

French business leaders increasingly less optimistic about the future

The French business climate indicator and PMI indices fell in June due to a deterioration in the forward-looking components. Economic activity is expected to remain sluggish in the coming quarters



Falling optimism

In France, the business climate indicator decreased slightly in June, reaching 104 compared to 106 in May, following a drop in retail trade and in the services sector. In industry, the business climate increased slightly. Although the level of the indicator is not in itself very worrying, as it is still above its long-term average, the details give more cause for concern. Indeed, the declines observed in the services sector and in retail trade were caused by a deterioration in the forward-looking components of the indicator. The business outlook and the demand forecast for the coming months were judged less favourably by the business leaders of these sectors. In industry, too, optimism about expected activity fell sharply.

The PMI indices are all down by a large margin, and to a greater extent than expected. The composite index stood at 52.8 in June compared to 57 in May, with declines in both the service and industrial sectors. The output component for the manufacturing sector fell sharply into contraction territory (to 45.7 in June from 51 in May).

Inflation peak in sight

Interestingly, both the business sentiment indicator and the PMI show continued strong price pressures, but these pressures appear to be stabilising (in the industrial sector) and even falling slightly (in the services sector). Faced with the slowdown in demand, companies therefore seem to be planning to increase their prices less in the coming months. This confirms our forecast of a peak in consumer price inflation during the summer, before a very gradual decrease during the last quarter of the year, assuming that the geopolitical backdrop does not lead to a new sharp rise in energy prices. We expect inflation to be above 5.5% for the whole of 2022.

A sluggish end to the year

Overall, these indicators suggest that the economic outlook remains strongly impacted by rising prices and slowing global demand. In the services sector, activity remains solid thanks to the end of health restrictions, and in particular to the very good tourist season expected for this summer. This should boost economic activity in the second and third quarters. At the same time, the outlook for services is worsening due to the inflationary environment that is depressing real household incomes, and the decline in consumer confidence. The current rebound in services looks set to end, probably by the end of the summer. In the industrial sector, companies are still struggling with supply and recruitment difficulties, which are limiting production for 72% of them. This implies that it will take time to clear the backlogs in production lines, which could continue to have a positive effect on activity. In addition, the activity forecast from industrial companies is falling sharply, which means that there is little impetus for production in the coming months beyond clearing the backlogs. Indeed, PMI surveys indicate that purchasing activity has recorded its first decline since November 2020, with companies now holding sufficient stocks to meet demand. This implies that inventories are likely to lead to a slowdown in activity.

For the growth outlook, all this implies that we no longer expect a rebound in French economic activity in the second half of the year. After the contraction in the first quarter and a probable stagnation in the second, the third quarter could be the most dynamic of the year, but the fourth quarter is likely to see a contraction again, due to high prices and the marked slowdown in global growth. We expect GDP growth of 2.1% in 2022 and 0.9% in 2023.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

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 <http://www.ing.com>.