

## French economy remains gloomy as business sentiment stays subdued

In France, the business climate remained stable at 96 in June, a level still below the long-term average and below consensus expectations



The French economy has outperformed its European neighbours in recent years, but it looks as though the tide has now turned

Business sentiment fell in industry in June, as opinions on past production deteriorated sharply, inventories of finished goods rose, and order books worsened. In the services sector, business sentiment rebounded a little as forecast demand improved slightly, but the indicator is still below its long-term average. Business sentiment deteriorated in the construction sector, but rose modestly in the retail sector.

Overall, the business climate remains subdued, as it did throughout the second quarter. The only good news is the employment climate, which rose by three points over the month, returning to its April level.

These figures show that the French economic situation remained difficult at the end of the second quarter, and that economic growth is still very weak. In recent years, the French economy has outperformed its European neighbours, but its situation is now worse than elsewhere in Europe. France didn't benefit from a sharp rise in exports to the US in March and does not seem to be benefiting from the renewed industrial optimism perceptible in other countries, such as Germany.

At present, there is no engine driving the French economy. Domestic consumption remains sluggish, despite the fall in inflation, with households remaining particularly cautious and continuing to save much more than usual (the savings rate being at its highest for 45 years). Investment remains undermined by the high level of uncertainty, higher long-term interest rates and higher tax pressure. Fiscal consolidation is weighing on public spending, and this will continue in 2026. Finally, exports of services, manufactured goods and energy remain sluggish and are likely to make a negative contribution to growth in the coming months.

Overall, this initial data for June does not provide any cause for more optimism than we've seen in recent months. The most likely outcome seems to be that GDP will stagnate in the second quarter, with the risk of a contraction not being ruled out. At this stage, there are no tangible signs of a rebound in the second half of the year. Fiscal policy will remain restrictive, and it is unlikely that tariff barriers will return to their levels of early 2025. Against this backdrop, growth is likely to remain sluggish. We expect GDP growth to be limited to 0.4% in 2025 and 0.8% in 2026. After outperforming the European average in 2023 and 2024, France is now likely to post lower growth rates than its neighbours.

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