

## Business climate in France stabilises

Business sentiment remained stable in December and is still above its long-term average. If this is confirmed by the other indicators, it could mean that the French economy will escape the contraction of activity in the fourth quarter. The recovery after the winter is likely to be sluggish



The business climate in France has remained at its long-term average for a fifth straight month

The business climate in France remained stable in December, at 102, for the fourth consecutive month. It remains above its long-term average. Stability can be seen in the service sector, industry, and construction. While the assessment of order books, especially foreign ones, continues to deteriorate, the production outlook seems to have improved slightly, and the assessment of past production rebounds. In addition, sentiment is improving in the retail sector, thanks to an increase in order intentions. Employment sentiment rebounded in December to 111 from 107 in November, as companies still seem ready to hire. Business leaders' opinions on price expectations for the next few months are once again on the rise, signalling that inflationary pressures are far from easing in France.

Overall, the picture painted by the business climate indicator is one of stability for the French economy in the fourth quarter of 2022. If this were to be confirmed by the other indicators, it could mean that the French economy escapes the contraction in activity in the fourth quarter, or even grow slightly. However, the sharp deterioration in the PMI indices in November and the significant

contractions in industrial production and consumption in October make us cautious about the stabilisation signal sent by the business climate. The probability of a recession this winter remains high.

Beyond the recession, the question of recovery after the winter is very important. We believe that the recovery will be sluggish. Indeed, household purchasing power is still deteriorating. Energy prices are likely to remain high throughout 2023 and the winter of 2023/2024 holds a major supply risk. Public finances, which have largely mitigated the impact of the economic shock, are likely to be less generous, which will slow the recovery. Finally, rising interest rates will have an increasing impact on the most interest-sensitive sectors.

Ultimately, we expect sluggish economic growth in all four quarters of 2023, leading to stagnant GDP for the year as a whole. Inflation will rise again in early 2023, before falling very gradually. Changes to the tariff shield, which was implemented by the government to freeze gas prices amid rising costs, mean energy bills will rise by 15% in 2023 compared to 4% in 2022, leading to a sharp rise in inflation. As many more general price revisions can only take place once a year, food and service inflation is expected to rise sharply in the first quarter. French inflation should therefore be higher in 2023 than its average level in 2022. We expect 5.8% on average for the year, compared to 5.3% in 2023.

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