

## France: business climate stabilises, but growth outlook remains weak

Business sentiment stabilised in France in June. The industrial sector is benefitting from the return to normal in the automotive sector, while the summer looks set to be a good one for the services sector. These temporary factors are mitigating the subdued outlook, but growth will remain weak over the coming quarters



This summer is shaping up to be a very good one for the French tourism sector

### Automotive and services more optimistic

The business climate figures are the first data to be published for the month of June, allowing us to better examine the economic situation in France at the end of the second quarter. And the news is not bad. The business climate stabilised in June, at 100, the level of its long-term average. While the situation is improving in the industrial and retail sectors, it is deteriorating further in the construction sector.

The improvement in business sentiment in the industrial sector is particularly noteworthy, after weakening for several months, not only in France but also in the rest of the world. Manufacturers are more positive about past production, but also about future production prospects and order books. The details indicate that it is the automotive industry that is seeing its situation improve most, which probably follows the easing of supply chain problems. This is therefore more likely to

be a catch-up effect from a previously disrupted situation than the start of a new trend.

In the services sector, business sentiment is stable and still above its long-term average. Interestingly, the outlook for business activity has risen slightly. This increase is largely due to businesses in the accommodation and catering sector, which are much more optimistic about activity over the coming months. This indicates that the summer is shaping up to be a very good one for the French tourism sector, which will support economic growth in the third quarter.

In the retail sector, order intentions and inventories are up. In construction, the business climate continues to decline for the sixth month in a row. Finally, price intentions are down in all sectors. This is a further sign that the inflation peak in France should finally be behind us, and that price growth should be less dynamic in the coming months. The fall in inflation is likely to take time, however, as price intentions in services remain high, despite falling over the past two years.

## Growth likely to remain weak in 2023 and 2024

Ultimately, based on all the available figures, it seems that France is facing a moderation in its growth prospects. In the short term, however, this moderation will be mitigated by the catching-up of the automotive industry and the good health of the tourism sector, which continues to benefit greatly from the post-pandemic recovery. These factors should support growth in the third quarter but are likely to run out of steam after that.

The end of 2023 and 2024 are likely to be much weaker, against the backdrop of a global economic slowdown and high interest rates that will have an increasing impact on demand. We are still expecting growth of around 0.5% this year, a forecast close to those of the Banque de France and INSEE, which are predicting 0.6%. For 2024, we are less optimistic than the central banks, forecasting French GDP growth of 0.5% (compared with a forecast of 1% by the Banque de France).

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