

ECONOMIC PULSE

FRANCE: A GROWING RISK OF RECESSION

Inflation fell to 5.6% year-on-year in September after reaching a high of 6.1% in July, but its decomposition has changed. Food prices (with a year-on-year increase of 9.9% in September) became the main contribution to inflation for the first time (representing a third of the 5.6% figure observed in September), exceeding that of the energy component, the reduction of which owes much to the discount applied to the litre of fuel (which grew from 18 to 30 cents). In 2023, the increase in regulated gas and electricity tariffs will be capped at 15% instead of 120% (Government source), which will prevent 5 inflation points (overall), according to our estimates.

This relatively contained inflation should contribute to a roughly stable household purchasing power in 2022 and even to a rise in 2023 (+0.9% according to our forecasts and those of the Government). However, the Insee household survey shows an increase in the opportunity to save question (+30 in September, compared to +19 two months earlier), suggesting that household consumption should remain constrained.

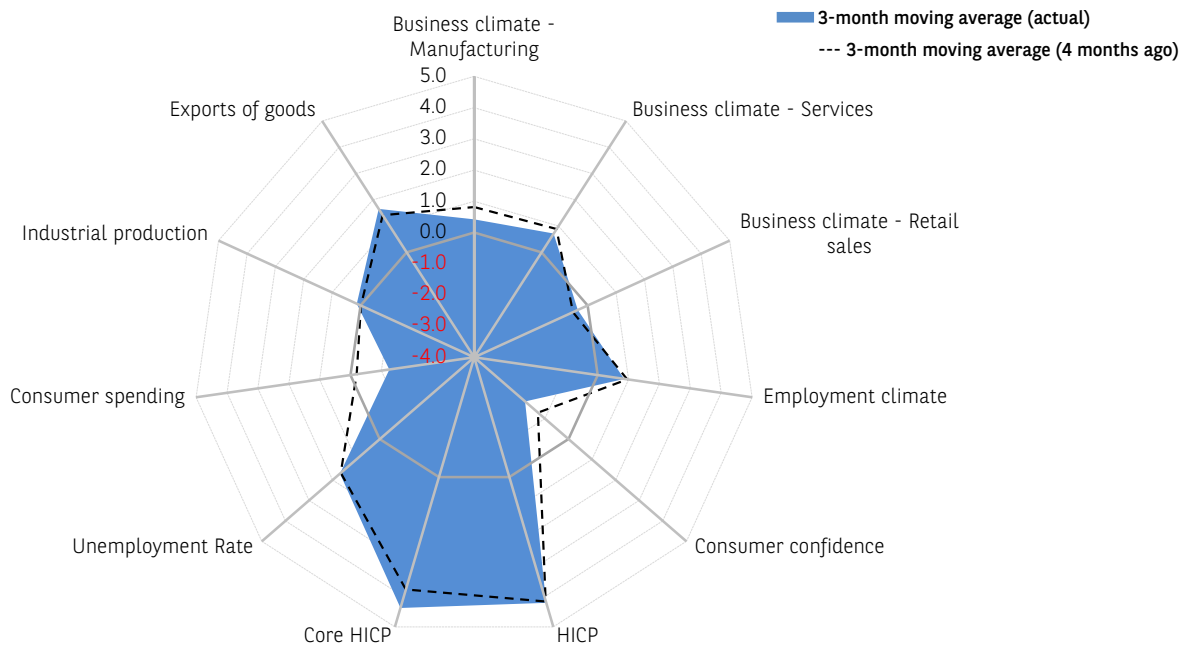
Businesses are preparing to reduce their production. Their inventories are therefore relatively high, not because of high demand or the potential for it, but to continue to meet existing demand in the coming months while obstacles to production are set to entrench (strong constraints on energy – price spikes and limited supply and demand – adding to supply difficulties).

However, the French economy continues to benefit from unique characteristics, with the upturn from the second quarter in accommodation, catering and tourism following the lifting of COVID-19 restrictions. The rebound in car production continued in August – it now stands at 10% below its average level in 2019 compared with almost 40% in March – meaning the lead time on the order book, which stood at almost 7.5 months, has reduced.

This “back to normal” supports growth in an environment that remains difficult. However, it means there is upside risk for our growth forecast for Q3 (-0.2% q/q). It should be noted that Insee was expecting growth of +0.2% q/q and the Bank of France of around +0.25% q/q (forecasts published on 6 October and 10 October, respectively). However, the growth in inventories observed in Q3 supports the likelihood of a correction in Q4, particularly as demand should drop, as shown, for example, by the fall in the percentage of households declaring an intention to purchase a car in the next 12 months (from 10.5% in June to 7.5% in September). We expect quarter-on-quarter growth of -0.3%, with Insee expecting stagnation.

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.

