+4.0%	**S&P500**
+3.2%	Food, Beverage & Tobacco
+3.2%	Semiconductors
+3.0%	Capital Goods
+2.9%	Insurance
+2.4%	Pharmaceuticals
-0.8%	Tech. Hardware & Equip.
-11.2%	Automobiles

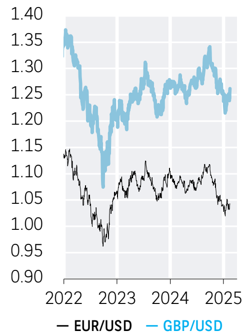
Bund 10Y vs US Treas. 10Y



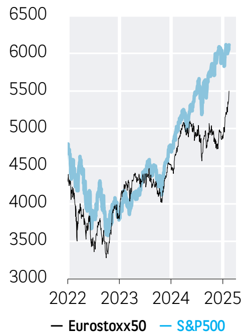
Bund 10Y vs OAT 10Y



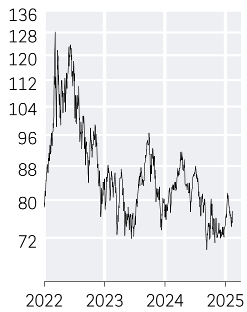
EUR/USD vs GBP/USD



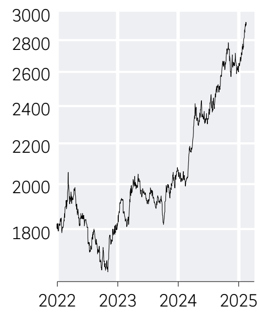
EUROSTOXX 50 vs S&P500



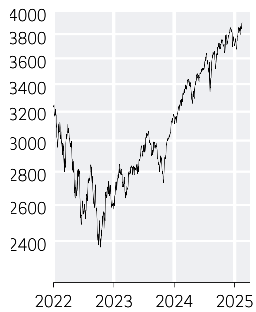
Oil, Brent ($/bbl)



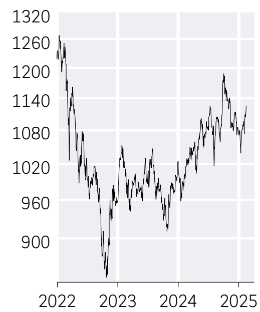
Gold ($/ounce)



MSCI World ($)



MSCI Emerging ($)



SOURCE: LSEG, BLOOMBERG, BNP PARIBAS

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