

French business climate deteriorates again, inflationary pressures remain high

The business climate in France has deteriorated again in November, a further sign of the worsening outlook for activity over the coming months. Growth is expected to slow. At the same time, the PMI indices indicate that inflationary pressures remain high and that disinflation will take time



Pictured: France's business district at La Defence

Further deterioration in the business climate

In detail, according to the data published by INSEE, the business climate indicator reached 97 in November, down by one point over one month, and reaching its lowest level since April 2021. The deterioration in the French business climate is mainly the result of a more unfavourable conjunctural situation in both wholesale and retail trade, where order intentions and the volume of past sales are down. The business climate is also less favourable in the construction sector, due to a marked fall in the balance of opinion on planned staffing levels. By contrast, business sentiment remained stable in both industry and services.

Labour market continues to cool

Furthermore, the employment climate confirms the cooling in the labour market, with the

indicator dropping two points over the month to its lowest level since spring 2021. This suggests that the rise in the unemployment rate seen in the third quarter is likely to continue in the coming quarters, due to the weaker economic outlook, but also due to the expected increase in the labour force as a result of the rise in the retirement age. We are forecasting an unemployment rate of 7.6% at the end of 2023 and 7.9% at the end of 2024, compared with 7.4% at present. Interestingly, the deterioration in the employment climate is coming mainly from the services sector, where companies are much less optimistic about future headcount. This seems to indicate that the economic slowdown is no longer confined solely to the industrial and construction sectors, but has reached the services sector, which is likely to perform much less favourably over the coming quarters.

PMI indices point to continued strong inflationary pressures

The PMI indices for November, also published this morning, also point to a deterioration in the economic outlook. The composite index fell in November to 44.5, compared with 44.6 in October. For the sixth month in a row, the index is below the 50 threshold. According to the survey, it was manufacturing that was the main drag on activity, with manufacturers recording their sharpest fall in production since May 2020. Order books and business expectations are down in both the services and manufacturing sectors. Worryingly, the survey continues to point to significant inflationary pressures, particularly in the services sector, where inflation has accelerated compared with October. This is obviously bad news for the European Central Bank as this indicates that disinflation will take time in France. Inflation is likely to remain close to 4% for the next few months, and it will probably be 2025 before consumer price inflation in France returns to 2%. We expect inflation, according to the harmonised index, to be 2.5% at the end of 2024 and 1.9% at the end of 2025.

GDP expected to stagnate in the fourth quarter

Ultimately, the activity indicators published so far for the fourth quarter are weak and suggest that French economic growth is likely to continue slowing at the end of 2023. After GDP growth of +0.1% quarter-on-quarter in the third quarter, a rebound in the fourth quarter seems highly unlikely. We expect GDP to stagnate over the quarter, which would bring average growth for 2023 to 0.9%. We believe that the recovery in 2024 will be slow, weighed down by a sharp global economic slowdown and by monetary policy that remains very restrictive. Given the low starting point for the year, average growth in 2024 is likely to be weak, and well below the government's forecast of 1.4%. Our forecast for average French GDP growth in 2024 is 0.6%.

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