

# French businesses and consumers are becoming more pessimistic

While the March surveys only imperfectly capture the effects of the conflict in the Middle East, the signals sent by French businesses and households are already clearly pointing downwards



The business climate in France is below its long-term average

## Sentiment is deteriorating

The business climate in France remained stable in March, at 97, but has now been below its long term average for almost two years. Responses were collected by INSEE between 26 February and 23 March. However, the vast majority of firms responded before mid March, at a time when the repercussions of the conflict in the Middle East were still limited compared with the current situation. Nearly one fifth of responses date from before the outbreak of the conflict.

As expected, the business climate deteriorated sharply in industry, losing three points over the month. Past production, production expectations and order books are all down. This deterioration is mainly driven by the “other transport equipment” sector, which had been one of the main engines of French production in recent months but is now markedly more pessimistic. At the same time, selling price expectations in industry rose sharply over the month.

Sentiment remains very depressed in services, due to a more negative assessment of past activity. By contrast, the business climate edged up slightly in retail trade and construction. The

employment climate improved by one point, but remains well below its long term average.

Household confidence also declined in March, falling by two points over the month. Although only half of survey responses were collected after the outbreak of the conflict in the Middle East, households are anticipating a very sharp rise in prices in the coming months. The corresponding balance of opinion jumped by 28 points and reached its highest level since September 2022. Households are also markedly more pessimistic about the future evolution of their personal financial situation.

Overall, the data published today confirm that French economic prospects have deteriorated significantly since the outbreak of the conflict in the Middle East. Given the survey collection timetable, the impact of the most recent developments is not yet fully reflected in the March data. If the conflict does not ease in the coming days, a much sharper deterioration in sentiment can be expected in April.

## **French inflation will rise, but less than elsewhere in Europe**

The impact of the situation in the Middle East on the French economy will largely depend on the duration and intensity of the conflict. One consequence already appears certain, however: inflation will be higher than previously expected. At the start of 2026, our forecasts pointed to average inflation of 1.3% for the harmonised consumer price index in France. We now expect inflation to be close to 2% over the year as a whole, with a risk of further upward revisions.

That said, this revision remains more limited than in other European countries. France's inflation starting point is lower than in most other euro area countries. In addition, the French economy is characterised by a large share of administered or centrally negotiated prices, notably in large scale retail and energy. This means that increases in commodity prices are transmitted more slowly to consumer prices than elsewhere. Finally, the economic environment prior to the conflict was not particularly dynamic, which reduces the risk of a rapid inflationary spiral.

The labour market also remains fragile. As shown by the employment climate, hiring intentions are weak and net job creation has been negative for several quarters. Wage negotiations for this year do not incorporate this new inflationary environment. As a result, wage growth should remain moderate, helping to contain price increases, particularly in services.

## **The drivers of economic activity will come under strain**

The risk of a rapid inflationary spiral is therefore more limited in France than in neighbouring countries, but it is not negligible in the event of a prolonged conflict. Moreover, the risk of a negative impact on economic activity is more worrying in France than elsewhere.

The French economy had started 2026 with a slight improvement in optimism, but on fragile foundations. Confidence had only just begun to recover after a difficult 2025, marked by strong political and fiscal uncertainty that weighed on consumption and investment decisions. The current situation is reviving these uncertainties, which should slow the decline in the household savings rate and limit hiring decisions. Rising energy prices will also weigh on purchasing power. An acceleration in consumption now seems unlikely.

In addition, a rebound in investment had been expected at the start of the year, both among households and businesses. However, the rapid rise in long term interest rates since early March,

linked to expectations of monetary tightening by the European Central Bank, is now jeopardising this scenario. Investment growth is therefore likely to remain subdued in 2026. Finally, it should be remembered that the dynamism of French production relies heavily on the aerospace sector. This sector is particularly exposed to the current situation, raising fears of a decline in orders in 2026.

As a result, even if the conflict were to ease in the coming weeks, the main drivers of economic activity already appear weakened. This should translate into weaker than expected growth in 2026. At this stage, we expect average growth of 0.7% over the year as a whole, compared with 1% anticipated at the start of the year. Risks surrounding this forecast remain tilted to the downside: a prolonged conflict could lead to an even more pronounced downward revision of growth prospects.

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