

## French business climate stable again, but inflationary pressures on the rise

Business sentiment remained stable in France in September, a sign that economic activity is holding up, but lacking dynamism. Worryingly, inflationary pressures are rising again



The business climate in France has remained at its long-term average for a fifth straight month

### Business sentiment remains stable

The business climate in France remained stable in September, and for the fifth month in a row was at its long-term average. After the sharp deterioration in August, business sentiment recovered slightly in industry, thanks to a rebound in personal production expectations for the coming months. On the other hand, the assessment of past production in industry deteriorated. At the same time, business sentiment in the retail sector declined, as the outlook for the sector was judged to be less favourable. Business sentiment is stable in the services and construction sectors.

### Inflationary pressures are building again

Worryingly, inflationary pressures seem to be building again in France. Expected trends in sales prices rose again in September in the services sector as well as in industry and wholesale trade. This interrupts a disinflationary trend that seemed well-established. It is possible that this is simply the consequence of the recent rises in fuel and electricity prices, and that this rebound is temporary. However, it could also be the first sign of a new wave of inflationary pressure in France.

If this were the case, it would mean that inflation could remain higher than expected for a long period and take much longer to return to the 2% target. At this stage, it is probably too early to say. Nonetheless, this data serves as a reminder that the normalisation of inflation will not be a smooth ride and that it is likely to fall less quickly than expected.

## Activity is holding up, but lacks dynamism

Overall, this data does not alter the current assessment of the economic situation in France, which is that economic activity is holding up, but lacks dynamism. Strong growth in the coming quarters is unlikely, but recession should be avoided. We are expecting growth of close to 0.1% quarter-on-quarter over the next three quarters, which should take average GDP growth in 2023 to 0.8%. With interest rates high, inflation not coming down fast enough and the global economic slowdown, it will probably be the second half of 2024 before economic growth is closer to potential again. We believe that the first half of next year will continue to be synonymous with weak growth. This means that average growth in 2024 is likely to remain moderate and below the government's forecast of 1.4%. We are expecting growth of 0.6% for 2024 as a whole.

### Author

#### Charlotte de Montpellier

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).