

ECONOMIC PULSE

FRANCE: A POSITIVE SURPRISE IN 3RD QUARTER GROWTH, WHICH MAKES A DOWNTURN IN Q4 MORE LIKELY

The French economy saw GDP rise by 0.2% q/q in the 3rd quarter, a performance which indicates a high level of activity, following on from the previous positive growth figure in the 2nd quarter (+0.5%). After tourism and catering/accommodation in the 2nd quarter, the positive surprises in the 3rd quarter were corporate investment and manufacturing production. While the automotive sector is one of the sectors that is suffering most from supply problems, which implies a mismatch between production lower than before Covid compared with a strong order book, some of the lag was caught up in the summer, resulting in an increase in manufacturing production (+0.6% q/q), which contributed to significant growth in corporate investment (+2.3% q/q).

Employment in particular benefited from this continued favourable economic context, with the creation of around 90,000 jobs according to Insee's flash estimate in the 3rd quarter, a dynamic which benefited sectors reporting labour shortages, in particular market services and industry, and which is further evidence of catch-up momentum in terms of the employment trends seen pre-Covid. A sign of quite a favourable economic climate in the 3rd quarter, the interim even participated in this momentum (+18,000), compensating for around half of the fall seen in the 1st half of the year.

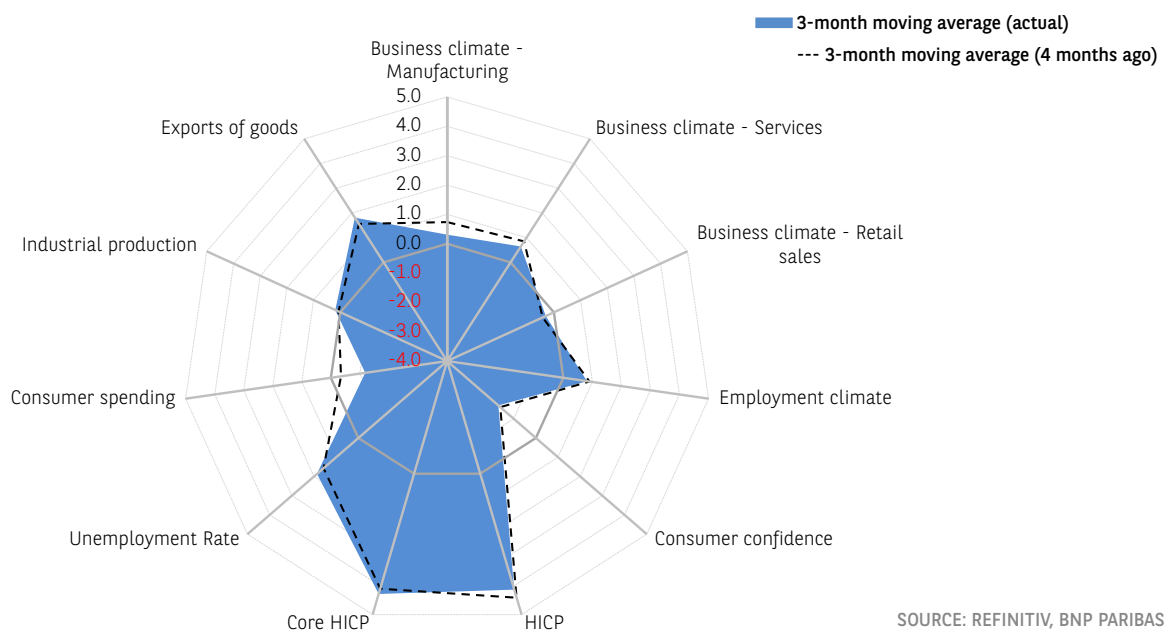
However, there were also negative elements in play at the same time and these are likely to have an adverse effect on momentum in the French economy in the coming months. While order books remain strong, they have shown a decline in recent surveys. The fact that companies in industry and construction are behind schedule on demand, due to the bottlenecks they face, has allowed this to be smoothed out. However, it seems that companies have now significantly restocked (contribution of 0.2 points to growth in the 3rd quarter and 0.5 points for the year as a whole), which suggests that the pockets of growth which existed due to previous understocking have largely been exploited.

The extent of the rise in inflation in October (6.2% y/y) was a surprise, providing an upturn that was earlier than previously expected. Food inflation (11.8% y/y) has recorded an increase of at least 1% m/m over the last 4 months, driven by shortages which followed the very dry summer (milk and water in particular). Following the 15% increase in regulated gas and electricity tariffs at the beginning of 2023, inflation is likely to rise further and to be slightly above 7% in February 2023.

Finally, the prospect of electricity generation remaining below normal levels by the end of the year is becoming more likely. Many nuclear reactors are still undergoing maintenance and EDF now expects nuclear power generation to fall by more than 20% in 2022 compared to 2021. Although to a large extent energy consumption depends on temperatures and therefore can be somewhat of an unknown factor, the risk of constraints on this consumption appears to be quite significant. With regard to the 4th quarter, we expect this series of negative elements to take precedence, which would imply negative growth (-0.3% q/q), although for the moment Insee is anticipating stagnation (forecast published on 6 October).

Stéphane Colliac

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.

