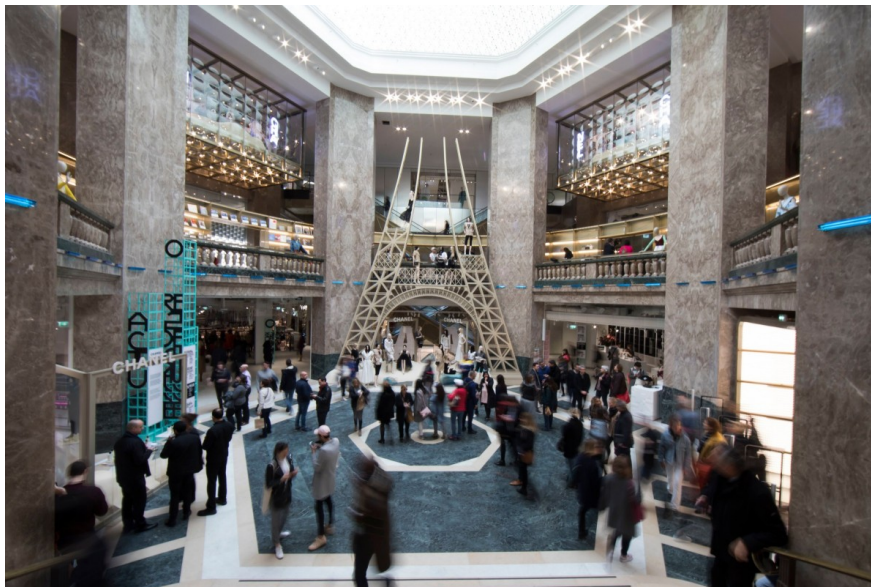


France's business climate is stable but there's no cause for great optimism

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.

There's more optimism in the service sector

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.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.