

## France's economic outlook darkens

France's business climate darkened again in November, suggesting weak growth over the coming quarters



The French business climate darkened again in November, dropping one point compared with October to stand at 96, below its long-term average. From a sectoral point of view, business sentiment rebounded in industry, but the rebound did not wipe out the huge fall seen in October, and confidence remains weak.

By contrast, business sentiment fell in all other sectors. In services, the indicator fell by two points, due to a deterioration in the outlook for activity and demand. Business sentiment is also softening in wholesale and retail trade, where order intentions and staffing levels are down. Finally, in the construction sector, the business climate is also deteriorating, with business leaders revising their opinions of past activity downwards.

This data provides further evidence of the worsening economic outlook in France and suggests that GDP growth will be very sluggish in the fourth quarter of 2024. We are expecting GDP to contract by 0.1%, following the 0.4% rise seen in the third quarter, on the back of the Olympic Games.

In addition, the deterioration in the outlook components of the business climate in most sectors suggests that economic growth is likely to remain very weak over the coming quarters too. While the government and most international institutions are still counting on a strong recovery in

consumption and investment in France in the coming months, business surveys indicate that such a recovery is unlikely.

In fact, given the political and geopolitical uncertainties, upcoming tax measures, weak demand, and limited potential for further long-term rate cuts, it appears that business investment is likely to weaken further in 2025. Household consumption could also disappoint. While the sharp fall in inflation in recent months has supported household purchasing power, this support is unlikely to continue. A slight rebound in inflation is even likely over the next few months.

In addition, household purchasing power is likely to be affected by the expected weakening of the labour market, with a contraction in employment likely in 2025. Amid political and geopolitical uncertainties and growing concerns about unemployment, there is a risk that the household savings rate may not decrease; in fact, it could increase. Added to this is a more restrictive fiscal policy, with cuts in public spending and tax rises to come, which will weigh on domestic demand. Finally, external demand could also decline due to weaker economic momentum among trading partners and a possible increase in customs duties.

In short, today's business climate data is yet another signal of the deterioration in France's economic outlook. As in neighbouring countries, very weak growth is expected over the next few quarters. We are expecting GDP to grow by 0.6% in 2025, compared with 1.1% in 2024.

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