

France: confidence indicators point to a two-speed economy

The business climate stabilised in France in May, while the PMI indicator fell slightly; these are signs of a decline in the strength of economic activity. The indicators also show a two-speed economy, with the industrial sector struggling and the service sector boosted by the end of health restrictions



Tourism should help prop up the French economy this the summer. Pictured: Tourists snapping the Mona Lisa in the Louvre, Paris

Declining strength of economic activity

In France, the business climate stabilised in May at 106, a level above its long-term average, but below the level of 113 reached in February before the war in Ukraine began. The composite PMI index fell to 57.1 from 57.6 in April, while remaining above 50. Overall, these indicators suggest that the French economy continues to be impacted by the current inflationary context, the war in Ukraine, and the slowdown in demand. This context leads to a decline in the strength of economic activity, but not to a collapse of the outlook. However, this does not mean that France can avoid a negative growth figure in the second quarter. After all, economic growth stagnated in the first quarter, while business sentiment averaged 109 during the quarter and the PMI indices were well above 50.

A two-speed economy

The details of the sub-indicators are the most interesting. Indeed, both the PMI indicators and the business climate index for the month of May point to the same conclusion, that of a two-speed French economy. On the one hand, in the industrial sector where weaknesses are accumulating, we are seeing deteriorated prospects, falling foreign order books, weak demand due to high prices, and supply difficulties. As a result, both the business climate index and the PMI indices are down for the industrial sector. On the other hand, optimism is much more present in the services sector, where the outlook is improving, thanks to the end of Covid-19 restrictions, which should allow a dynamic rebound of the activities linked to tourism.

The observation of a two-speed French economy should remain present in the coming months. The real question is whether the service sector will be able to continue to play its role as a fast-moving engine to counterbalance the weakness of industry, or whether high inflation and falling consumer confidence will cause the service sector to rapidly lose momentum. It is likely that it can continue to act as a driver until the end of the summer, thanks to the very good tourist season ahead, before losing momentum significantly at the end of the year. Ultimately, we continue to expect a negative growth figure in the second quarter, before a moderate recovery, which should lead to French GDP growth of 2.7% for the year as a whole. Furthermore, inflationary pressures do not appear to be abating. According to the details of the business climate index, the price outlook has reached a new record high in the industrial sector, and is still very high in other sectors. It is therefore increasingly likely that consumer price inflation will reach 5% on average over the year.

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