

## France: A big peak before gradual moderation

GDP growth in France was very strong in the third quarter, rising by 3%. This is excellent news, but the peak of the economic recovery has now passed and economic growth will start to slow down sharply in the fourth quarter



### Very dynamic growth

A nice surprise for French GDP. It grew by 3% quarter-on-quarter in 3Q, better than expected. In addition, the second quarter GDP was revised upwards by 0.2 percentage points. At the end of September, the economy had almost returned to its pre-crisis level, which is now 0.08% below the level of GDP at the end of 4Q 2019.

The growth figures for the third quarter are, as expected, extremely solid and perfectly illustrate the strength of the economic recovery after the second quarter which was marked by another lockdown. The enthusiasm that followed the end of the restrictive measures and the remarkable progress of the French vaccination campaign are largely visible in the figures, particularly in the household consumption figures. With quarterly consumption growth of 5%, the French have clearly started to consume both goods and services again after months of restrictions.

While domestic demand remains the main driver of French growth, the contribution of foreign

trade has turned positive again, a sign that the global economic recovery has played a favourable role in France's excellent growth in 3Q.

At the end of the third quarter, the growth assumption for France, i.e. the evolution of GDP over the year if growth in 4Q were to be zero, was 6.6%.

## Looking ahead, the only way is down

The 3Q growth rate is more than likely the highest we will see in France in 2021 and 2022. The peak has passed and now economic growth will start to slow down.

The fourth quarter has clearly begun under much less favourable conditions than the third. Indeed, the supply chain problems, already present in the third quarter, have intensified since the end of the summer and are not expected to diminish in the coming months. Industry is heavily affected, particularly automotive production, and is constantly revising its production prospects downwards, due to a lack of components, despite strong demand. Supply problems could continue to heavily impact businesses in the fourth quarter, when demand for goods is particularly strong due to end of year holidays. Businesses are also facing a sharp rise in costs, including but not limited to energy costs. As this is putting pressure on profit margins, companies are seeking to pass on higher costs in selling prices, but are not always fully and directly able to do so.

Rising headline inflation and higher energy prices will also play havoc with households and will impact consumption during the fourth quarter and early next year. Usually, rising energy costs directly impact consumers and reduce part of their income that is available for non-energy expenditures. This leads to a crowding-out effect, mainly among the lowest income households, and to a decrease in consumption. However, as purchasing power has become the main concern of the French, and with Emmanuel Macron seeking re-election in April, the government is deploying significant means to limit the negative effect and to avoid a new Yellow Vest crisis. Some €11.5 billion of support policy has been deployed by the government, to support the most fragile households, in particular via the "energy voucher" of €100, the regulation of gas and energy prices, and the "inflation voucher" of €100. We therefore believe that this crowding-out effect will be less significant, if not virtually non-existent, in France compared to the rest of Europe.

Despite this support for purchasing power, consumption growth is likely to decline in the coming months as inflation is clearly weighing on French sentiment, as indicated by the decline in household confidence. The INSEE survey indicates that, in October, the French were more pessimistic about their future standard of living, their future savings capacity and their future personal financial situation. This is, in our view, a first sign of the deteriorating outlook. We believe that the decline in confidence will lead consumers to reduce their demand in the coming months. The huge surplus of savings accumulated during the pandemic is therefore not expected to diminish significantly and will not be an important support for future consumption, as the French prefer to keep these savings rather than spend them.

All these elements are not likely to completely reverse the economic situation. We expect the French economy to continue to grow in the coming months. The very healthy labour market, the catch-up of some spending that stopped during the pandemic and the gradual easing in 2022 of supply constraints should continue to support economic growth in France. Nevertheless, the pace of growth will seriously moderate. We expect quarterly growth of less than 1% from the fourth quarter of 2021 and for all quarters of 2022. After the 8% fall in GDP in 2020 and the increase to over 6.6% in 2021 (we expect 6.8%), GDP growth would be around 4% for the whole of 2022.

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