French business sentiment points to a slow recovery in activity

France's business climate improved in March, thanks to an improved outlook in most sectors, signalling a gradual recovery in activity over the coming months. At the same time, the PMI indices deteriorated

A view of Paris's business district at La Défense

Better prospects according to business leaders

France's business climate improved in March, gaining two points over the month to return to its long-term average. Sentiment is better in all sectors of activity, with the exception of construction. In the services sector, business sentiment is once again above its long-term average, with business leaders focusing on the general outlook, activity, and demand in the months ahead. Production prospects and order books are also improving markedly in the industrial sector, as well as in retail and wholesale trade.

The employment climate for the French economy as a whole stagnated in March, with a fall in hiring prospects in the services sector offset by an improvement in the temporary work and retail sectors.

After a very poor start to the first quarter, which saw industrial production and household consumption contract sharply, this data is good news and indicates that the end of the first quarter is likely to be better than the beginning.

The PMI indices are not so good

The PMI indices, also published today and which survey French purchasing managers, paint a more negative picture. The composite index fell to 47.7 in March from 48.1 in February, following declines in both services and manufacturing. As such, this data signals a fall in activity. Nevertheless, caution should be exercised in interpreting them, as the PMI indices have tended to be overly pessimistic in recent months. Divergent trends within the same sector of activity seem difficult to capture in the PMI indices. However, this has been an important feature of the French economic situation in recent months, particularly in industry, where the aeronautical sector has seen a marked recovery while the energy-intensive sectors continue to suffer.

According to the PMI surveys, despite a fall in activity in recent months, companies are more optimistic about their business prospects over the next twelve months. The outlook index has risen to its highest level for 14 months.

Recovery takes shape

Taken together, this data confirms our scenario of a French economy that stagnated throughout the first quarter, before beginning a gradual recovery in the second.

Falling inflation, a still-tight labour market, rising consumer confidence and lower interest rates should enable domestic demand to pick up gradually over the coming months. After an expected 0% in the first quarter, GDP could grow by 0.2% quarter-on-quarter in the second and accelerate further in the second half of the year. However, there are risks surrounding this forecast.

Despite the expected acceleration over the course of the year, average GDP growth over the year will be weak due to the very weak start to the year, at around 0.5% compared with 0.9% in 2023. This is well below the French government's forecast of 1% for 2024 as a whole, which was already revised downwards in February (the budget was drawn up on the basis of a GDP growth forecast of 1.4%). This means that the public deficit is once again likely to be well above target for 2024. As a result, fiscal policy is likely to become more restrictive over the coming months, which will weigh on the economic recovery. For 2025, GDP growth of 1.3% is expected.

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