

## ECONOMIC PULSE

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## FRANCE: MORE HEADWINDS BUT GROWTH CONTINUES

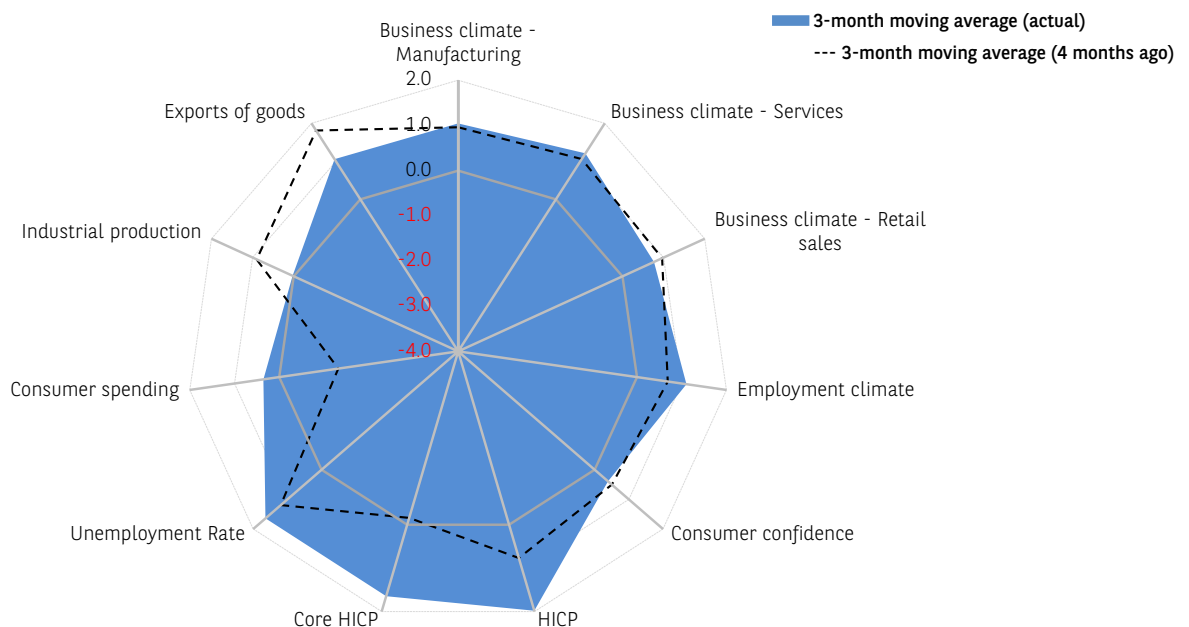
The French economy seems to be getting off to a relatively good start in 2022, despite the introduction of tighter restrictions as a result of the Omicron wave. Positive momentum in the fourth quarter of 2021 – likely to be confirmed by GDP figures due on 28 January – has continued overall in the manufacturing and construction industries. Those sectors are still showing large order backlogs, although they are continuing to suffer from bottlenecks caused by issues regarding labour and inputs.

However, France appears to have a two-speed economy to some extent, with household demand in particular under pressure. Consumer spending strengthened in late 2021 (+0.8% m/m in November) and inflation stabilised temporarily at 2.8% (y/y) in December. The increase in gas prices took place in September and October, while oil prices actually fell in December. However, these trends are likely to take another turn for the worse with the rebound in oil prices in January, the 4% increase in electricity prices scheduled for February and the prospect of higher food prices in the first half of the year.

Covid-related restrictions on services that involve a high degree of social contact – such as accommodation and catering – are also likely to drag down growth. Still, household incomes should continue to rise, as shown by the improvement in the jobs situation. The number of jobs being created remains high and the employment rate hit an all-time high of 67.5% in the third quarter. The jobs component of Insee's business climate surveys confirms the strength of the labour market. Nevertheless, income growth should be partially offset by issues regarding purchasing power, particularly since hourly wages are unlikely to rise as quickly as prices. With ongoing low interest rates and high savings levels, investment spending is likely to be firm. This is equally valid for both households and businesses. Exports are likely to continue their recovery, as shown by the rise in order backlogs in the aeronautics sector. However, compared with a few months ago, the renewed acceleration in aeronautics activity is likely to be more gradual than initially thought due to the Omicron variant and its implications for the transportation sector. Overall, economic survey data from the Banque de France and Insee suggest that the growth momentum of the French economy should remain during the first weeks of 2022 quite comparable to the pace reached during the 4<sup>th</sup> quarter of 2021.

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## 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 +2. 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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