

## Business sentiment darkens in France, signalling a general loss of economic dynamism

The business climate in France darkened in October across all sectors. Business leaders are less optimistic about past and future activity. Economic growth is likely to slow further



The business climate in France darkened in October, dropping two points over the month to 98. The fall is visible in all sectors, signalling a widespread loss of economic dynamism. Business leaders everywhere are less optimistic about past production and activity but also about future activity and production prospects. Order books are judged to be less full in the retail and construction sectors, though they improved slightly in industry.

This indicator, the first available for the fourth quarter of 2023, suggests that the French economy is likely to continue to slow. After a third quarter in which economic activity probably softened markedly (we forecast quarterly growth of 0.1% in Q3 compared with 0.5% in the second quarter), business sentiment suggests that a rebound in the fourth quarter is unlikely. Against a backdrop of persistently poor order books in industry, weakening demand, particularly from international markets, and a waning catch-up effect in some sectors, the outlook for the industrial sector is

weak and a rebound is not expected before 2024.

The construction sector, for its part, is likely to see a further fall-back in activity due to higher interest rates, which are having an increasing impact on credit demand. Household consumption is also likely to remain subdued over the coming months. While wages have risen, allowing households to regain a little purchasing power, the labour market is showing the first signs of weakening, consumer confidence remains low, and inflation proves to be stickier than expected. Recent rises in oil prices linked to geopolitical tensions will keep energy inflation buoyant in France until the end of the year and into 2024, which will continue to depress household purchasing power and limit consumer spending. Retail and services are, therefore, likely to face weak demand.

Ultimately, this data suggests the French economy is likely to slow further in the fourth quarter. We expect GDP to stagnate in the coming three months, which would bring average growth for 2023 to 0.8%. We believe the recovery in 2024 will be slow, weighed down by a sharp global economic slowdown and by a very restrictive monetary policy.

Because of a negative carry-over effect, we forecast average GDP growth of only 0.6% in 2024.

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