

## 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.

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