Snap | 21 March 2025 France

France's economy shows early signs of recovery

France's business sentiment improved slightly in March, and a gradual upturn in activity is likely in the months ahead



France's business climate index rose for the third consecutive month in March, reaching 97 from 96 the previous month. That recovery is most noticeable in the retail sector, where business leaders are more optimistic about future activity and orders. Sentiment is stable in construction and services, and the outlook is improving, but it's deteriorating slightly in industry, mainly due to a decline in foreign order books. Employment sentiment in France rebounded in March, gaining 3 points, although it remains well below its long-term average.

This data indicates that the French economy has likely bottomed out and a gradual recovery is probable in the coming months. While GDP contracted by 0.1% in the fourth quarter of 2024, growth is expected to be close to 0% in the first three months of this year, impacted by a more restrictive fiscal policy and an uncertain international environment weighing on investment. Nevertheless, indicators seem to be gradually recovering, and the first quarter could end better than it began. Consequently, slightly more dynamic growth of around 0.2% is anticipated in the second quarter, with potential continuation into the second half of 2025.

However, any spring recovery is set to be limited. The likely decision by the US administration to

Snap | 21 March 2025

increase customs duties on goods from Europe could affect exports, business confidence, hiring, and investment. Fiscal policy, which calls for a structural adjustment of around 0.7 points of GDP to reduce the public deficit to 5.4% in 2025 from 6% in 2024, will impact households and businesses. INSEE estimates that government measures will reduce household purchasing power by 0.4 points and affect the financial position of businesses by 0.9 points of their value added. Additionally, the rise in long-term interest rates, driven by the loosening of fiscal policy in Germany, will weigh on business and household investment. The deterioration in the labour market will continue to impact household confidence, potentially maintaining a high savings rate.

Ultimately, we expect GDP to grow by 0.6% in 2025, compared to 1.1% in 2024. For 2026, we anticipate growth of 1%. Unlike last year, France will likely experience weaker growth than the European average in 2025 and 2026.

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Snap | 21 March 2025 2