

Omicron dampens business climate in France

Business sentiment in France declined in January, with Omicron worsening the outlook for the services sector. Despite a still solid level of activity, the economic slowdown has thus been prolonged



France's La Défense business district

Deterioration in the outlook for the services sector, but improvement in industry

The business climate in France worsened in January, standing at 107 compared to 109 in December, according to INSEE data. The decrease is mainly due to the services sector, where the assessment of the general outlook is deteriorating and the perceived economic uncertainty is increasing. This development is linked to the Omicron wave of the coronavirus, which is leading to a very high number of new infections and therefore to numerous quarantines, and sick leave for workers. As the service sector is generally more labour-intensive than industry, the effects of Omicron are probably felt more strongly there.

In industry, the business climate has in fact improved, thanks to a sharp rebound in order books, which have reached their highest point since 2018. Nevertheless, business leaders believe that production will grow less quickly in the next three months than in the last three months. In addition, for the first time since October 2020, the proportion of companies limiting their

production due to supply difficulties is decreasing, an illustration of the improvement observed in global supply chains. Given the arrival of Omicron in China and the restrictions put in place to contain it in cities and ports that are very important to global production chains, a resurgence of supply constraints is expected in the coming months, before a more permanent improvement.

Weaker first quarter expected

The business climate indicator is particularly interesting as it is one of the very first data points of 2022 and allows us to understand the economic situation at the start of the new year. Having recovered to its pre-crisis economic level at the end of the third quarter of 2021, France has, for the moment, weathered the latest wave of the coronavirus better than its European neighbours. The government did not impose any new restrictions, relying on its health pass to contain the spread of the virus, and this allowed the economy to remain generally solid in the fourth quarter. In contrast to Germany, where the economy contracted in 4Q, growth of around 0.6% is expected in France for the quarter. This will enable growth to reach 6.7% for the full year, after the 8% fall in 2020. Nevertheless, a certain slowdown was seen during 4Q and this seems to be confirmed in January, particularly in the services sector. As the Omicron wave is not yet over, the slowdown could continue in February, especially if it starts to impact household confidence and therefore consumption, already affected by the current inflationary environment. Growth will probably be weaker in 1Q, at around 0.2% quarter-on-quarter. A rebound is expected from spring onwards, thanks in particular to the likely improvement in the health situation and a strong labour market, which should allow growth to approach 3.7% in 2022.

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