

## Economic outlook

### In France, economic uncertainty linked to the political situation over the summer mainly affected services and trade

The business climate, which summarises the responses of business leaders to the business tendency surveys, experienced a turbulent summer: while it had remained relatively stable and close to its long-term average throughout the spring, it fell sharply in July to 94 (these responses were mainly collected before the second round of the legislative elections), before rebounding, first in August (to 97) then in September (to 98). This overall movement affected all sectors, but was particularly pronounced in services and retail trade. This partial recovery, spread over two months, shows that French companies, especially in the tertiary sector, displayed a marked but transitory pessimism, which partly dissipated once the legislative election results were known.

The political situation probably contributed to these fluctuations via uncertainty: to measure this, a specific question has been added to the outlook surveys in all European countries since 2021. Thus, in services and retail trade, a peak in uncertainty was observed this summer in France (consistent with the sudden changes in the business climate), but not elsewhere in Europe. However, uncertainty did not increase in either construction or industry in France during the summer: in these two sectors, fluctuations in the business climate are therefore probably due more to long-term factors (especially variations in orders) than to uncertainty created by the political situation.

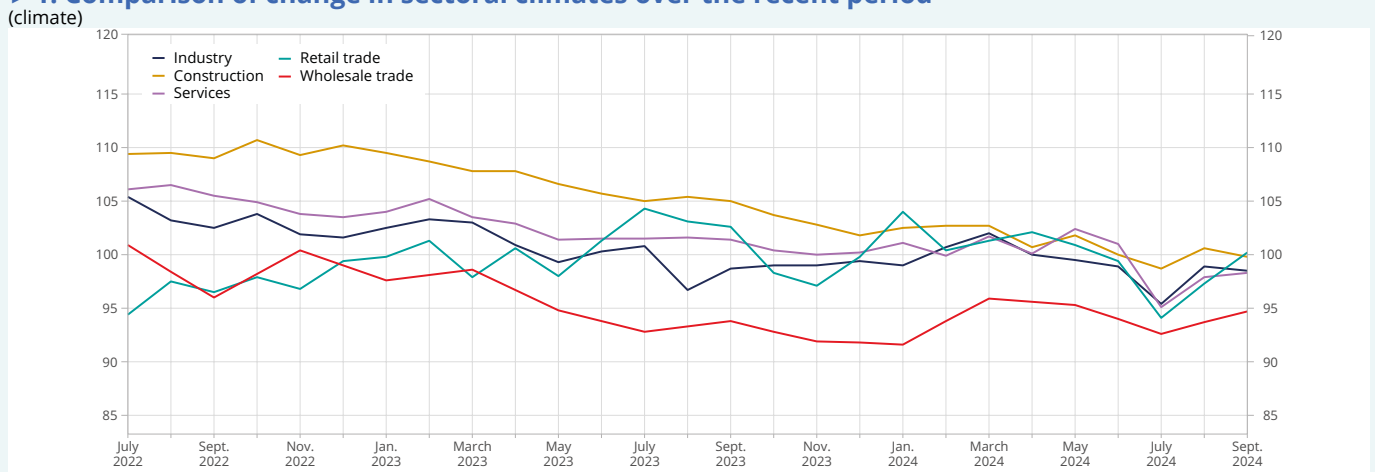
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#### The business climate in France took a sharp nosedive in July 2024

The dissolution of the National Assembly on 9 June 2024 seems to have had an impact on the opinions of business leaders, as reported in INSEE's business tendency surveys. Whereas in June, the business climate in France (based on company responses which for the most part were provided before the announcement of the dissolution) stood at 99, very close to its long-term average, it deteriorated significantly to 94 in July (most companies having responded before the second round of the legislative elections). With the exception of the sudden variations that occurred during the health crisis, this 5-point decline is unprecedented since 2011. All sectors of the economy were affected (► [Figure 1](#)).

The decline was very marked in services, where the climate indicator lost 5 points: entrepreneurs were particularly pessimistic about expected demand, especially in information-communication, specialised activities and support services, i.e. sectors mainly oriented towards other companies. In retail trade, the climate indicator also lost 5 points.

#### ► 1. Comparison of change in sectoral climates over the recent period



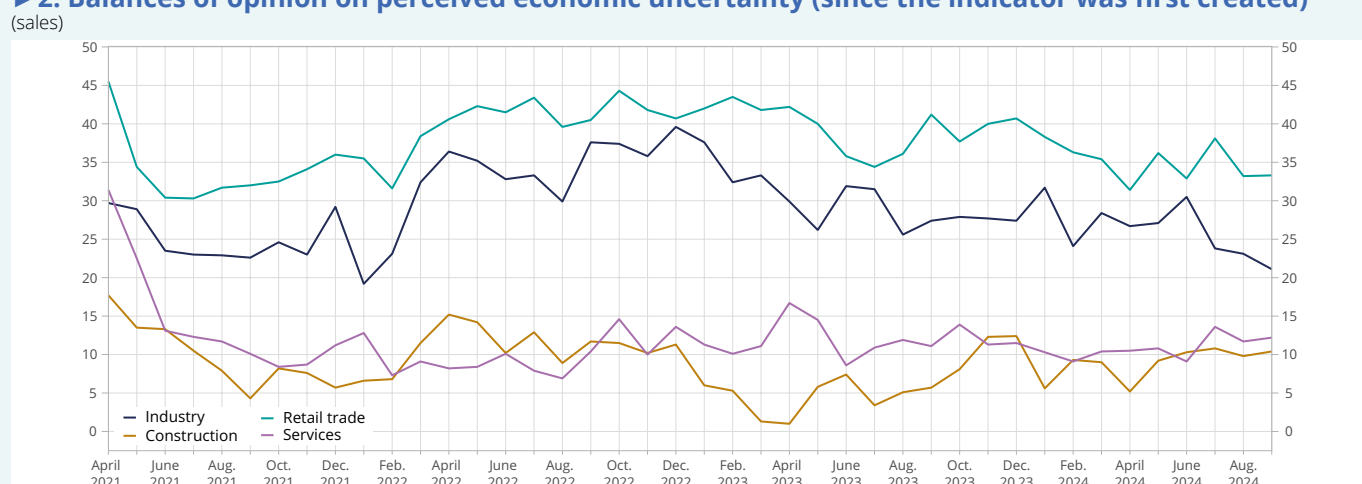
Last point: September 2024.

Source: INSEE, business surveys.

## In services and retail trade, economic uncertainty increased in July in France, while it remained relatively stable elsewhere in Europe

Nothing suggests that these changes are linked to uncertainty caused by the political situation. A question that has been included in the tendency surveys since 2021 helps to understand this phenomenon: in 2021, the European Commission asked all Member States to question companies on their ability to predict their situation. Their answers to this question ("Overall, is future change in your business situation currently: easy to predict, fairly easy to predict, fairly difficult to predict, difficult to predict?") were aggregated in the form of a balance of opinion, interpreted as economic uncertainty perceived by the entrepreneurs (► [Box](#)). However, in contrast to the business climate, this balance of uncertainty did not fluctuate in the same way in all sectors of activity (► [Figure 2](#)).

### ► 2. Balances of opinion on perceived economic uncertainty (since the indicator was first created)

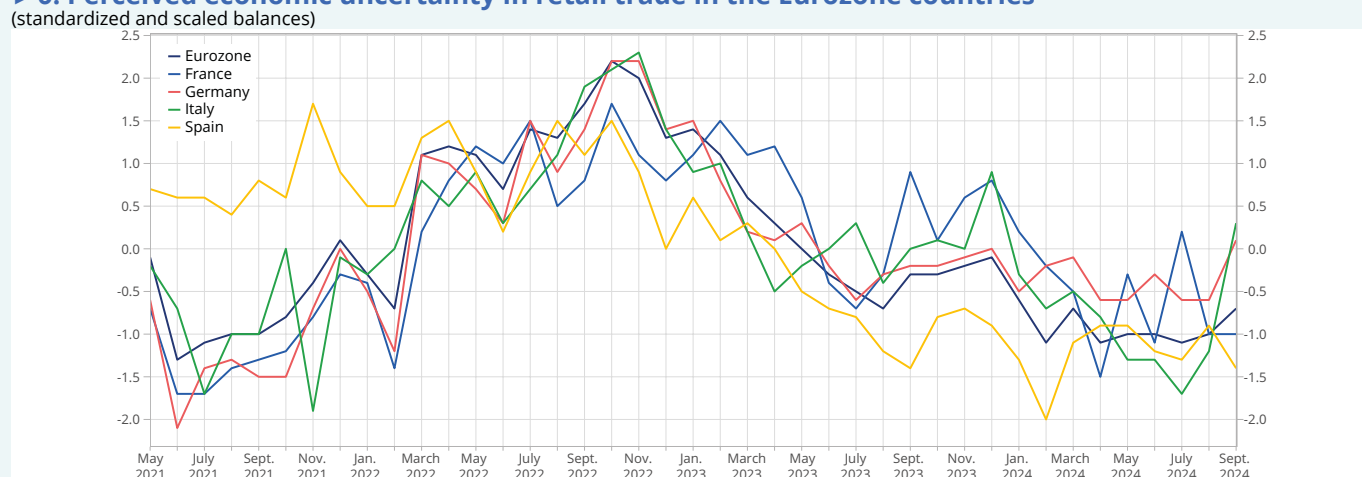


Last point: September 2024.

Source: INSEE, business surveys.

In retail trade and services, the balance of opinion on perceived economic uncertainty increased between June and July then fell back from August, a development that mirrored change in the business climate. France is the only Eurozone country to have experienced such an episode of peak uncertainty this summer in these two sectors (► [Figures 3 and 4](#)): in the other countries, changes in this balance were not particularly uneven.

### ► 3. Perceived economic uncertainty in retail trade in the Eurozone countries

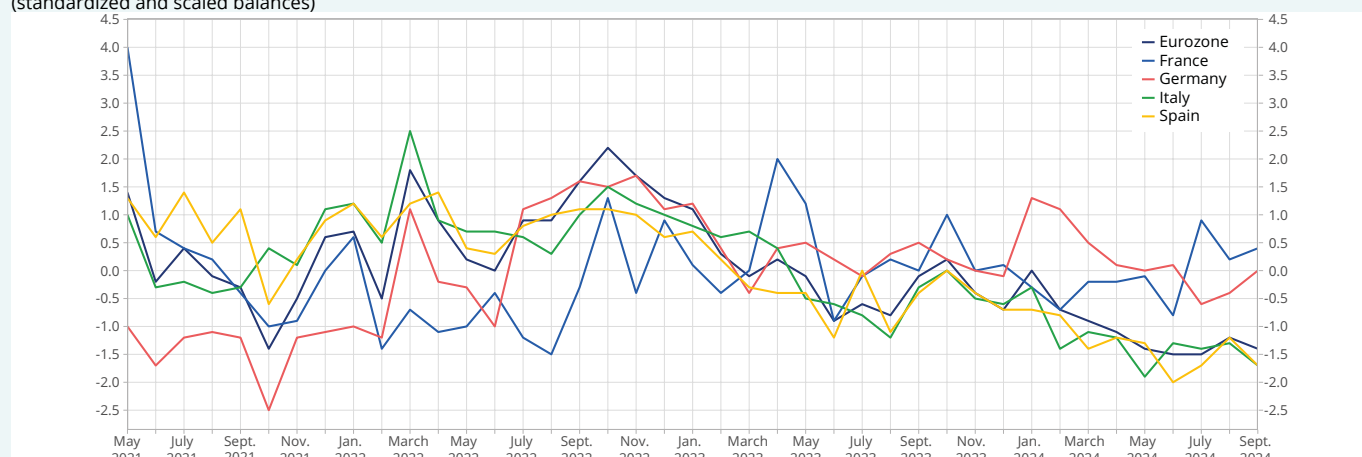


Source: DGECFIN surveys.

# Economic outlook

## ► 4. Perceived economic uncertainty in services in the Eurozone countries

(standardized and scaled balances)



Last point: September 2024.

Source: DGE/CFIN surveys.

Looking into sub-sectors, the one-off increase in uncertainty in trade comes mainly from trade excluding automobiles, whereas those selling and repairing automobiles have made no reports of a more uncertain environment. In services, the business climate fell in July in almost all sectors (with the single exception of road freight transport), however, the balance on uncertainty showed contrasting changes from one branch to another (► Figure 5).

Thus perceived uncertainty increased sharply in administrative and support services (a sector which includes temporary employment), in specialised, scientific and technical activities and in real estate activities. In these sectors, the uncertainty peak seems to be linked to the political situation: according to the Banque de France (► Box), temporary employment agencies and advertising companies have specifically reported increased uncertainties linked to the political context since the announcement of the dissolution of the National Assembly.

In accommodation and catering services, uncertainty also peaked in July: however, in this sector, in addition to the political context, the consequences of organising the Olympic and Paralympic Games may have increased the lack of visibility in the short term.

Finally, in information-communication, the deterioration in the business climate in July did not result in such a marked increase in perceived economic uncertainty: this may be a sign that, in this sector, the turnaround is more permanent and could be linked to the end of the large-scale equipping of French companies with software following the health crisis and the widespread use of teleworking.

## ► 5. Business climate and perceived economic uncertainty in the services sectors

		Road freight transport	Accommodation catering	Information communication	Real estate activities	Specialised, scientific and technical activities	Administrative and support services
Business indicator	June	98	104	103	97	100	98
	July	98	102	97	91	96	91
	<i>change between June and July (in points)</i>	<i>0</i>	<i>-2</i>	<i>-6</i>	<i>-6</i>	<i>-4</i>	<i>-7</i>
Balance of perceived economic uncertainty*	June	110	89	100	99	98	88
	July	110	99	104	106	105	105
	<i>change between June and July (in points)</i>	<i>1</i>	<i>9</i>	<i>3</i>	<i>7</i>	<i>7</i>	<i>17</i>
	August	109	90	101	102	107	99
	September	110	96	98	105	101	105

\* Balance centered at 100 and standard deviation 10.

Source: INSEE, business surveys.

## Economic uncertainty has not increased in construction and industry

In the construction industry, the balance on perceived economic uncertainty remained virtually stable. In this sector, the specific political context of summer 2024 is therefore unlikely to make forecasting more difficult than usual for companies, thus confirming the change in the business climate, which fell by only one point in July. In addition, this is the sector in which the balance of opinion on perceived economic uncertainty is usually lowest, on average (► [Box](#)).

Finally, the manufacturing industry stands out because it is the only sector in which uncertainty fell sharply during the summer (by thirteen points between June and July), concurrently with the 4-point drop in its overall climate.

However, there were some very different trends across the industrial branches (► [Figure 6](#)). The decline in the balance of perceived uncertainty between June and July was concentrated in the automotive sector and “other manufacturing industries” (some of which, like metallurgy and rubber production, include many automotive sector sub-contractors). Thus across the entire automotive sector (including sales and sub-contractors), these indicators suggest that entrepreneurs’ economic forecasts are pessimistic, but with greater certainty, regardless of the political situation (which would tend to be confirmed by the continuing decline in the balance of perceived uncertainty in September). In the other industrial sectors, uncertainty remained stable and the political situation does not seem to have affected entrepreneurs’ ability to predict the development of their activity in the short term.

## ► 6. Change in business climate and perceived economic uncertainty in the manufacturing industry sectors

		Food industry	Goods equipment	Automobile	Other transport equipment	Others industries
Business indicator	June	92	99	98	115	95
	July	92	97	95	103	94
	<i>change between June and July (in points)</i>	<i>0</i>	<i>-2</i>	<i>-3</i>	<i>-12</i>	<i>-1</i>
Balance of perceived economic uncertainty*	June	94	93	91	105	104
	July	92	94	88	105	95
	<i>change between June and July (in points)</i>	<i>-1</i>	<i>2</i>	<i>-3</i>	<i>0</i>	<i>-9</i>
	August	91	99	87	104	96
	September	91	102	75	104	101

\* Balance centered at 100 and standard deviation 10.

Source: INSEE, business surveys.

## Despite the climate being almost back to normal in September, the political context could continue to hamper corporate investment

The overall business climate recovered partially in August (+3 points) and again slightly in September (+1 point). Meanwhile, the balance on perceived economic uncertainty remained broadly stable in September in all sectors. This near return to normal suggests that French companies, especially those in the tertiary sector, reacted quickly this summer to the uncertain political context with a strong but transitory pessimism, which largely dissipated once the results of the legislative elections were known. However, uncertainties about the government and its main budgetary directions had not yet been eased in September (notably, most of the responses to the September surveys were recorded before the new Prime Minister was appointed). In addition, while household-oriented sectors are moderately optimistic, investment signals remain clearly negative: after the summer months, political uncertainty could contribute, via a wait-and-see effect, to a downturn in corporate investment, which is already penalised by financing conditions that are slow to improve. ●

### Measuring uncertainty in the INSEE and Banque de France business tendency surveys

#### In the INSEE surveys

In INSEE's business tendency surveys, economic uncertainty as perceived by business leaders is measured by the following question: "Overall, is future change in your business situation currently: easy to predict, fairly easy to predict, fairly difficult to predict, difficult to predict?". This question was introduced at the request of the European Commission in all Member States at the end of the health crisis: businesses in industry, construction, services and retail trade have been asked this question every month since April 2021 in France. Given its short time depth, this series is not adjusted for seasonal variations.

The balance of opinion on uncertainty felt by the entrepreneurs is calculated from the four possible response modalities (easy to predict, fairly easy to predict, fairly difficult to predict, difficult to predict), weighting them as 1, 0.5, -0.5 and -1 respectively, in decreasing order of difficulty in predicting future change in the business situation: the more difficulty companies reported in predicting change in their situation, the more the balance of opinion on perceived economic uncertainty increased. When measured in this way, the economic uncertainty perceived by entrepreneurs varied significantly depending on the sector: it was rather low on the whole in construction and services, with an average of 9 and 12 respectively since April 2021, higher in industry, with an average of 29, and even higher in retail trade and the automotive sector, where the average balance was 38. To comment on comparable changes during the summer of 2024 between the different sectors and sub-sectors of the economy, this series is used in the Focus study in a standardised way, centred (at 100) and reduced (to 10) for all sectors and sub-sectors (► [Figure 2 to 6](#)).

#### In the Banque de France surveys

Based on its monthly economic survey (EMC), the Banque de France ([Gerardin et Ranvier](#), 2021 for the Method) also publishes an uncertainty indicator, constructed from a textual analysis of the free comments made by responding companies in each of the three sectors (industry, services, construction).

The EMC uncertainty indicator reacted more strongly to the political context in summer 2024 than the indicator in the INSEE surveys (Banque de France Monthly Business Survey - Start of September 2024). While the magnitude of the increase was generally greater, the sectors most affected were the same as those identified in the INSEE surveys: in July, the uncertainty indicator increased particularly in services, notably in accommodation-catering, temporary work and advertising (Banque de France Monthly Business Survey - Start of July 2024). However, there are some differences: uncertainty in construction and road freight transport increased in the Banque de France surveys, whereas perceived economic uncertainty did not change significantly in the INSEE surveys. ●

### Bibliography

[Banque de France](#) (2024), Monthly Business Survey – Start of July 2024.

[Banque de France](#) (2024), Monthly Business Survey – Start of September 2024.

[Mathilde Gérardin](#), [Martial Ranvier](#) (2021), "Enrichment of the Banque de France's monthly business survey: lessons from textual analysis of business leaders' comments", working paper n°821, July 2021. ●