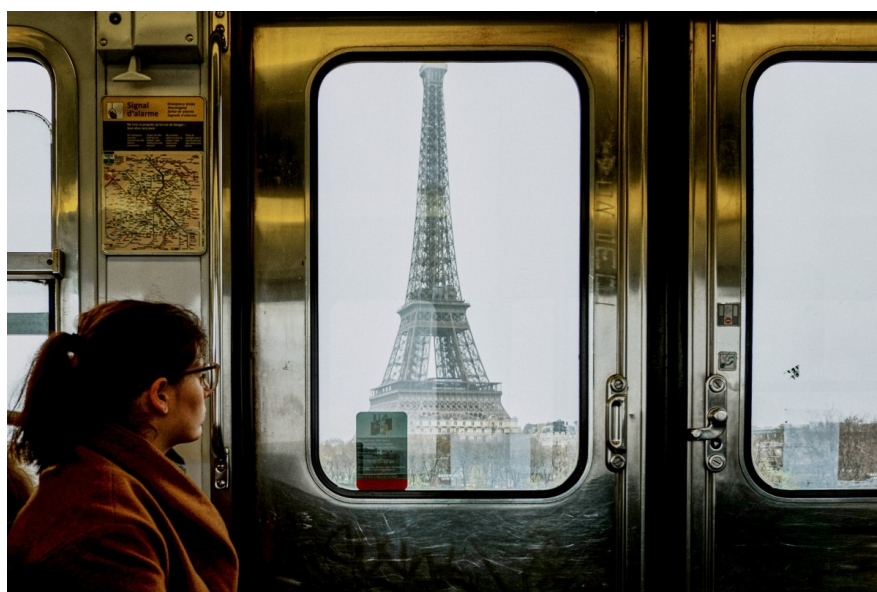


## France: Deterioration in business confidence remains limited for the moment

The first business confidence indicators since the start of the war in Ukraine were published today and allow us to begin to diagnose the impact of the conflict on the economic outlook in France. Overall, confidence has deteriorated, but the deterioration remains moderate for the moment



Economic activity in France will be severely impacted by the war in Ukraine

### Confidence is deteriorating, but only to a limited extent

The business climate indicator fell by six points in one month to 107, a level still above its long-term average. The deterioration of the business climate is mainly caused by a significant decline in the outlook in industry: both the personal and the general production outlook have fallen sharply and are now at their lowest level since the end of 2020. In the services sector, the deterioration in the business climate is much smaller. In the construction sector, the business climate is stable.

The PMI indicators tell broadly the same story. Buoyed by the easing of health restrictions following the ebb of the Omicron wave of the coronavirus, the composite PMI indicator rose over

the month to 56.2 from 55.5 in February, a level synonymous with expansion in economic activity. This increase was the result of strong improvement in the index in the services sector, which rose from 55.5 to 57.4. In contrast, the PMI for industry fell to 54.8 from 57.2 in February due to a decline in demand and increased supply chain problems.

On the other hand, the indicators show that the labour market situation remains favourable. This is important for the consumer outlook, which is likely to be significantly worsened by the fall in consumer confidence. The impact of the war on consumer confidence is not yet known as the March data will be published at the end of the month. But the National Institute of Statistics and Economic Studies (INSEE) has already provided a partial estimate of the confidence indicator based on a part of the sample. A sharp decline is expected, mainly as a result of a sharp deterioration in the outlook for the general standard of living in France.

## Inflation expectations are beginning to influence purchasing behaviour

All indicators point to a very strong rise in costs and prices, with all indicators at historical highs. Interestingly, and probably worryingly for the European Central Bank (ECB), high inflation expectations seem to be starting to influence purchasing behaviour. According to the PMI survey, customers are anticipating their orders in order to protect themselves against future price increases. Expected inflation, therefore, offers temporary support to economic activity in the short term, further strengthening inflation, which will be followed by a downturn in activity. A temporary boom versus a subsequent bust raises fears of stagflation.

One can conclude from these indicators that the economic outlook has worsened, but not by much. Unfortunately, this is probably only the first step, and more deterioration is to be expected in the coming months if the war continues. With inflation expected to average over 4% for the year, production lines severely disrupted and confidence hit, economic activity in France will be severely impacted by the war in Ukraine. Thanks to the dynamism of January and February, GDP growth will probably be positive in the first quarter. In contrast, GDP growth in the second quarter would be negative. At present, we expect activity to pick up in the second half of the year. Ultimately, economic growth would be 2.7% for the year as a whole, a forecast that has been revised downwards by one percentage point compared to the pre-war forecast. As the carryover from 2021 is 2.4%, the forecast of 2.7% growth for 2022 is equivalent to a quasi-stagnation of activity for the year.

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