

## Business climate signals clear deterioration in French outlook

Business sentiment fell in France in October, with a collapse seen in the industrial sector. Growth over the next few quarters is expected to be weak



La Défense, a major business district in France

### Uncertainty causes business sentiment to plummet

According to figures published by INSEE, the business climate in France fell in October to 97, down by one point over the month.

This decline is due to a significant drop in business sentiment in industry, with the indicator for the sector losing seven points over the month. Excluding the pandemic, this is the sharpest monthly fall since November 2008. Manufacturers are reporting a sharp fall in past production, production expectations and new orders. New orders are now at their lowest level since the beginning of 2021.

In addition, manufacturers report an increase in economic uncertainty and an expected fall in the number of people employed. They anticipate a sharp fall in demand over the coming months, and expect much weaker investment over the next year. At the sector level, sentiment is in free fall in the manufacture of transport equipment, with a significant drop in production prospects in the automotive sector and a fall in order books for other transport equipment. Business sentiment also fell sharply in the manufacture of capital goods.

By contrast, business sentiment in the services sector improved again for the third month in a row. Gaining two points over the month, it now stands at 101, above its long-term average. Both past and forecast activity have been revised upwards by business leaders, even though perceived economic uncertainty is again on the rise. Employment prospects, on the other hand, have been revised sharply downwards. In the retail sector, business sentiment declined over the month, with past and forecast sales viewed less favourably. In the construction sector, business sentiment remains stable. For all sectors, the employment climate fell, losing two points over the month.

Moreover, the business climate data indicates a rise in inflationary pressures in all sectors, with forecast selling prices rising in October. Inflation is therefore likely to rebound somewhat over the next few months to close to 2% and will probably not remain at the very low level seen in September.

The PMI indices also published today, which fell in both the services and manufacturing sectors, confirm the clear deterioration in France's economic outlook. The survey points to weak demand and the sharpest contraction in new foreign orders since the pandemic.

## Growth will be weak over the coming quarters

Overall, this data paints a worrying picture of the economic outlook for France, pointing to a sharp fall in the pace of economic growth in the fourth quarter. The very difficult implementation of the government's 2025 budget and the new taxes to come, as well as geopolitical tensions, have heightened the uncertainty felt and are clearly weighing on the economic outlook. After a third quarter in which activity in France was boosted by the Olympic Games, the fourth quarter looks very weak and a fall in GDP over the quarter is likely.

But, above all, today's data indicates that the French economy is likely to remain weak going into 2025, with business leaders forecasting weak activity ahead in virtually all sectors. The more restrictive fiscal policy in 2025 will weigh heavily on activity, the situation in the industrial sector is becoming very difficult, and the collapse in business sentiment in October should be seen as a warning signal.

We expect activity in France to remain very sluggish over the next few quarters. Industrial activity is likely to remain very depressed, and we do not expect foreign demand to pick up strongly. Despite the fall in interest rates, we will probably have to wait until the second half of 2025 to see investment pick up, and business investment is likely to remain very weak. The fall in inflation in recent months has supported household purchasing power, but this is unlikely to translate into a very strong rebound in household consumption. On the contrary, the rise in household fears about unemployment and the worsening employment climate in France are likely to push up the household savings rate again, against a backdrop of tighter fiscal policy. All this leads us to believe that GDP growth will remain weak in the first half of 2025.

For 2025 as a whole, the government is still forecasting GDP growth of 1.1%. Given the indicators, the global outlook and the much tighter fiscal policy, we believe this forecast is too optimistic. We are expecting growth of 0.7% in 2025 after 1.1% in 2024, and the risks surrounding this forecast are tilted to the downside.

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