

## France: Business climate continues to surprise

In November, the French business climate remained stable and above its long-term average, depicting a very different situation than the PMI indicators. We continue to believe that the economic picture is deteriorating



### Business climate and PMI moving in opposite directions

The business climate in France remained stable in November at 102, above its long-term average. The economic situation deteriorated somewhat in industry, construction and services, but improved in wholesale trade. Industrial order books and the expected demand in services are deteriorating, while inflationary pressures seem to be building up.

The data is surprising as it contrasts sharply with the PMI indices for November, released yesterday. The composite PMI for France fell below the 50 threshold for the first time since February 2021, which is synonymous with a contraction in economic activity, standing at 48.8. While the index for the manufacturing sector continued the descent that began in June, reaching 49.1, it is the evolution in the services sector that is noteworthy: for the first time in 20 months, the index fell into contraction territory, to 49.4. The PMI thus indicates that high inflation and reduced purchasing power have put an end to the growth in the services sector that had been made

possible by the lifting of Covid-19 restrictions. This marks the end of the support of services to French economic growth, which should lead to a contraction of GDP in the fourth quarter.

In terms of inflation, the situation portrayed by the PMI indices is also fundamentally different from that which has emerged from the business climate indicator: according to the PMI indices, inflation in purchase prices and in prices paid has fallen to its lowest point in nine months, although still well above its long-term average. The decline is even more marked in the manufacturing sector. Although still very high, inflationary pressures seem to be reducing.

## Uncertain outlook

With two indicators that are supposed to depict the same situation evolving in such different ways, it is difficult to draw clear conclusions in terms of forecasts for the French economy. While the more optimistic will probably prefer to believe in the business climate, the PMI indices seem to have been better at predicting French economic activity in recent months. We continue to believe that the French economic outlook is marked by weakening domestic and foreign demand, declining new businesses and uncertainty. The momentum in activity provided by the services sector seems to have ended and industry does not seem ready to become the new engine of growth. The labour market is beginning to show the first signs of weakness, which should result in slower employment growth. As a result, GDP growth is expected to be weaker in the fourth quarter than it was in the third. For 2023, we still fear a small GDP contraction for the year as a whole.

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