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French GDP at risk of contraction

PMI indices are sending a clear signal: the French economy is at risk of contracting in the second quarter

Activity in both French services and manufacturing has deteriorated amid higher energy prices

PMIs are not always the most reliable leading indicators for the French economy, with INSEE's business surveys generally providing a more representative picture as they better capture the relative weight of each sub-sector. Nevertheless, the signal from the May PMIs is strong enough to warrant attention.

In May, the composite index fell sharply to 43.5 from 47.6, its lowest level in five and a half years, driven by a marked deterioration in services (42.9 from 46.5 in April). After a temporary improvement in manufacturing, supported by inventory build-up, activity also weakened in this sector, with the PMI falling to 48.9 from 52.8. Companies in both sectors attribute the decline in activity to rising energy prices linked to the war in Iran. At the same time, inflationary pressures increased, with firms reporting strong cost increases and, to a lesser extent, higher selling prices.

All in all, these figures are very weak and raise the likelihood of a contraction in French activity in the second quarter, following stagnation in the first. Household consumption, which already edged down in the first quarter (-0.1%), is likely to contract further, as indicated by declining demand in the services sector. Investment, already in negative territory (-0.4%), is also set to weaken further amid rising pessimism among households and businesses and higher longterm interest rates. Avoiding a contraction would require a strong positive contribution from exports. While this is possible in some specific sectors, current data suggests it is unlikely to be broad-based.

We expect a mild contraction in GDP in the second quarter (-0.1% quarter-on-quarter), which would bring average growth for 2026 to, at best, 0.6%. In this context, the government's 2026 growth forecast of 0.9% now appears out of reach, significantly complicating the fiscal adjustment. Achieving a public deficit of 5% of GDP in 2026, after 5.1% in 2025, as pledged by the government, is becoming increasingly challenging. This is likely to lead to further tense budget discussions in an already complex political environment ahead of the 2027 presidential election.

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