

French goods trade balance improves for the first time in two years

In October, the goods trade balance deficit narrowed for the first time since the end of 2020, thanks to a marked improvement in the energy balance. Although the goods trade balance is still at extremely low levels, the current situation cannot really be considered worrying beyond the energy trade



Improvement in the trade balance

In October, France's goods trade balance improved for the first time since the end of 2020, thanks to a marked improvement in the energy balance. Well-filled gas reserves allowed France to reduce its gas imports in October. In addition, electricity imports were lower, in volume, but especially in price, thanks to the sharp decrease in electricity prices in the markets. The trade balance in goods now stands at €-12.2bn compared to €-17.2bn in September. The non-energy trade balance also improved in October to €-5bn from €-6.6bn in September, with exports falling less than imports.

Stronger underlying trends

Overall, although the trade balance deficit is often seen as an alarming signal of the state of the French economy, the current situation cannot really be considered worrying beyond the specific situation of the energy trade. In fact, the deterioration of the French external position in recent months is entirely energy-related and the underlying trends are rather solid. Since the beginning of the year, French exports have been more dynamic than in neighbouring countries, thanks to the strong rebound in sales of transport equipment abroad, but also due to the surge in agricultural

exports, including wheat. The war in Ukraine has allowed France to generate a large agricultural surplus. At the end of the third quarter, French exports were up by 20% compared to before the pandemic (in value) and France's share of world demand has stabilised. In addition, alongside the deficit in the balance of goods, the balance of services is usually in surplus in France and should remain so in the coming months.

A worsened economic outlook

After months of widening deficits, this improvement can be seen as good news for the contribution of foreign trade to economic growth. This could be positive in the fourth quarter and limit the risk of a significant contraction in GDP. Given the weakness of household consumption, we expect a slight contraction in GDP in the fourth quarter, which would see French GDP growing by 2.5% on average over the year 2022. For 2023, we fear that GDP will show a slightly negative figure for the whole year, due to the context of inflation which deteriorates purchasing power, higher rates which slow down investment, deteriorated economic sentiment, and a weaker global environment. Given energy price developments in November and the first few days of December, the goods trade balance could widen further in the coming months, but underlying trends in the goods and services balance could continue to improve.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.