

## French GDP rises, but fundamentals are weak

French GDP rose by 0.2% in the third quarter, thanks to strong business investment following the easing of supply chain tensions. As this is mainly a matter of clearing production backlogs, the economic performance in the quarter is weak. A recession is likely to follow



### French activity continues to grow

In France, GDP grew by 0.2% quarter-on-quarter in the third quarter of 2022, after 0.5% growth in the second quarter. The increase in GDP is mainly due to investments, which rose by 1.3% in the quarter. It was mainly companies that increased their investments, while household capital formation decreased. Household consumption stagnated in the third quarter, weighed down by low confidence and declining purchasing power. Households consumed fewer goods than in the second quarter (-0.5% in volume) and the growth of services consumption slowed significantly (0.2% after +2.2%). Foreign trade made a negative contribution to GDP growth (-0.5 points), with exports slowing sharply, particularly in services, as the post-pandemic catch-up effects dissipated in the tourism-related sectors. Both exports and investment in transport equipment are recovering, a sign that tensions in supply chains are clearly dissipating, allowing production backlogs to be cleared. Finally, inventories still contribute positively to GDP growth, by +0.2 points, but less than in previous quarters, thus avoiding stagnation over the quarter.

Overall, the figures indicate that, despite sluggish consumption and a sharp drop in momentum in tourism-related activities, economic activity is holding up well in France, thanks in particular to improvements in supply chain tensions. As this is mainly a matter of clearing production backlogs, it is difficult to characterise the economic performance in the third quarter as very strong.

## The outlook for the coming months remains difficult

Already in the next quarter, inventories are likely to contribute negatively to GDP growth. Indeed, the deterioration of order books and the current high level of inventories are likely to lead to a voluntary reduction of stocks by companies in the coming months. French exports are likely to suffer greatly from the deterioration of the economic situation in the main partner countries, where a recession is expected. In addition, there is little hope that household consumption will pick up in the coming months, as purchasing power remains plagued by high inflation and household confidence remains very low. Rising financing costs for households and businesses should lead to a contraction in investment. All these elements together lead us to believe that a contraction of French GDP could be observed in the fourth quarter, as well as at the beginning of 2023. With investment at half-mast, risks to energy supply, continued high inflation, and an overall slowdown in demand for exports, it is difficult to expect a strong recovery in growth in the second half of 2023. We expect GDP to contract by 0.3% over 2023 as a whole, after rising by 2.5% in 2022.

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