

ECONOMIC PULSE

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FRANCE: AN ECONOMY WEAKENED BY THE SPREAD OF INFLATION

Inflation has continued to accelerate, at 5.8% y/y in June, and has not yet reached its peak. Most significantly, the energy component saw a further monthly rise of 5.3% in June, having already risen by 9% in March. Not only had the initial shock not yet fully passed through into other prices (food, manufactured goods, services), but this new increase signals a further acceleration in inflation, particularly in the food component which suffered the most from the initial shock (1.4% increase month-on-month and 3.1% over 3 months): In June, this food index has increased by 5.7% y/y, below July 2008's 6.4% peak, but should rise above and reach 9% in December 2022, according to our forecasts.

Inflation is becoming increasingly widespread, as shown by Insee's retail survey: in June, retailers expecting price increases were quite at the same proportion in food retail, textile, household equipment and automotive, and even more so in housing development.

The consequence was a further fall in consumer confidence, with an index at 82 (3 points down in June and 17 points lower for the year to date), in keeping with another drop in consumer spending in the second quarter (by 0.7% on our estimates), following the 1.5% q/q fall in the first quarter.

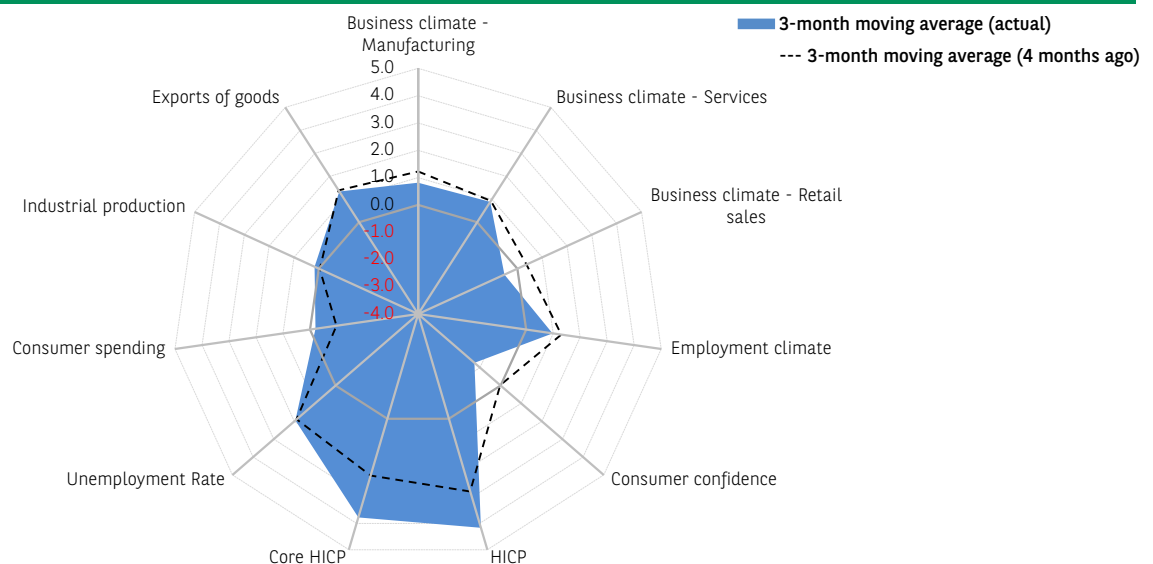
The lengthening of this demand shock is likely to have a growing effect on corporates. In January, the level of inventories of finished goods was low. Thereafter, lower demand and quite unchanged production have helped to rebuild inventories. In the manufacturing sector, it appears that inventories are, on average, back to normal. It entails that a new weakness in terms of demand would imply either inventories above normal or a decrease of the production. Meanwhile, companies' cash holdings, which were higher than normal in January, are no longer showing any surplus.

Thus, corporates no longer benefit in June from the same buffers that they had to soften the impact of the shock during the last four months. In addition, they now face margins that had already fallen significantly, to 31.6% in the first quarter of 2022, with bigger falls in construction and retail. All of this is taking place while the past strength of the labour market, and the withdrawal of the final measures of the 'whatever it takes' programme, are now being reflected in total compensation growth (including all social security contributions). This should reach in 2022 a level 11% above its pre-Covid amount, whilst the value added by companies should only be 7% above its pre-Covid level.

A possible recovery in demand, as a result of government measures to support purchasing power (which should be boosted by 0.9% q/q in Q3), will not be enough to offset the fall in household consumption seen in the Q1 and expected for the Q2. We do not expect a return to end-2021 levels until mid-2023. Overall, after a 0.2% contraction in GDP in Q1, we expect zero growth in Q2 and 2.3% growth for 2023 as a whole.

Stéphane Colliac

FRANCE: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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.



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