

## French economy to remain close to stagnation despite GDP rebound

French GDP has rebounded slightly, but the country's economy is likely to flirt with stagnation throughout the year



The French economy is likely to remain close to stagnation for the rest of the year, with quarterly growth hovering between 0% and 0.1% over the next few quarters

### GDP rebounds

As expected, French GDP rebounded slightly in the first quarter of 2025, with quarter-on-quarter growth of 0.1% (after -0.1% in the fourth quarter of 2024). Throughout the quarter, household consumption stagnated, while public consumption slowed sharply (+0.1% over the quarter compared with +0.4% in the fourth quarter), in the wake of the six weeks of special legislation that restricted public spending ahead of the vote on the 2025 budget and the more restrictive budget afterwards.

Investment continued to fall, for households, businesses and public administrations. This is already the seventh consecutive quarter without growth for total investment in France. All in all, domestic demand made zero contribution to GDP growth. Inventories made a clear contribution to growth of 0.5 points over the quarter. Foreign trade weighed on French GDP by -0.4 points, with imports rising on the quarter (+0.4%) while exports fell sharply (-0.7% in the first quarter versus +0.2% in the fourth). Finally, it should be noted that output in France rose by 0.2% over the quarter, thanks to an acceleration in manufacturing and services.

## Stagnation persists

Overall, while GDP growth met expectations, the underlying details were somewhat weaker, with inventories making a significant contribution. The data indicates that French economic activity in the first quarter was nearly stagnant, a trend likely to persist in the coming quarters. The additional customs duties in the US and their direct and indirect impact will delay the French economy's rebound. We estimate that the direct effect of a permanent 10% import duty in the US on French GDP (via a reduction in exports) will be around -0.1%.

Adding to this are the effects of uncertainty, the global economic slowdown and more restrictive fiscal policy, all of which will weigh on French economic activity throughout the year. The cooling in the labour market is likely to limit the recovery in household consumption, and the savings rate is set to remain high.

As a result, the French economy is likely to remain close to stagnation for the rest of the year, with quarterly growth hovering between 0% and 0.1% over the next few quarters. For 2025 as a whole, we are expecting GDP growth of 0.4% and 0.8% in 2026.

## Inflation remains low

French inflation stood at 0.8% in April, the same as in March. Energy prices, down 7.9% year-on-year, continue to weigh heavily on inflation. Goods inflation remains slightly negative, at -0.2%, as in March. Services inflation is also stable, still at 2.3%. On the other hand, as expected, food inflation is rising again, to 1.2% compared with 0.6% in March.

French inflation therefore remains very low and should stay well below 2% for the year as a whole. Energy prices will continue to weigh on inflation, in the wake of oil and gas prices on world markets, but also because regulated electricity tariffs will be lower than last year. Inflation in manufactured goods could fall further, given the expected global economic slowdown and redirections in Chinese trade flows. In addition, the appreciation of the euro will push down import prices. Inflation in services should remain more dynamic than the rest, but should converge towards the 2% target. As a result, inflation in France is likely to remain below the European average, giving the European Central Bank an additional argument in favour of continuing to cut rates.

## Author

### Charlotte de Montpellier

Senior Economist, France and Switzerland

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

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