Modest growth, against a backdrop of geopolitical uncertainties

The Covid-19 pandemic, followed by the outbreak of war in Ukraine, have greatly disturbed production conditions worldwide, affecting many industrial value chains. Supply-side tensions reached often unprecedented levels in 2021 and 2022. These tensions have eased significantly in recent quarters. Nonetheless, some tensions persist. One obvious example is oil prices, which increased sharply over the summer, and again after the surge in geopolitical tensions in the Middle East following the events of 7 October.

The high volatility of oil prices since late September is also a telling illustration of the current state of uncertainty about the economic outlook. Concerns about supply, which may be indicative of a certain deterioration in the geopolitical fragmentation of the world, have been matched by concerns about demand against a backdrop of high interest rates. Global trade is struggling to return to form and the business tendency surveys suggest a persistent lack of dynamism in France’s major European partners, in both the industrial and the service sectors.

In theory, increasing fuel prices should not reverse the easing of inflation observed in recent months in most Western economies, reflected in the gradual decrease of production prices, but persistent uncertainty over energy prices makes forecasting even more difficult. In France, the rebound in the price of oil products cancelled out the slowdown in other price increases in September (food, services, manufactured goods). Nonetheless, food prices decreased during that month (-0.3%) for the first time in almost two years. They should remain broadly stable over the forecasting period (to end of 2023), which means that the year-on-year increase should be around +7% in December (compared with +15.9% in March). Headline inflation should stand at +4.4% for the year to December (with 5.0% the annual mean value), while core inflation should be +3.9% (annual mean +5.2%).

After deteriorating in May, the business climate in France has remained virtually unchanged since, cleaving closely to its long-term average. The rate of growth recorded in Q2 (+0.5%) was surprisingly high, partly due to one-off factors, but the long-term trend for the French economy appears to be more modest. We thus see no reason to adjust the quarterly growth forecast found in our *Economic outlook* reports published in June and September of this year: +0.1% in Q3 followed by +0.2% in Q4. Activity should slow in both the service and industrial sectors - although certain catch-up effects are expected to persist in branches previously affected by production difficulties - while also continuing to decline in the construction sector. Annual growth should stand at +0.9% for 2023, in spite of a 0.2% decrease in mean annual household consumption, leaving a relatively modest “overhang” for 2024.

Whereas activity in Q2 2023 was boosted by foreign trade, the growth witnessed in Q3 seems to have been largely driven by the rebound in household consumption, with inflation beginning to ease. This rebound should continue into the autumn, albeit at a more modest rate: household confidence in the economic situation is still struggling to recover from the nadir reached in mid-2022. Corporate investment, meanwhile, appears to have increased considerably over the summer as a result of strong levels of vehicle fleet renewals, but it may well drop off toward the end of the year due to the rising cost of borrowing. Finally, and as is often the case, export figures should be dependent on the delivery schedules of the aeronautical and naval sector, with a new rebound expected toward the end of the year.

The improvement in the terms of trade seen in 2023 is helping, directly or indirectly, both household income and business revenues. As such, the mean margin rate of non-financial corporations in 2023 should be slightly higher than its pre-Covid level, benefiting from the clear slowdown in input costs and relatively moderate wage increases. In real terms, after falling in H1 2023, wages should nevertheless bounce back in the second semester. As an annual average, nominal wages should thus increase at the same rate as inflation. In spite of the slowdown in employment (+133,000 net job creations forecast for this year, predominantly in H1, with a slight increase in unemployment expected in H2, reaching 7.3% of the active population), earned income should be relatively dynamic, as should property income and social benefits, many of which are index-linked to inflation. Overall, household purchasing power should increase by 1.2% in 2023, or +0.7% per consumption unit.

This forecast remains at the mercy of any number of variables, not least among which are the speed with which the tightening of monetary policy is passed on to the real economy, geopolitical tensions capable of inducing new spikes in international energy and commodity prices, and even consumer behaviour, with the savings ratio remaining well above its pre-pandemic level. ●