

# French business climate signals economic resilience in February

In France, the business climate improved slightly in February and paints a picture of a resilient and fairly solid French economy. This data suggests that GDP should remain in positive territory in the first quarter



France's La Defense business district

## Resilience

The business climate in France improved slightly in February to 103 from 102 in the previous five months, still above its long-term average. The improvement comes from the services and retail sectors, where the business outlook is improving, but also from industry, where order books are reported to be rising. In the construction sector, on the other hand, the business climate is deteriorating. The employment climate also remains very solid. At 110, the indicator is still well above its long-term average.

Overall, the business climate paints a picture of a resilient and fairly robust French economy. The data suggest that GDP should remain in positive territory in the first quarter.

## Two speeds

More generally, all the indicators published since the beginning of the year seem to suggest that the French economy is probably currently operating at two speeds. On the one hand, the industrial sector is still in a slowdown phase, despite the continuous improvement in supply chains. Demand, particularly international demand, is slowing, as indicated by the February PMI for industry, which fell back below 50 in February, dropping to 47.9 from 50.5 the previous month, its lowest in four months. The sharp fall in energy prices, and in particular the price of natural gas, which is now only about a third of its mid-December price, and the resulting improvement in the world economic outlook seem to be limiting the slowdown, but not erasing it completely.

On the other hand, the services sector is showing significant resilience and remains dynamic. While, unlike in other European countries, French consumer confidence continues to fall, service companies are rather optimistic and indicate that activity is picking up. The accumulation of pending business and expectations of growth are encouraging them to continue hiring workers and anticipate further significant price increases. This resilience of the services sector is good news for the French economy. Indeed, with traded services accounting for 57% of French value-added, the dynamism of activity in services can counterbalance the slowdown in the manufacturing sector, which accounts for only 9% of total value-added.

## Activity should continue to grow in the first quarter

The question now is whether the dynamism of the services sector can continue in the coming quarters. French companies seem to think so, with the assessment of expected activity rising sharply, according to the INSEE survey. However, major risks remain. Unlike in other European countries, the inflationary peak has not yet been reached in France, and even higher increases in energy and food prices are still expected in the coming months. The shock to purchasing power is therefore not over and will continue to impact consumer behaviour. Moreover, the support of fiscal policy for purchasing power will become less important in the coming months.

Finally, French consumer confidence is not recovering right now. Household consumption has already fallen significantly in volume terms in the fourth quarter and growth is likely to remain weak in the coming quarters. At the same time, the construction sector remains under pressure and the rise in interest rates is likely to continue to weigh on household and business investment spending.

Ultimately, the latest economic indicators for France suggest that activity is likely to be stronger than expected in the first quarter of 2023 and that a contraction in GDP should be avoided. Nevertheless, they do not dramatically change the outlook for the following quarters, where activity growth should remain rather weak.

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