

## French business sentiment signals a bleak economic outlook

Business confidence in France took a sharp downturn in May in the industrial and services sectors, casting a shadow over the country's economic prospects



After outperforming the eurozone average in 2023 and 2024, France is now expected to lag behind its peers in the coming years

### Confidence slips in industry and services

Despite renewed optimism in global financial markets following a trade truce between the United States and China, France's domestic economic climate continues to deteriorate. In May, the overall business climate index declined by one point compared to April, marking yet another month below its long-term average – a trend that has persisted for over a year.

The decline was especially pronounced in the industrial sector, where the confidence index dropped by three points. Companies reported significantly weaker order books and more pessimistic production expectations. The most affected segments include machinery and equipment manufacturing, transport equipment, and the broader “other manufacturing” category, which encompasses machinery repair and installation. Ongoing global trade tensions and fears of a broader economic slowdown continue to weigh heavily on French manufacturers.

More concerning is the downturn in the services sector, historically a key driver of French economic growth. Business sentiment in this sector also fell by three points, remaining well below its long-

term average since November. Service providers expressed growing pessimism about future demand and business activity, with notable declines in accommodation and catering, as well as information and communication services.

Amid the broader gloom, the construction sector offered a rare bright spot. Business sentiment there rose by four points – the strongest monthly gain since 2004 – driven by improved expectations for future activity. Retail and wholesale trade also saw modest improvements in sentiment.

However, the latest Purchasing Managers' Index (PMI) data, also released this morning, paints a similarly downbeat picture. While slightly improved from April, the indices remain firmly in contraction territory. According to the survey, the weakness is most noticeable in the services sector, where weak demand, postponed orders and cautious customers have weighed on activity and the volume of new business.

## A struggling economy

Taken together, these indicators suggest a challenging road ahead for the French economy. The headwinds facing French and European industry are well known, with rising tariff barriers, slowing global demand, competitiveness problems and an appreciating euro. High inventory levels and weak order books suggest that any recovery in the sector will be moderate at best over the coming months.

The weakening of the services sector is particularly troubling, as it undermines a traditional pillar of economic resilience. Despite easing inflation, consumer confidence remains fragile, with fears of unemployment reaching record highs. This is likely to push the household savings rate higher, further dampening consumption. The decline in sentiment within the accommodation and catering sector also raises concerns about the upcoming summer tourism season. With the number of overnight stays in collective tourist accommodation already 1.5% lower in the first quarter of 2025 than in the same period in 2024, there is a high risk of further deterioration. This will weigh on economic activity.

Following tepid GDP growth of just 0.1% in the first quarter (despite a rebound in industrial output in March), the outlook for the second quarter remains subdued. A similar 0.1% growth rate appears to be the best-case scenario, with the risk of contraction looming. At this stage, there are no clear signs of a rebound in the second half of the year. Restrictive fiscal policy will continue to weigh on activity, and it is unlikely that tariff barriers will return to their level by early 2025.

Against this backdrop, growth is likely to remain sluggish. We are expecting GDP growth of 0.4% for 2025 as a whole and 0.8% for 2026. After outperforming the eurozone average in 2023 and 2024, France is now expected to lag behind its peers in the coming years.

### Author

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

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

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