France: Exports boost GDP while inflation increases again

French GDP grew by 0.2% over the quarter, due almost entirely to the normalisation of the supply chain situation, as domestic demand declines and inflation suprises to the upside

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Exports allow GDP to grow

In France, GDP rose by 0.2% in the first quarter. This increase is due to foreign trade, which contributed 0.6 points to growth thanks to more dynamic exports than imports (+1.1% over the quarter versus -0.6%). This is a result of a rebound for transport equipment exports (+9.5% over the quarter), made possible by the improvement of constraints on production lines. On the other hand, household consumption stagnated over the quarter, after a 1% fall in the fourth quarter of 2022. France narrowly avoided a further fall in consumption, thanks to a recovery in energy consumption (+3.7% vs -6.4% in the previous quarter). But this is partly caused by the end of government support for energy bills.

Food consumption continues its dizzying decline, down 2.3% compared to +3.1% in the previous quarter. Household consumption of goods fell by 0.2% in the quarter, but the details indicate that the situation deteriorated very sharply, with consumption of goods falling by 1.3% over the month of March, after -0.8% in February and +1.6% in January.

Total gross fixed capital formation fell by 0.2% over the quarter, but household gross fixed capital formation dropped even more sharply by 1.4%, in connection with the rise in interest rates which depressed investment in housing. The contribution of domestic demand to growth is negative at -0.1 points, as is that of inventories at -0.3 points. It also should be noted that the data for the two previous quarters have been revised downwards. GDP had thus progressed by only 0.1 in the third quarter of 2022 and had stagnated in the fourth quarter, but the average growth for 2022 remains 2.6%.

The outlook for the rest of the year remains bleak

All in all, the growth of the French GDP in the first quarter comes almost exclusively from supply chain normalisation, which allowed a strong growth of exports. On the other hand, domestic demand is in decline. This does not bode well for the coming quarters. Indeed, business surveys indicate that the effect of supply chain improvements is fading and that sentiment among manufacturers remains quite negative for the coming months in line with the global economic slowdown. Exports are therefore likely to grow much more slowly in the coming quarters.

At the same time, consumer confidence is not recovering and, unlike in other European countries, remains at a historically low level. In addition, the savings rate has started to rise again and, according to surveys, households want to save more in the coming months. This implies that households are likely to draw much less on their savings accumulated during the Covid-19 period to support consumption. Consumption growth is therefore likely to remain very moderate, although it could pick up slightly in the second quarter as the protests and demonstrations against pension reform subside.

Investments should remain very weak against a backdrop of rising interest rates, and the outlook for the rest of the year therefore remains rather bleak. We expect growth of 0.7% in 2023 and 0.7% in 2024, after 2.6% in 2022.

Inflation rises again

As expected, inflation increased again in France in April. It stood at 5.9%, against 5.7% in March. The harmonised index, stands at 6.9%, compared to 6.7%, which is bad news for the European Central Bank. This increase is mainly due to base effects on energy, as the year-on-year fall in oil prices was less marked than in March. Energy inflation was therefore 7% in April, compared with 4.9% in March. Given the tariff shield that has limited the increase in gas and electricity prices in France to 4% in 2022 and 15% in 2023, energy continues to make a positive contribution to inflation, unlike other European countries that have seen energy bills fall in 2023 after the very sharp rise in 2022.

Thanks to a deceleration in fresh food prices, food inflation slowed to 14.9% over the month from 15.9% in March. Food prices, excluding fresh produce, continue to be very dynamic in the wake of the negotiations between food suppliers and distributors concluded in March. This led to an increase in the prices paid by supermarkets to their suppliers of around 10%, which is gradually being passed on to sales prices. Food remains the main contributor to French inflation. In addition, the price of services is on the rise again, rising by 3.2% over one year in April compared with 2.9% in March. Inflation in manufactured goods fell slightly to 4.7% from 4.8% in March.

Inflationary pressures should gradually subside

Fortunately, pipeline inflation is coming down, indicating that French inflation should start to decline in the coming months. Producer price growth, which gives an indication of the evolution of production costs, continues to fall sharply each month. In March, producer prices rose by 6.5% compared to March 2022, a much slower increase than the 30% observed at the peak in August and down from 13.3% in February. However, the decline in production costs will be gradual and slow, with month-to-month trends suggesting that the situation is still far from normal.

Moreover, companies' sales price forecasts fell significantly in April, particularly in the industrial and construction sectors. The decline is particularly marked in industry, where business sales price expectations are now at the level of early 2021, before the sharp rise in inflation. Inflation in manufactured goods should therefore fall in the coming months. In services, the decline in price expectations is not yet very marked, indicating that services inflation may take longer to normalise. Finally, given the decline in agricultural commodity prices on international markets and the weakness of demand, food inflation should gradually decline once the impact of the trade negotiations has been absorbed, i.e., during the summer.

Even though inflation should fall in the coming months, it will likely remain higher than in other European countries until the end of 2023. This is due to less favourable "base effects" in France than elsewhere, with French household energy bills having hardly increased in 2022 at a time when they were exploding in other countries. This allowed for much more moderate inflation in 2022 in France than in neighbouring countries. Following the 15% increase in gas and electricity prices at the beginning of 2023, French energy bills continue to rise compared to 2022, while in other countries they have started to decrease gradually in the wake of the sharp fall in energy prices on international markets. We expect inflation to average 5% over the year (5.6% for harmonised inflation).

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