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%.

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