International economic outlook and detailed forecasts for France

After easing significantly, some of the inflationary pressures weighing upon energy and commodity prices are lingering or even increasing

After a year of adaptation to the new realities of the gas supply, the energy markets have partially stabilised in Europe (►Figure 1). Since the spring of this year, gas prices on the European market have fallen back to below €40 per MWh, a far cry from the prices of €200 and more recorded in the summer of 2022, albeit still well above pre-pandemic levels. There are now few concerns about energy supplies as winter approaches, with gas reserves across the European Union replenished to 94% by the end of the summer, although natural gas futures (TTF) for H1 2024 are currently trading at around €50 per MWh, indicating that tensions persist.

Tensions also became apparent in the oil supply in September, with Saudi Arabia announcing plans to restrict production until the end of the year: oil prices (Brent crude) recently topped $90 per barrel, a level not seen since November 2022. Prices then subsided, with concerns being voiced about the outlook for demand, before bouncing back as a consequence of exacerbated geopolitical tensions in the Middle East.

Meanwhile, prices for non-energy commodities have also returned to levels far below those seen in H1 2022. Nevertheless, tensions persist on certain commodities, with prices still above pre-pandemic levels (wheat and oil crops, for example, whose prices have mostly dopped back below the peak of late 2021, but remain above their 2019 levels).

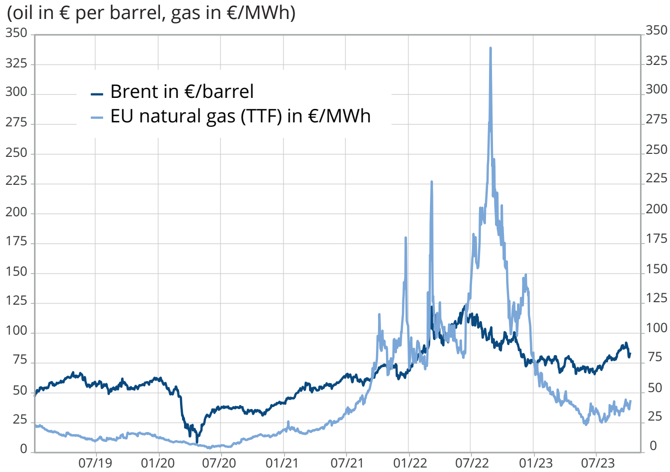
Inflation is falling back in Western economies, but it remains partly dependent on fluctuations in energy prices, among other factors

The tightening of monetary policy which began in 2022 has continued into 2023. In particular, the Fed, the ECB and the Bank of England all increased base interest rates again in Q3, taking them to levels last seen in the autumn of 2008 (►Figure 2).

Meanwhile, inflation has led to a slowdown in Western economies, particularly in the USA and Spain (►Figure 3 left). The year-on-year increase in consumer prices is considerably lower than it was this time last year, but the cumulative increase recorded since 2019 is substantial: almost 15% in France and Spain, and over 20% in Germany and the United Kingdom (►Figure 3 right). The fall in inflation was also tempered by rising oil prices

►1. World oil prices and natural gas prices in Europe

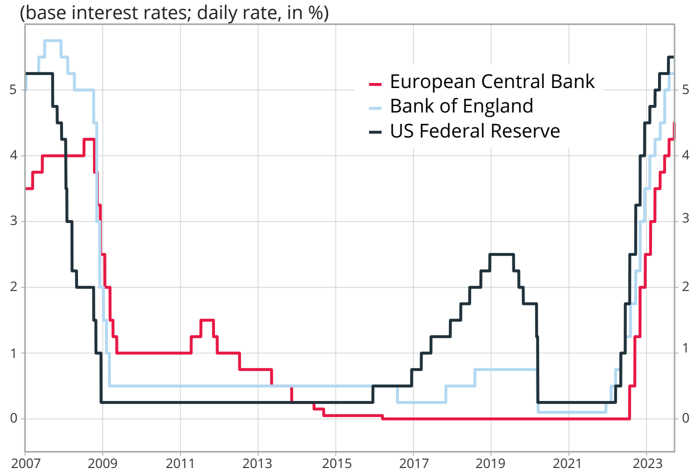
(oil in € per barrel, gas in €/MWh)



Last point: 9 October 2023.
Source: INSEE.

►2. Base interest rates

(base interest rates; daily rate, in %)



Last point: 29 September 2023.
Source: European Central Bank, Bank of England, Federal Reserve.

over the summer. Year-on-year inflation is still above the target levels identified in monetary policies, and central bankers continue to keep a close eye on wage increases, concerned that they may take over from energy prices as the next driver of inflation, particularly in the prices of services, while also remaining attentive to margin rates.

In the Eurozone, the acceleration of rate hikes since 2022, compared to the situation in the USA, was accompanied by an increase in the Euro-dollar exchange rate until mid-July. The Euro has since depreciated in value, partly due to a growth outlook in the USA which outstrips that for the Eurozone. For the current forecasting period (to end 2023), the technical estimates for the €/$ exchange rate and the price of Brent crude are close to the actual values recorded at the end of September, namely 1.06$/€ and $93 per barrel (€88).

World demand should remain lacklustre, in spite of the easing of supply-side constraints

In this context, the trajectory of economic activity has varied considerably among the world's largest economies. Above and beyond specific national factors, Western economies have found themselves caught between, on the one hand, the gains resulting from the partial normalisation of production conditions and, on the other hand, the losses incurred as a result of tightening monetary policies and persistently high levels of inflation.

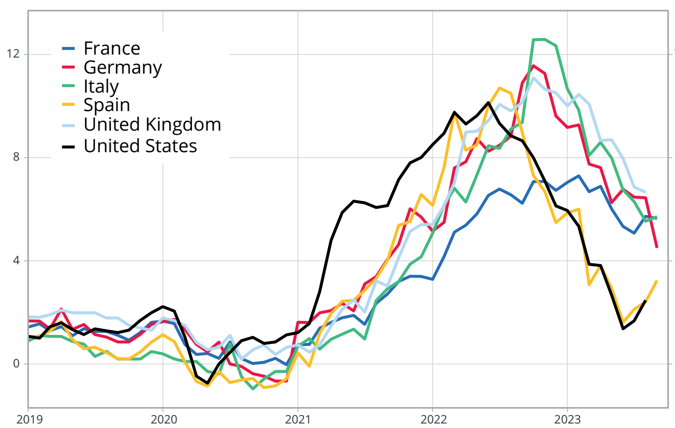
In China, activity slowed sharply in Q2 2023 (+0.8% after +2.2%). This was the logical sequel to a very dynamic first semester, galvanised by the lifting of Covid restrictions in late 2022, but it also reflects consternation over the state of the Chinese economy: weak household consumption, financial difficulties affecting some of the biggest players in the property market, and the risk of a contagion effect spreading to local authorities. Activity is not expected to pick up in H2, and China's annual growth is expected to be +5.0% in 2023 (up from +3.2% in 2022).

In USA, growth has remained relatively robust since the start of the year, buoyed by domestic demand. In spite of the increasing cost of borrowing, private investment has been fairly resilient, particularly investment by businesses on account of the subsidies included in the *Inflation Reduction Act*, while the dynamic performance of both employment and wages has helped to preserve household purchasing power. Nevertheless, in H2 investment by businesses should begin to suffer as a result of higher interest rates, and consumption is expected to slow. The pace of US growth should slacken (+0.3% forecast for Q3 and +0.2% for Q4), resulting in total annual growth of +1.9% for 2023 (after +1.9% in 2022).

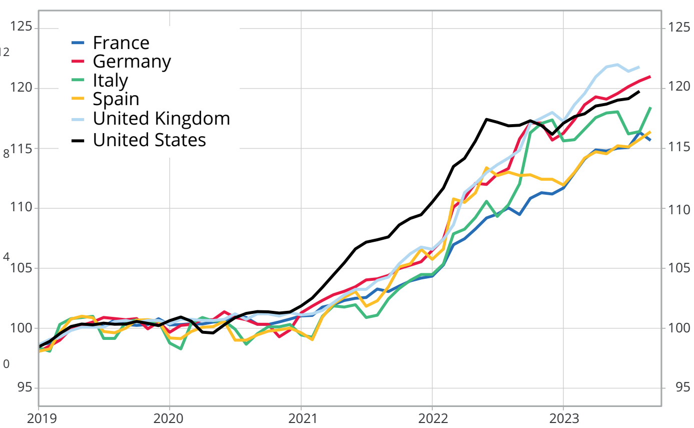
In the biggest European economies, activity was more modest in Q2, and in some cases saw a decline. In the Eurozone as a whole, growth remained slightly positive (+0.1%, as in Q1), but circumstances varied from one country to the next: an upswing in activity in France (+0.5%, up from 0.0% in Q1) and resilient performance in Spain (+0.5% after +0.6%), where investment was propped up by the European Covid recovery plan and consumption benefited from the clear slowdown in inflation. In Germany, after declining for two consecutive quarters, economic activity remained sluggish in Q3, as did domestic demand. In Italy activity declined (-0.4%), with investments penalised by the reduction in the value of the "superbonus" (subsidies for renovation work) and delays in implementing the recovery strategy. In the UK, meanwhile, growth has remained positive (+0.2% up from +0.3%, taking into consideration the significant changes made to the British national accounts) as a result of resilient domestic demand.

►3. Comparison of inflation levels (as measured by the Harmonised Index of Consumer Prices, HICP)

(year-on-year, in %)



base 100 in 2019



Last point: September 2023 (for France, Germany, Italy and Spain) and August 2023 (for United States and United Kingdom).
Note: Harmonised Index of Consumer Prices (HICP).
Source: INSEE, DESTATIS, ISTAT, INE, ONS, BLS, INSEE calculations.

Last point: September 2023 (for France, Germany, Italy and Spain) and August 2023 (for United States and United Kingdom).
Note: Harmonised Index of Consumer Prices (HICP).
Source: INSEE, DESTATIS, ISTAT, INE, ONS, BLS, INSEE calculations.

Economic outlook

In H2, activity in the major Eurozone economies is expected to show modest growth. Business tendency surveys suggest that activity will slow over the coming months, particularly in the industrial sector in light of the current state of order books (**▶Figure 4**), but also in the service sector given the forecasts for demand (**▶Figure 5**). Consumption might benefit from the slowing rate of inflation and the gradual catching-up of wages, but overall investment will be stifled by rising interest rates. Growth is therefore expected to remain sluggish in Germany (between +0.0% and +0.1% per quarter): supply chain difficulties in industry have eased since the spring, but the business tendency surveys suggest that order books are increasingly empty; consumption should rebound slightly nonetheless, buoyed by the wage increases which have come into effect since the summer. In Italy, activity should grow slightly (+0.2% per quarter), with stronger growth in Spain (+0.4% per quarter). Recent purchasing power gains should prop up consumption in both countries, while investment may benefit from the funds injected by the EU Covid recovery plan, offsetting the impact of rising interest rates.

In the UK, growth should remain slight (+0.1% in Q3 then +0.2% in Q4). The job market should be more favourable, with a continuing decline in the number of posts unfilled, but investment will continue to be hampered by high interest rates.

Finally, primarily as a result of the slowdown in activity in China, but also due to the lethargic performance of the advanced economies, global trade is expected to slow in Q3 (+0.1%) after bouncing back in the spring.

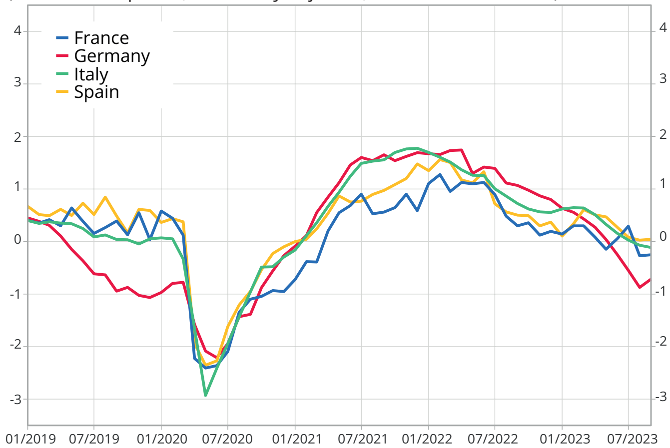
In France, activity should see a moderate increase in H2 2023, with the catch-up effects still being felt in the industrial sector over the summer

Since May this year, the business climate in France has more or less returned to its long-term mean level (100), having remained steadily superior to that average throughout 2022, and particularly in 2021 as the Covid pandemic eased. In the industrial sector in particular, the business climate dipped below its long-term average level in August, while in the service sector it has remained very slightly above average since May. (**▶Figure 6**)

Since the start of 2023, supply-side constraints have eased considerably, although they remain more numerous than the long-term average (**▶Figure 7**): there have been far fewer supply chain difficulties for industry than we saw in 2022, and the pressures affecting input prices have also decreased significantly. However, more difficulties are now arising on the demand side, particularly for industry, although they remain less substantial than those afflicting supply. Business leaders' assessments of the levels of their order books are in decline in several of the manufacturing branches, while an increasing number of industrial enterprises are reporting that their output is being stifled by a lack of demand. Meanwhile, the balances of opinion regarding the evolution of prices over the next three months have been in sharp decline in both industry and services over the past two quarters, which may reflect the easing of supply-side constraints as well as growing concerns over demand. In particular, industrial enterprises are no longer expressing an intention to increase sale prices in response to the state of energy prices (**▶Focus**).

▶4. Balances of opinion regarding the level of order books in the industry

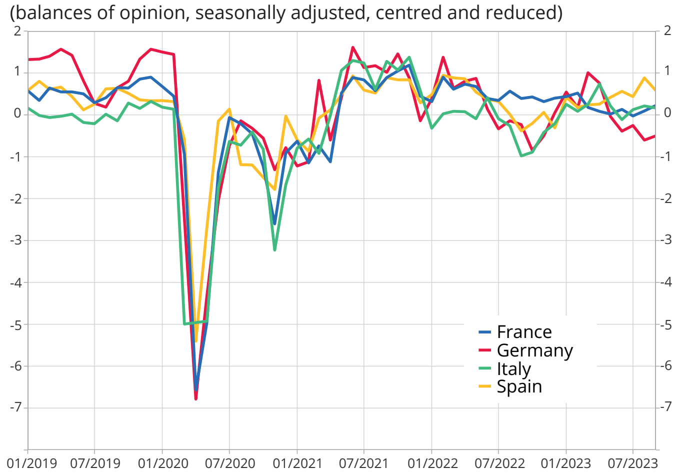
(balances of opinion, seasonally adjusted, centred and reduced)



Last point: September 2023.
Source: DG ECFIN, INSEE calculations.

▶5. Balances of opinion regarding expected demand over the next three months in services

(balances of opinion, seasonally adjusted, centred and reduced)



Last point: September 2023.
Source: DG ECFIN, INSEE calculations.

In this context, activity should grow at a modest rate in H2 2023 (+0.1% in Q3 then +0.2% in Q4, after +0.5% in Q2). This forecast remains unchanged from that included in the *Economic outlook* update published 7 September.

In the different sectors, activity is expected to slow in industry in H2 (+0.3% value added forecast for Q3, then +0.4% in Q4, down from +1.6% in Q2). The noticeable acceleration observed in Q2 was partly the result of catch-up effects at play in branches of activity formerly beset by production difficulties (automobile industry, electricity production and energy-intensive activities affected by rising energy prices). Some of these catch-up effects should continue to apply, but they should also diminish in H2 and lead to an overall slowdown in the industrial sector. In other branches of industry activity should barely increase as a result of sluggish demand, particularly from overseas.

Activity in the construction sector has been down since the start of the year, for both new house building and non-residential construction, penalised by rising interest rates and thus blunting the dynamic results seen in civil engineering for public transport systems (►**Figure 8**). The balances of opinion regarding the activity outlook for the next three months do not suggest that there is any real improvement to come in housing or non-housing construction, whereas renovations/improvement works should remain relatively stable. As the cost of borrowing continues to rise, construction activity should shrink again in H2 (-1.0% in Q3 then -0.6% in Q4).

In the service sector, activity is expected to slow in H2 (+0.2% predicted for Q3 then +0.3% at the end of the year, down from +0.6% in Q2). In the information and communication sector, for example, the outlook has been negative since the summer. The dynamism observed since the end of the pandemic is running out of steam, with firms increasingly concerned about their business prospects. In accommodation and food services, after a downturn at the start of the year linked to the social unrest of March, followed by a rebound in Q2, the monthly activity indicator also dropped in July (►**Figure 9**). Overall, activity is expected to slow in this sector in H2, despite a potential boost in late summer as a result of the Rugby World Cup.

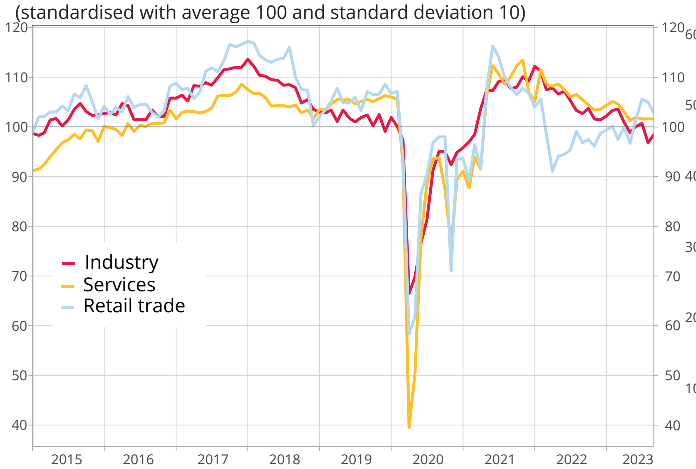
After slowing in Q2, employment should remain broadly stable between the end of June and late December

In light of the moderate growth in activity forecast for H2, job creation is expected to stall, having already slowed considerably in Q2. Payroll employment grew by 0.1% between the end of March and the end of June 2023, equivalent to net job creation of 21,000 jobs, down from +102,000 in Q1 and after sizeable increases in the preceding quarters. In total, between the end of 2019 and mid-2023 around 1.3 million salaried positions were created, around a third of which correspond to work-study programmes. The slight increase in payroll employment in Q2 coincides with a slight rebound in per capita productivity, although this indicator remains well below its pre-pandemic level.

Productivity should see another slight increase in H2, with the number of people on work-study contracts stabilising after three years of significant growth: as a result, employment should remain broadly stable between the end of June and the end of December.

►6. Business climate in manufacturing industry, services and retail trade

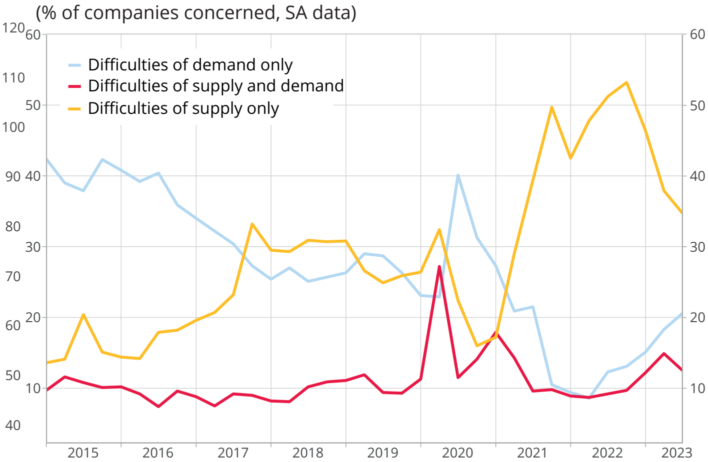
(standardised with average 100 and standard deviation 10)



Last point: September 2023.
Source: INSEE.

►7. Proportion of manufacturing industry companies experiencing difficulties of demand and/or supply

(% of companies concerned, SA data)



Last point : July 2023.
Source: INSEE.

Economic outlook

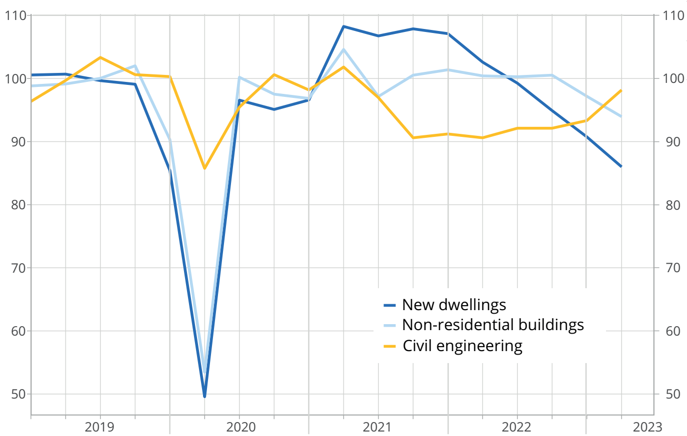
In the meantime the active population should continue to grow, albeit moderately, bolstered in the final months of the year by the first effects of the recent pension reform. In H2 2023, the rate of unemployment should thus rise slightly to affect 7.3% of the active population, having remained stable at 7.1-7.2% for almost a year, the lowest level seen since 1982 (with the exception of the deceptive decrease witnessed during the first lockdown in 2020) (**▶ Figure 10**).

Inflation should abate slightly by the end of the year, but energy inflation should remain high

In September, the year-on-year increase in consumer prices stood at +4.9%, according to the provisional estimates. This was the same rate recorded for August (**▶ Figure 11**). On average, the disparities in the impact of inflation on different categories of household have decreased, since the spring and even more so since the start of the year (**▶ Focus**). Inflation in energy prices, which was substantial in 2022 before falling back sharply in the spring of 2023, has made a reappearance as a result of rising fuel prices, due to increasing oil prices but also to a base effect (a year ago, in September 2022, the "discount at the pump" was increased). Between now and the end of the year, based on the technical hypothesis that oil prices will remain stable at their September level (€88 or $93 for a barrel of Brent crude, with an exchange rate of 1.06$/€), fuel prices should remain just above the level recorded this time last year, reined in by the "discount at the pump" and subsequently by the sharp decrease in oil prices in late 2022. Electricity prices, meanwhile, should also remain higher than last year as a result of successive revisions to the retail price cap (in

▶ 8. Output of new dwellings, non-residential buildings and civil engineering

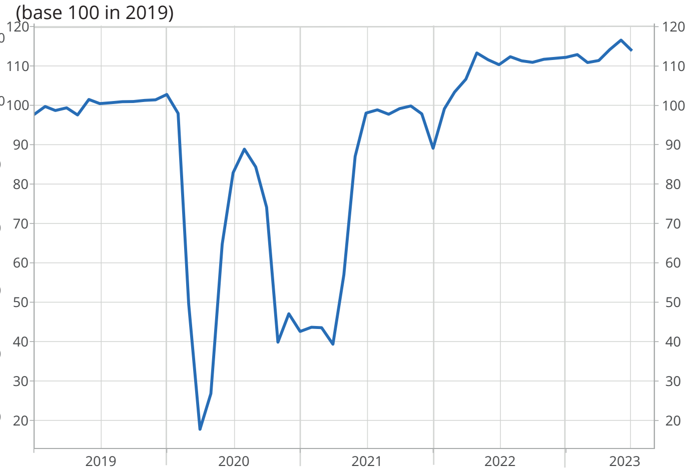
(base 100 in 2019)



Last point: Q2 2023.
Note: The output of new dwellings and non-residential buildings is calculated based on the surface area of building starts, using lead time coefficients to account for building time. Output in civil engineering is constructed using the turnover index for the sector (NAF 42), deflated by the civil engineering production cost index.
Source: SDES, INSEE, INSEE calculations.

▶ 9. Monthly production index for accommodation and food services

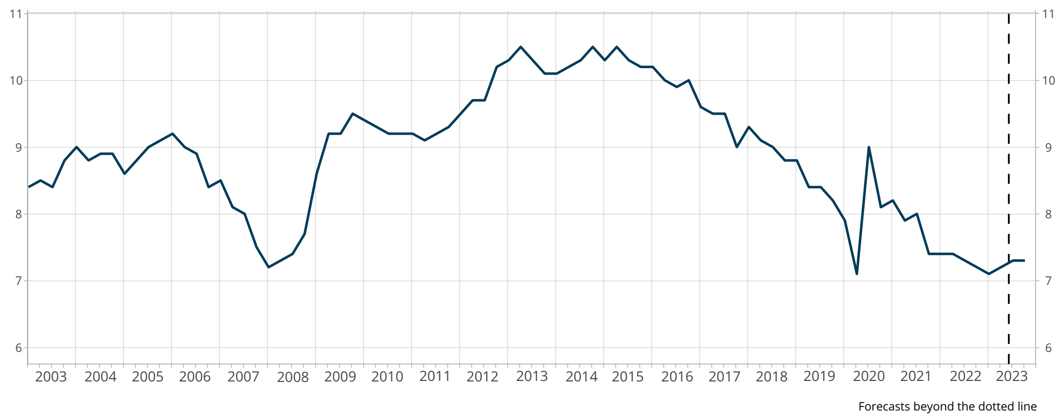
(base 100 in 2019)



Last point : July 2023.
Source: INSEE.

▶ 10. Unemployment rate (ILO definition)

(quarterly average in % of labour force, SA data)



Scope: France (excluding Mayotte), persons aged 15 or over living in ordinary housing.
Source: INSEE.

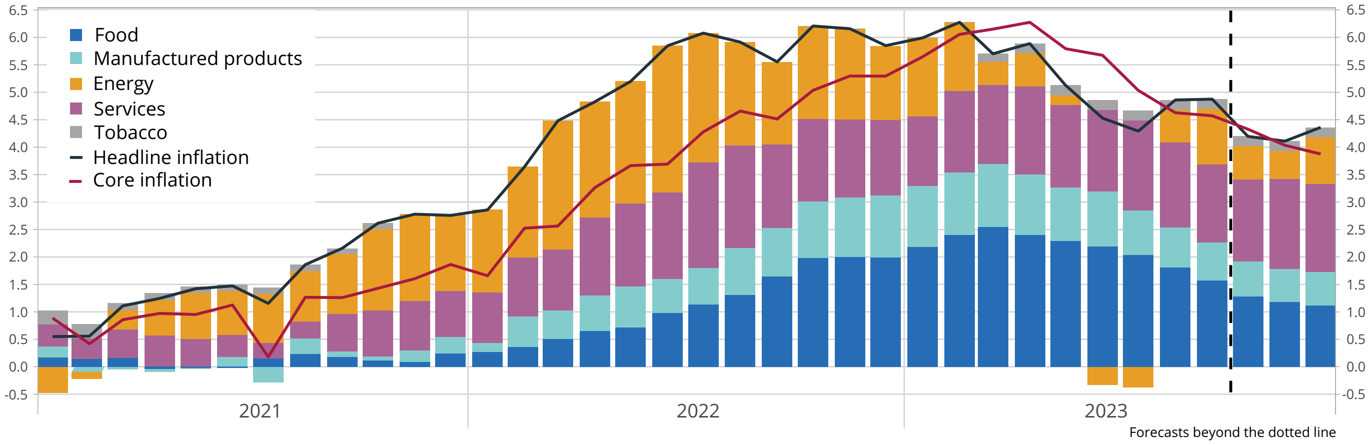
February and August 2023). All in all, energy inflation should remain clearly positive, at a year-on-year rate of almost 10% in December, once again outstripping inflation in food prices.

Indeed, food price inflation has slowed sharply since the spring and average prices actually dropped in September, particularly prices for food other than fresh produce, reflecting the recent downturn in production prices in the food industry, and the more sizeable the drop in agricultural production prices (► **Figure 12 left**). As for manufactured goods, production prices began to fall over the summer, after plateauing for a year at a level well above that recorded in early 2022 (► **Figure 12 right**). The prices of imported industrial products, meanwhile, have remained broadly stable since late 2022. As a result, and for both food and manufactured goods, the year-on-year increase in consumer prices should continue to slow, to stand at +6.9% for food and +2.6% for manufactured products by the end of the year.

In the service sector, excluding communication services, consumer prices broadly increased year-on-year to September, a trend which is expected to continue over the coming months, driven by buoyant wages and a base effect linked to the abolition of the TV license fee in late 2022. Nevertheless this price acceleration should remain limited in scale: in the recent business tendency surveys for the service sector, the balance of opinion regarding the expected trajectory of retail prices indicates a slight rebound post-August, but the rate of increase remains well below the peak seen in early

► 11. Headline inflation and contributions by item

(year-on-year change in %, contributions in points)

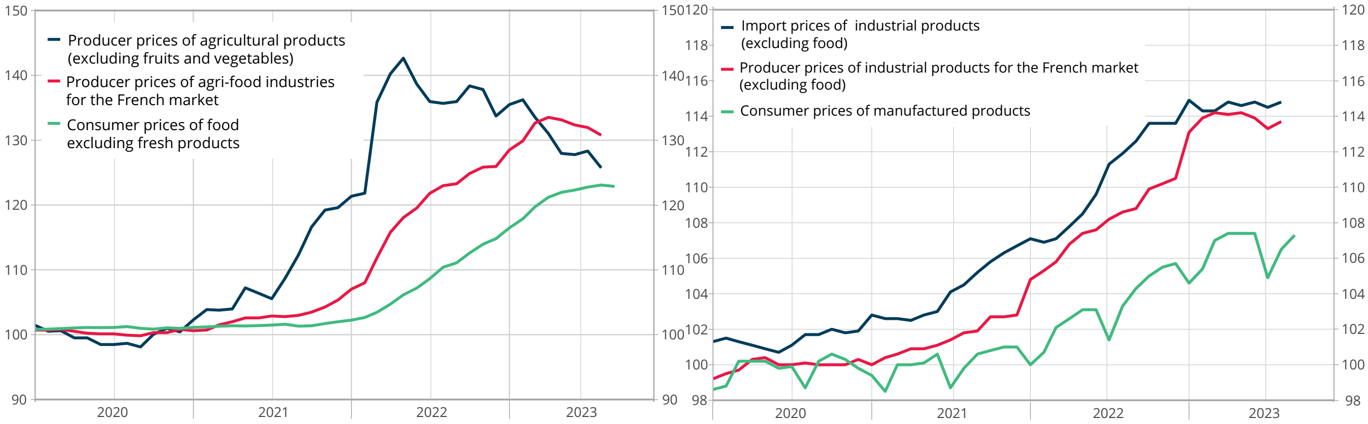


Note: for September 2023, headline inflation constitutes a provisional estimate, while core inflation is a forecast.
How to read it: in September 2023, the headline inflation was 4.9%, according to the provisional estimate. Food prices contributed 1.6 points of this increase, while manufactured products contributed 0.7 points.
Source: INSEE.

► 12. Variation in prices throughout the production chains for food and manufactured products

(level, base 100 in 2019)

Food products | **Manufactured products**



Last point: August 2023 for production prices of agricultural and food products, September 2023 for consumer prices (provisional estimate).
Source: INSEE.

Last point: August 2023 for import and producer prices, September 2023 for consumer prices (provisional estimate).
Source: INSEE.

2023. The year-on-year increase in consumer prices for services should thus stand at +3.2% in December. Services should thus be the largest contributor to headline inflation, reflecting their importance as a proportion of total household consumption.

All in all, year-on-year headline inflation is expected to stand at +4.4% in December, a forecast which has been revised upwards since the publication of the last *Economic outlook* update on 7 September, on account of the recent spike in oil prices. Core inflation, i.e. inflation stripped of its most volatile components, should be lower than total inflation at the end of this year (+3.9% year-on-year), having outstripped total inflation in H1. Calculated as an annual average, total inflation should thus be +5.0% in 2023, while core inflation should be +5.2%. In theory, this inflation forecast should not lead to a further increase in the minimum wage in H2, ahead of the increase scheduled for 1st January.

After falling in H1 2023, real wages should bounce back in H2

In spite of the recent slowdown in consumer prices, the average wage per capita (AWPC) should continue to increase at a steady rate, with past inflation being taken into account in wage negotiations and the payment, mostly at the end of the year, of profit-sharing bonuses. As such, whereas the year-on-year increase of AWPC in the non-agricultural market sectors remained below inflation in H1 2023, it should outstrip inflation over the rest of the year. Over 2023 as a whole, the increase of AWPC in the non-agricultural market sectors should be broadly similar to the increase in consumer prices.

Earned income should thus be dynamic in 2023, buoyed by wage increases and, to a lesser extent, by an increase in payroll employment (►**Figure 13**). Property income is also expected to increased sharply, driven by high dividends and the upswing in interest earned (on bank deposits, life insurance contracts etc.) as interbank rates continue to rise. The increase in property income can be partly attributed to accounting factors, with its counterpart being the household consumption deflator –by means of the rising price of financial services to households– meaning that the impact on purchasing power is, ultimately, limited.

Moreover, social benefits are expected to be up in 2023: most of them (pensions, benefit payments etc.) have risen in line with inflation in 2023, due to index-linking mechanisms. They should also be bolstered by specific support measures, such as the payment of the fuel bonus at the start of this year.

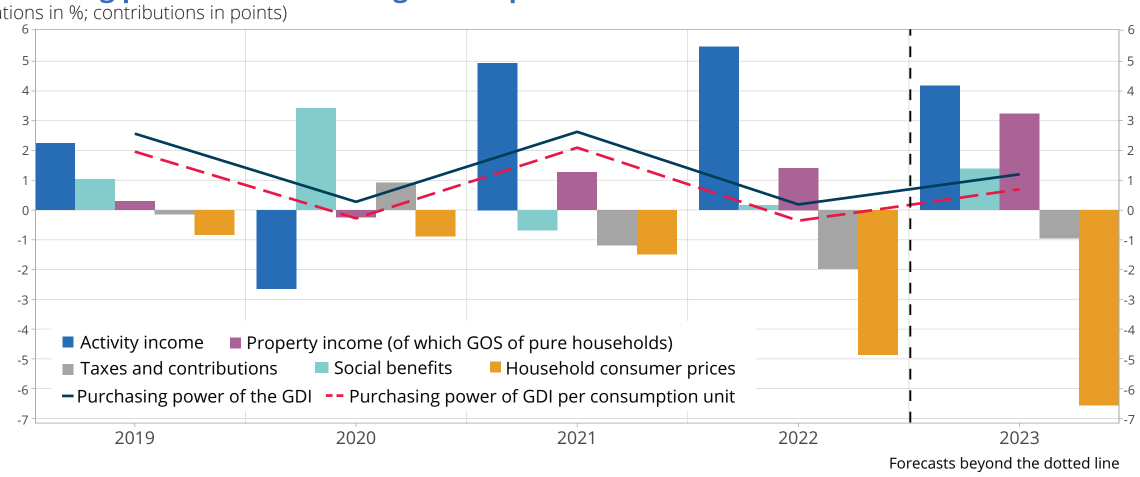
Overall, household income is expected to grow more rapidly than the consumption deflator in 2023 (+7.8% compared with +6.6%). Purchasing power should thus increase (+1.2%), including purchasing power per consumption unit (+0.7%, after shrinking by 0.4% in 2022). On a quarter-by-quarter basis, and particularly as the end of the year approaches, it should be helped by the buoyant performance of wages and social benefits.

Household consumption should bounce back in H2, as price increases slow and purchasing power recovers

After a slight rebound at the start of this year, household consumption shrunk again in Q2 (-0.5%). In a period of high inflation in food prices, households have continued to rein in their purchases, switch to alternative products and diversify their food shopping: in the national

►13. Purchasing power of household gross disposable income

(annual variations in %; contributions in points)



Source: INSEE.

accounts, consumption of food products has declined in volume terms for six consecutive quarters, a downturn which has serious consequences for total consumption (▶Figure 14). Spending by French tourists overseas also fell in the spring, whereas household consumption of services was more dynamic than it had been in Q1. Spending on accommodation and food services in particular saw a sharp increase, after suffering as a result of the social unrest in Q1.

In Q3, consumption appears to have rebounded (+0.4%) and is expected to continue in this direction until the end of the year, albeit at a more modest rate (+0.2%). The upswing in consumption in Q3 appears to have been largely driven by the consumption of goods. As consumer food prices continue to slow, purchases of food products increased substantially in June, engendering a strong overhang effect for Q3. The proportion of households who reported that they had changed their eating habits as a result of inflation also stopped growing in September (▶Focus). Purchases of durable goods have also been buoyant, for both vehicles (in July and August) and household durables other than cars (in July, perhaps helped by the summer sales). As for services, household consumption appears to have slowed in Q3, particularly spending on accommodation and food services, which was lacklustre in July, and despite a potential boost in September as a result of the Rugby World Cup. Spending by French tourists overseas also seems to have bounced back over the summer, still benefiting from the catch-up effect when compared with pre-pandemic levels.

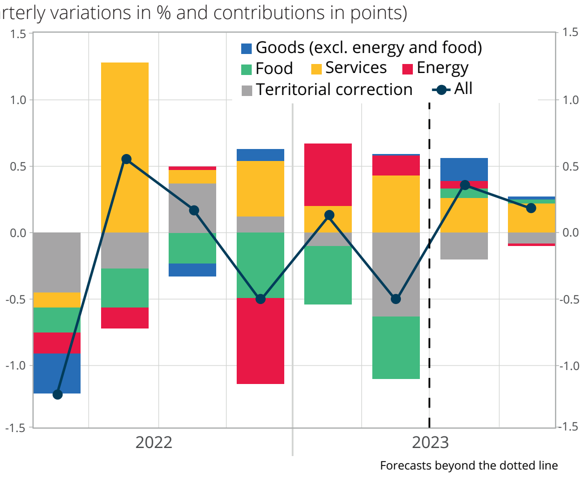
Consumption should continue to grow in the final months of the year, with the increase in consumer prices slowing down while purchasing power rises. Spending on goods, and particularly on food, should return to growth. However, this moderate increase in consumption spending should see the household savings ratio remain broadly stable in H2 (▶Figure 15), albeit at a level far above its pre-pandemic figure (18.9% forecast for the end of this year).

The average margin rate of businesses should remain slightly above its pre-pandemic level, but the rising cost of borrowing should have an impact on their investment decisions

In Q2 2023, the margin rate of non-financial corporations (NFCs) bounced back to reach 33.2% of their value added, up from 31.7% at the start of the year (▶Figure 16). This increase can be primarily attributed to the decline in imported inflation, leading to an upturn in the "domestic" terms of trade (the ratio of the value added deflator to the household consumption deflator). It is also a consequence, albeit to a lesser extent, of the productivity gains made in Q2 and the fact that the cost of labour has been slightly less dynamic than consumer prices. Although the initial estimates are obviously not entirely reliable, there are clear differences from one sector to the next: the margin rate remained stable in the manufacturing industry, after increasing substantially in 2022, while it increased more significantly in the market services sector, where it nonetheless remains

▶14.Household consumption

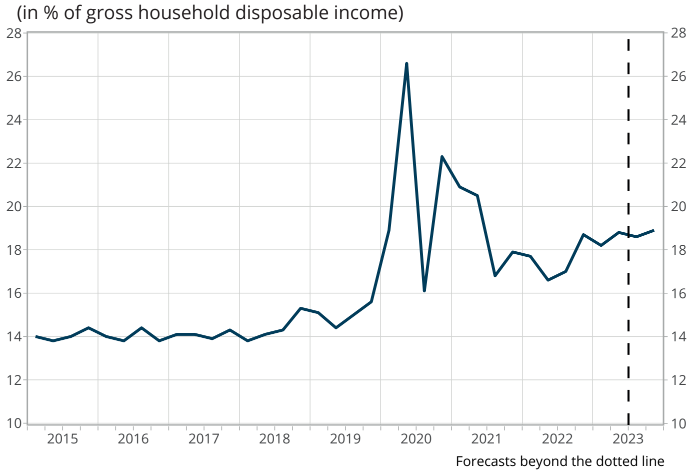
(quarterly variations in % and contributions in points)



Note: territorial correction represents purchases made by French residents abroad (also counted in imports) minus purchases by non-residents made in France (counted in exports). The other contributions to household consumption (food, energy, etc.) refer exclusively to consumption in France.
Source: INSEE.

▶15. Household saving ratio

(in % of gross household disposable income)



Source: INSEE.

inferior to its pre-pandemic level. In H2, the margin rate of NFCs should increase slightly in Q3 before dropping off towards the end of the year, as a result of resurgent payroll costs. It should reach 33.1% in Q4, giving a mean rate of 33% for 2023 as a whole, clearly superior to the pre-pandemic rate of 31.6% recorded in 2018.

In spite of these relatively high margin rates, businesses are obliged to compete with the rising cost of borrowing, driven by rising interest rates, which is weighing upon investment decisions. As such, investment in construction has been in decline since late 2022. This downturn is expected to continue in H2 2023. Businesses should also slightly reduce their spending on services, which was particularly high in 2021 and 2022, and even in H1 2023. Nevertheless, on account of a significant rate of company car fleet renewals over the summer, corporate investment appears to have seen a noticeable increase in Q3. Without this boost in the final months of the year, it should fall in Q4. Household investment, meanwhile, should continue on the downward trend which began in the summer of 2022, with a decline in construction of new homes and fewer property transactions involving both existing and new-build homes, in spite of a moderate increase in home improvement work.

Export figures should once again be impacted by the delivery schedules of the aeronautical and naval sectors, while imports should see a moderate increase

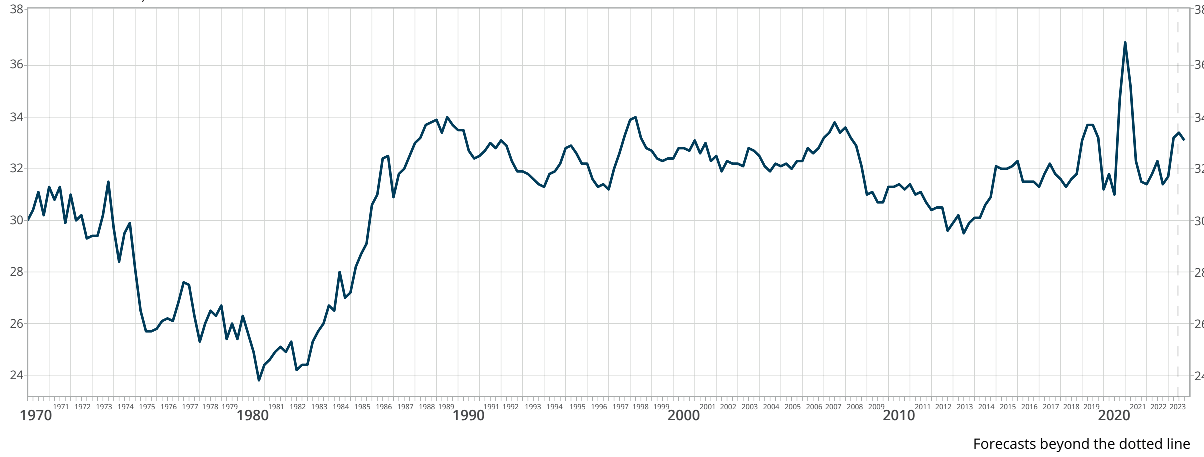
Exports were particularly dynamic in Q2 2023, boosted by significant deliveries in the aeronautical and naval sectors, but also by vehicle exports and a sharp increase in the spending of overseas tourists in France. These factors were largely short-term in nature, and should thus be followed by a shrink in exports in Q3, in a global trading context which remains sluggish. However, further deliveries in the aeronautical and naval sectors are scheduled for the end of the year, and these transactions should inspire a clear rebound in exports in Q4.

Imports, meanwhile, should see a moderate increase in H2 in line with domestic demand. Spending by French tourists overseas, still well below its pre-pandemic level, should also increase.

Domestic demand appears to have picked up in Q3, but is expected to grow only modestly between now and the end of the year

In Q3, economic activity was primarily propped up by the rebound in household consumption, as well as the acceleration of corporate investment (►**Figure 17**). Household investment, on the other hand, seems to have continued its downward trend, against a backdrop of rising interest rates which is driving down demand for housing. Foreign trade also appears to have had a negative impact on overall activity, a backlash from the positive trend recorded in the preceding quarter. In the final months of the year, the contribution of domestic demand should be more modest, largely restricted to household consumption and, to a lesser extent, public-sector consumption. Investment is expected to have a negative impact on the activity levels of both businesses and households. The contribution of foreign trade, however, is expected to be clearly positive, largely as a result of

►16. Margin rate of non-financial corporations (NFCs)
(in % of their value added)

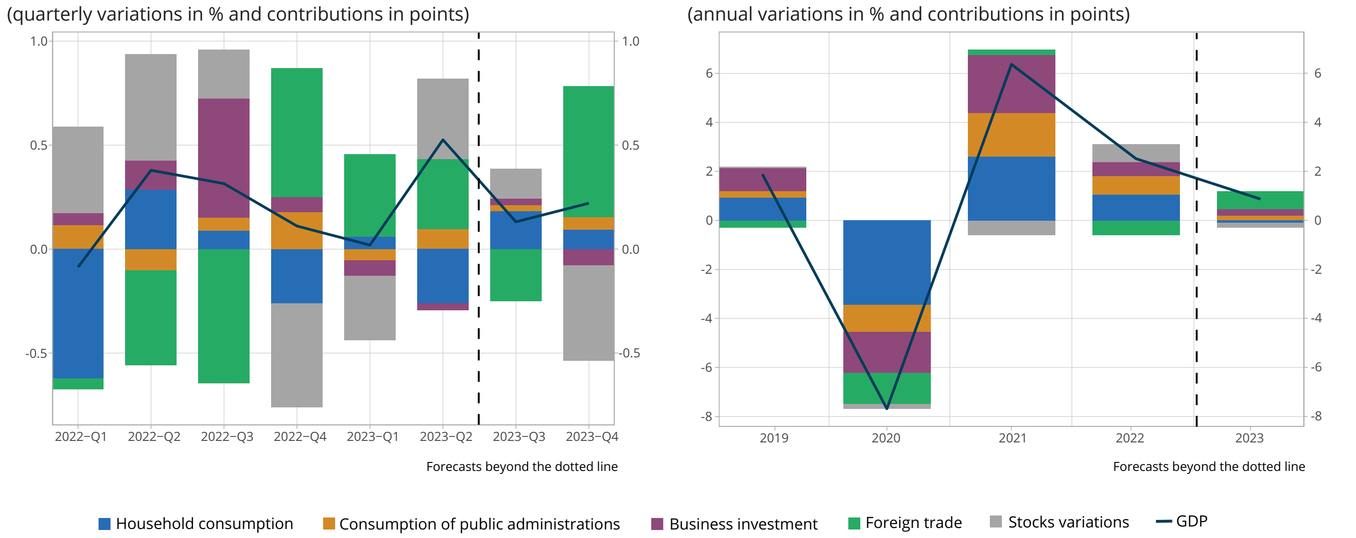


Source: INSEE.

the deliveries scheduled in the aeronautic and naval sectors at the end of the year, despite the fact that some of these transactions represent destocking operations.

Over 2023 as a whole, GDP growth is expected to be 0.9% (after +2.5% in 2022). The "growth overhang" for 2024 (i.e. annual growth for that year if quarterly GDP were to remain identical to the rate recorded at the end of 2023) should be modest, somewhere in the range of +0.4%. ●

►17. GDP and its contributions



Source: INSEE.