

## France: business climate shows worsening outlook

The business climate declined again in September and is now at its lowest level since April 2021. In all sectors, it is mainly the outlook that is deteriorating



### Business climate deteriorates in all sectors

In France, the business climate deteriorated again in September, dropping two points over the month to 102. Although still above its long-term average, the business climate has erased all its post-pandemic gains and is now equal to its April 2021 level. All major sectors of activity are participating in this deterioration, except for construction. In both industry and services, it is mainly the outlook components that are deteriorating, while order books are shrinking. It is interesting to note that the sectors that benefited most from the post-Covid rebound this summer, notably accommodation and catering, are the ones that feel that the outlook has deteriorated the most for the coming months. In all sectors, the perceived economic uncertainty has increased.

### Growth is likely to falter in the coming months

Overall, the business climate indicator is a clear sign of a slowdown in economic activity in France, both now and in the coming months. While the spring and summer have been synonymous with more dynamic activity than expected, thanks in particular to the end of Covid restrictions and the return of foreign tourists, the autumn and winter look much more difficult for the French economy.

Major uncertainty, high energy and raw material prices and potential disruptions to energy supplies are weighing on the industrial sector. At the same time, the deterioration in purchasing power caused by inflation, the decline in consumer confidence and the attenuation of the positive effects of the post-pandemic reopening are limiting the dynamism of the services sector. As a result, there is no longer any real engine to maintain a dynamic pace of growth in economic activity. The only good news is the labour market, which remains strong, as indicated by the employment climate, which rose by two points in September to return to its July level. While there are signs that the labour market may start to weaken in the coming months, it currently remains very robust and the labour shortage remains significant, which should limit the speed of any rise in the unemployment rate.

The business climate index confirms that the question is no longer whether France is heading for recession, but rather when the recession is coming. Given the developments of the last few weeks, it is feared that French GDP growth will move into negative territory in the third quarter. We expect growth of 2.2% for the whole of 2022 and -0.2% for 2023.

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