

## Surprisingly strong second-quarter growth in France

French GDP grew by an above-consensus 0.5% in the second quarter on the back of strong exports, while domestic demand contracted. The third quarter started on a weaker footing



Growth in the second quarter was entirely due to external demand, with exports advancing by 2.6%

### Exports drive French growth, while consumption contracts

French GDP expanded by 0.5% in the second quarter, significantly above the 0.1% consensus expectation. This was surprising, given the social unrest in the quarter and rather subdued sentiment indicators. However, domestic demand still contracted by 0.1% on the back of a 0.4% fall in consumption and a 1.6% decline in residential construction. The 0.7% growth in business investment was unable to compensate for this. On top of that, the ongoing inventory correction subtracted another 0.1 percentage point from growth.

So, growth was entirely due to external demand, with exports advancing by 2.6%, while imports grew by 0.4% on the quarter. The recovery in the car industry probably boosted exports, though there was also the delivery of a cruise ship, which pushed up exports of transport equipment by 11.2% after +1.8% growth in the first quarter. Also, the continued reopening of nuclear power plants has made France a net exporter of electricity again.

## Weak start to the third quarter

While today's figure is definitely a pleasant surprise, it remains to be seen whether this dynamic growth can be maintained. The third quarter might get a boost from a normalisation of tourism income after the more subdued Covid-19 years. However, according to the July PMI figures, the French economy started the third quarter of 2023 with the sharpest reduction in business activity since November 2020, with sentiment in both the manufacturing and services sectors below the 50-point boom-or-bust level. We, therefore, expect a deceleration of the growth pace in the second half. That said, on the back of the stronger-than-expected first half, we might have to revise our 2023 GDP growth forecast (now standing at 0.5% for the year) slightly upwards.

## Inflation on a downward trend

In another report published today, it appeared that consumer price inflation fell to 4.3% in July, from 4.5% in June, with the HICP inflation figure dropping from 5.3% to 5.1%. While French inflation remains higher than the eurozone average, on the back of a different dynamic in energy prices (since prices were capped in France last year, the downward impact of lower market prices is less pronounced in France than in other countries), the trend is downwards.

That said, the July PMI survey showed a clear difference between manufacturing and services. Manufacturing prices have been falling for some months thanks to declines in raw material costs, but service prices continue to rise at a still highly elevated pace, presumably driven by higher labour costs. This is a phenomenon which is quite similar in the rest of the eurozone and which will make the discussions on the pace of decline in core inflation all the more lively at the next ECB's governing council meeting.

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