

## France escapes recession, for now

French GDP grew by 0.1% in the fourth quarter, allowing the French economy to narrowly escape recession, at least for the time being. There are however few signs that the French economy will recover strongly in the coming months



There are few signs of a dynamic recovery of the French economy in the coming months

### No winter recession in France

French GDP grew by 0.1% quarter-on-quarter in the fourth quarter, a weaker figure than in the third quarter (+0.2%) but one that allows the French economy to escape recession, at least for the moment. Over the quarter, household consumption fell sharply (-0.9% compared to +0.5% in the third quarter), mainly due to a drop in food and energy consumption. However, this decline was offset by gross capital formation, which is slowing down but remains dynamic (+0.8% compared to +2.3% in the third quarter), and by a positive contribution from foreign trade, with exports falling less quickly than imports.

On average in 2022, GDP increased by 2.6% (after +6.8% in 2021 and -7.9% in 2020). A resilient year, then, despite the major shock due to the war in Ukraine. But it should be understood that the growth of 2022 is above all the consequence of the strong progression at the end of 2021, the so-called carry-over effect.

## Expected quasi-stagnation in activity in 2023

Looking ahead, the data suggest that the French economic outlook remains uncertain, but far from dramatic. It doesn't seem on the verge of recession. Nevertheless, escaping the recession does not mean rebounding strongly. Far from it. In fact, there are few signs of a dynamic recovery of the French economy in the coming months. The PMI indices indicate a deterioration in demand: new orders are falling and sales are declining. Household confidence is still at a historically low level and the French view the outlook in a very negative light. Moreover, inflation is expected to rise further in the first half of 2023, which implies that the evolution of real purchasing power will remain very low, dampening the dynamism of private consumption.

Within companies, while stocks of finished products are high, new orders are falling sharply, meaning that the clearing of inventories could weigh on activity. In particular, while industrial production should continue to see supply difficulties ease, it is facing much weaker global demand and is still at risk of a renewed rise in global energy prices. The impact of the ECB's tighter monetary policy will begin to be felt in earnest in 2023, with rising rates likely to depress household and business investment. Finally, fiscal policy is expected to be less expansionary, which will be less supportive of economic growth. Ultimately, 2023 should be characterised by a quasi-stagnation of the French economy over all quarters of the year. A slight contraction of GDP in the first quarter of 2023 cannot be excluded. We expect GDP growth of 0.4% for the year 2023 as a whole. 2024 could see slightly better growth, thanks to a more pronounced fall in inflation, although the expansion will probably remain moderate. We expect 1.2% growth for 2024.

To see a significant improvement in the outlook for the French economy in 2023, the fall in the price of gas on international markets and the reopening of China will not be enough. There needs to be a clear improvement in household and business confidence. Without this, stagnation remains the most likely scenario for 2023.

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