

France: Strong business climate with heavy inflationary pressures

The improvement of the business climate shows that the French economy remains relatively well positioned in November, even if this is mainly due to the service sector, which is a major risk given the evolution of the pandemic. Inflationary pressures are stronger than ever



France's La Defense business district

Rising business climate indicates a solid economic situation in France

In France, the business climate improved to 114, exceeding its already high level in June and remaining well above its long-term average. The increase is notable in both the industrial and service sectors. In the industrial sector, the increase is mainly due to growing order books, and mainly orders from abroad. In the services sector, the business climate is at its highest level since December 2000. The effects of the recovery are clearly being felt, with the balance of opinion of business leaders on activity over the last three months rising sharply to its highest level since 1990.

The French economy is driven by the services sector

Together with the PMI indicators for November, this data provides an interesting picture of the current economic situation in France. The French economy is mainly driven by the services sector. Buoyed by a strong labour market, the rebound in demand that followed the end of the restrictions in the spring is not yet over and services continue to benefit from it. Meanwhile, the industrial sector is having to navigate between shortages of raw materials, longer delivery times for inputs, disruptions to supply chains and recruitment difficulties. Order books in industry are relatively full but production is negatively impacted by these difficulties.

The pandemic remains a major risk

The fact that strength in the French economy is currently based mainly in the service sector is a major risk. Indeed, the resurgence in the virus is significant and we cannot exclude that it will lead to new restrictions, as suggested by the situation in Austria, now in lockdown, along with the Netherlands and Germany. Such restrictions could have a direct impact on the service sector through closures, but also indirectly, due to a drop in consumer confidence. Such a situation would therefore have a significant impact on the short-term rebound in the economy. However, it would not fundamentally alter the medium-term outlook. Instead, it would postpone the continuation of the economic recovery by a few months. Therefore, if restrictions were to be imposed, France could experience a few months of significantly slower growth before a further rebound.

Price pressures are intensifying strongly

In addition to this, surveys indicate that price pressures, which were already present in previous months, are now intensifying strongly. According to the business climate survey, in industry, the expected development of selling prices soared in November and increased by 20 points in one month, reaching its highest level ever observed. In November, price pressures are also increasing in the services sector.

These strong inflationary pressures in November come against the backdrop of an overall consumer price index at 2.6% in October, its highest level since 2008. The rise in inflation is therefore not over. While the increase was mainly driven by energy prices, it is clear that inflationary pressures are now being felt at all levels and in all sectors. This implies that the drop in energy price inflation, expected in spring 2022, will not lead to a sharp drop in the general price level. We expect current inflation to impact wages, which will keep French inflation at a higher level than before the pandemic for a longer period. French inflation is likely to average 2% in 2022.

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