

French growth slows sharply despite a rebound in domestic demand

French GDP growth slowed markedly in the third quarter, coming in at 0.1% quarter-on-quarter, compared with +0.6% in the second quarter. The details of the figures are solid, with domestic demand rebounding strongly. Nevertheless, the French economy is facing a significant economic slowdown that is likely to persist over the coming quarters



Weak growth

In line with expectations, French GDP growth slowed sharply in the third quarter to 0.1% quarter-on-quarter, following an upwardly revised 0.6% rise in the second quarter.

Despite the sharp deceleration in growth, the details of the figures are fairly solid, with domestic demand accelerating and making a very positive contribution to GDP growth (+0.7 points compared with +0.2 points in the second quarter). Household consumption grew by 0.7% over the quarter, after stagnating in the previous quarter, thanks to a rebound in the consumption of capital goods, transport equipment and food. Consumption of services slowed. Investment also accelerated sharply in the third quarter (+1.0% compared with +0.5% in the second quarter), particularly in manufactured goods and information and communication services. However, construction investment stagnated over the quarter.

The weak growth in GDP in the third quarter can be attributed to foreign trade, which made a strongly negative contribution (-0.3 points) due to a fall in exports that was greater than that of imports. While inventories were the main contributor to growth in the second quarter (+0.5 points), the situation has reversed, and they are now making a very negative contribution to economic activity (-0.3 points).

In short, while the details are fairly good, they do not alter the reality that the French economy is facing a major economic slowdown, and this is likely to continue.

The slowdown is likely to continue

The construction sector, for its part, is likely to see its activity continue to weaken due to higher interest rates which are having an increasing impact on demand for credit. The dynamism of household consumption is also likely to moderate over the coming months. While nominal wages have risen, allowing households to regain some purchasing power, the labour market is beginning to show the first signs of weakening, consumer confidence remains low and inflation remains rather sticky. Recent rises in oil prices linked to geopolitical tensions will keep energy inflation buoyant in France until the end of the year and into 2024, which will weigh on purchasing power and limit consumer spending. Retail and services are therefore likely to face weak demand.

Ultimately, the French economy is likely to slow further in the fourth quarter. We expect GDP to stagnate over the quarter, which would bring average growth for 2023 to 0.8%. We believe that the recovery in 2024 will be slow, weighed down by a sharp global economic slowdown and by monetary policy that remains very restrictive. Given the low starting point for the year, average growth in 2024 is likely to be weak, and well below the government's forecast of 1.4%. Our forecast for average French GDP growth in 2024 is 0.6%.

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 www.ing.com.