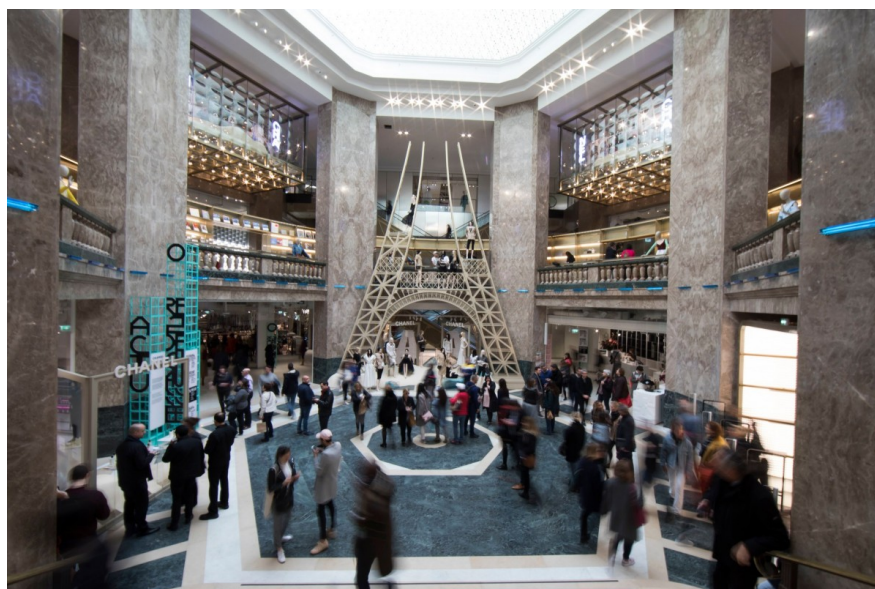


## France's business climate is stable but there's no cause for great optimism

France's business climate stabilised in August at 103, painting a more favourable picture than the PMI indices. However, the sub-indices do not give cause for optimism and there is little doubt that the autumn and winter will be more difficult.



Shoppers at the Galeries Lafayette department store on the Champs-Élysées in Paris

The business climate indicator, published by INSEE, stabilised in August at 103, above the long-term average (100). The decline in industry (from 106 to 104) was offset by an improvement in retail trade (from 96 to 99). In the services sector, the indicator remained almost stable at 106.

The economic situation depicted by the business climate indicators seems more favourable than the PMI indices for August published on Tuesday suggested. Both the composite PMI and the PMI for the manufacturing sector were below the 50 level, which signifies contraction.

Although business sentiment is generally above its long-term average in most sectors, some components of the index are more worrying. In particular, in industry, the stock of finished goods is rising sharply and is back above its long-term average for the first time since July 2020. At the same time, both global and foreign order books are deteriorating. After months of supply difficulties, stocks are now high and will need to be cleared in the coming months, which,

combined with a slowdown in global demand, is likely to have a negative impact on production. The fall in production could therefore be faster than the fall in demand, thus accentuating the contraction in activity.

We see a similar pattern in the retail sector, where the assessment of expected sales is deteriorating sharply while inventories are rising. Moreover, while industrial managers remain relatively positive about expected production in the coming months, they have revised their production assessment downwards sharply in recent months. This indicates that industrial activity is weaker than expected already this quarter.

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### *There's more optimism in the service sector*

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There's more optimism in the service sector. This is particularly the case in the accommodation and catering sub-sector, thanks to an excellent tourist summer in France. The general and personal outlook of business leaders in the services sector has improved and the economic uncertainty felt has decreased. There is little doubt that the service sector will make a more positive contribution to economic growth in the third quarter than industry, although optimism in the tourism sector could diminish rapidly as the summer fades.

All in all, after a rather good spring, with second quarter GDP up 0.5% Quarter-on-Quarter after the first quarter's drop (-0.2%), and a summer boosted by tourism and good weather, all indicators are now pointing to a much more difficult autumn and winter. The global slowdown in demand, the deterioration in consumer and business confidence, the risks to energy supplies and inflation, which is reaching new heights and undermining purchasing power, are likely to push the European and French economies straight into recession. While French GDP this year could grow by around 2.2% thanks to the second quarter and the carry-over effect, growth will stall in 2023 and will probably be close to 0% for the whole of the year.

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