

French GDP stagnates in 1Q, hit by household consumption

Weak domestic demand brought French growth to a halt in the first quarter, a worse result than expected. The outlook for the next few quarters is hardly more dynamic



Source: iStock

GDP stagnated in 1Q

France's economic growth came to a halt in the first quarter, posting a 0% quarterly variation after 0.8% in the fourth quarter of 2021. Unlike the US, where the fall in GDP in the first quarter is linked to weak foreign demand, it is domestic demand that is falling in France, detracting 0.6 percentage points from GDP growth. Within domestic demand, it is above all household consumption that is clearly down, with a drop of 1.3% over the quarter on the back of high inflation and pessimism linked to the war in Ukraine. Gross fixed capital formation continues to grow, albeit slightly (+0.2%). Foreign trade also continues to grow, but at a slower pace than at the end of 2021, thanks in particular to a rebound in exports of transport equipment following the delivery of a cruise ship. Exports (+1.5% over the quarter) are growing faster than imports (+1.1), allowing foreign trade to make a positive contribution to economic growth (+0.1 point). Inventories also contributed 0.4% over the quarter, thus avoiding a contraction of the French economy. Finally, it should be noted that the total production of goods and services continues to increase in 1Q, but at a less dynamic

pace than the previous quarter (+0.5% from +1.0%).

Overall, these figures are worse than expected (the Reuters consensus was for +0.3% for the quarter). While 2021 had seen a more dynamic economic performance than hoped for, 2022 has started with a more significant slowdown than expected. This slowdown does not bode well for the future.

More quarters of stagnation to come

For the coming quarters, the growth outlook is not very bright. The sharp rise in inflation, which is now spreading more and more widely throughout the economy, is weighing on household incomes. This is compounded by household pessimism, illustrated by the sharp fall in consumer confidence in March and the fact that it did not recover in April. These two elements are likely to further dampen household demand. This drop in household demand will also start to be felt by companies, which will be less able to pass on the cost increases they are facing in their selling prices. There is therefore a risk of a deterioration in business confidence, which until now had held up rather well despite the shock of the war. In addition, the situation in China should weigh on production lines, complicating the supply of inputs and disrupting production in the coming months, but also on French exports. French economic growth is therefore likely to remain weak. Although none of these factors is sufficient to tip the French economy completely into recession, the combination of all of them at the same time drastically increases the risk of one or two quarters of negative growth for the rest of the year. We expect a weak growth situation for the next few quarters, with a second quarter probably close to 0% quarter-on-quarter and the second part of the year showing quarterly growth rates of around 0.4%. Ultimately, the French economy is expected to grow by 2.7% for the year as a whole, a weak figure if we consider the carry-over effect of the strong end of 2021 (2.4%).

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