

French manufacturers optimistic despite trade war

Despite the ongoing trade war, business sentiment in France remained resilient in April. However, the prospects for a significant economic rebound remain limited



French manufacturers are more optimistic than expected

Less dramatic than expected

The business climate index in France stood at 96 in April, a slight decrease of 1 point from the previous month. Although the business climate continues to deteriorate, the downturn has not worsened significantly, despite the trade war and increased global economic uncertainty.

Interestingly, manufacturers are more optimistic than expected, [mirroring trends observed in Germany](#). Business sentiment in the industrial sector rose to 99 in April, up from 96 in March. This improvement is evident across all components of the indicator, including order books, production prospects, and past production. While perceived uncertainty has increased slightly, it remains relatively low, even though the survey was conducted at the beginning of April when additional US tariffs were announced. French industrial companies appear relatively relaxed, contrasting with the concerns seen in financial markets. This is surprising given the potential impact of additional tariffs on the European and French economies in the coming months. We anticipate that the new global context will gradually be reflected in French indicators, with a significant risk of a downturn in business sentiment in the coming months. We believe that Donald Trump's tariff war will lead to a slowdown in the global economy, which will also result in reduced demand for French companies.

In April, business sentiment also improved slightly in the services sector but remained below its long-term average. Conversely, it deteriorated markedly in the retail and motor vehicle trade sectors due to declining business prospects and order intentions, and slightly in the construction sector.

Slower growth expected

The latest confidence indicators and available activity data suggest that the French economy rebounded slightly in the first quarter of the year after contracting by 0.1% in the fourth quarter of 2024. However, additional tariffs and their direct and indirect impacts will delay the rebound. We estimate the direct effect of a permanent 10% import tariff in the US on French GDP (via diminished exports) around -0.1%. Uncertainty, the global economic slowdown, and more restrictive fiscal policies will also weigh on French economic activity throughout the year. Consequently, the French economy is likely to remain close to stagnation, with quarterly growth expected to be between 0% and 0.1% over the next quarters, with risks tilted to the downside. For 2025 as a whole, we expect GDP to grow by 0.4% and by 0.8% in 2026.

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