France: We’re expecting weak and below-consensus growth numbers

The French economy is likely to remain very sluggish at the start of 2024, before picking up a little more momentum in the second half of the year. We expect growth to be weak and below the consensus forecasts

What a lovely looking baguette! President Macron and his impressed wife, Brigitte

The stagnation continues

The best we can say about the outlook for France this year is that it'll be moderate. The economy appears to be stabilising, but activity is subdued. And that means the country will probably escape a prolonged recession. There are few signs of a dynamic recovery in the short run. On the contrary, persistently high inflation (3.7% in December), the very negative impact of restrictive monetary policy on investment and the construction sector, the slowdown in the global economy and the geopolitical risks weighing on confidence will continue to be a drag on the French economy. Weak growth of 0.1% is expected for the first quarter.

2023 marked the end of France's post-pandemic recovery. The year's final quarter was disappointing, although slightly better indicators for December give us hope that the country has avoided a further contraction in activity. Over 2023 as a whole, French GDP will have grown by around 0.8% after the dynamic recovery of 2022 (+2.5% over the year).

Consumption expected to pick up in the second half

Inflation should continue to fall in 2024, although not as quickly as in other European countries. Indeed, despite lower energy prices on commodities markets, household energy bills are likely to continue rising in France, albeit at a slower rate than last year due to the end of various government support mechanisms. It should ease in the second half of the year, to end the year close to 2%.

> *Consumption should contribute more to French economic growth*

As inflation falls, we expect real purchasing power to pick up again, with wages expected to rise more strongly than prices. This will enable consumption to contribute more to French economic growth than in 2023, leading us to expect growth to accelerate from the spring and during the second half of the year. Although it will compensate more for inflation, nominal wage growth should nevertheless slow during 2024 due to the expected slowdown in the labour market.

As a result of weaker demand, job losses and a moderate rise in unemployment are expected over the coming quarters, which will limit the pace of the recovery. Against this backdrop, the savings rate is likely to remain historically high. A slight boost from the Olympic Games in the third quarter will be welcomed. By 2025, growth should benefit from an improvement in investment, as the effect of tighter financial conditions will peter out. We expect GDP growth to be on the weak side in 2024, averaging 0.5%. In 2025, growth should pick up to around 1.3% for the year.

Public finances still in a very poor state

Public finances are set to remain troublesome over the next few quarters, against a backdrop of a still expansionary fiscal policy. However, it will be less noticeable than in recent years. The public deficit is set to fall slightly over the next two years but will remain well above 4% of GDP, which will not allow the public debt ratio to be reduced as a percentage of GDP. In fact, because of the higher interest burden, the debt ratio could start to rise again and be close to 113% in 2025, while at the same time other European countries could be seeing their debt ratio decline.

The French economy in a nutshell

	2022	2023F	2024F	2025F
Demand and output				
GDP	2.5	0.8	0.5	1.3
Private consumption	2.3	0.6	1.0	1.6
Investment	2.3	1.3	-0.4	1.4
Government spending	2.5	0.5	0.8	0.7
Net trade contribution (% points of contribution to GDP)	-0.6	0.3	-0.2	-0.1
Labour market				
Unemployment rate (% eop, Eurostat)	7.3	7.3	7.8	8.0
Government finances				
Budget balance as a % of GDP	-4.7	-5.0	-4.8	-4.8
Government debt as a % of GDP	112	111	111	113
Prices				
Inflation (HCPI)	5.9	5.7	3.2	1.9

Source: Refintiv Datastream, ING forecasts

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