World in turnmoil, growth losing steam

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2024 ended as it had begun. Activity in the United States remained solid (+0.6% in Q4) bringing annual growth to +2.8%, whereas in the Eurozone it remained mediocre (+0.2%), confirming the lack of any real recovery in 2024 (+0.8% overall in 2024, after +0.5% in 2023). Yet world trade rebounded strongly in 2024 and the purchasing power of European households accelerated sharply with disinflation. Nevertheless, exporters from the Old Continent continued to lose market share, mired in prohibitive energy costs and facing increased competition from China, while European households preferred to save their extra income, stifling any hopes of a rapid recovery through consumption.

Since the beginning of 2025, the new direction taken by the United States administration, geopolitical changes and the resulting prospects of a trade war have further jeopardised the possibility of a European recovery in the short term. In the United States, the unpredictability of economic policy has shaken confidence: consumers fear a resurgence of inflation and growth is expected to waver in H1 (+0.4% in Q1 then +0.3% in Q2). The introduction of customs duties by the new US administration, or even the mere threat of them, is likely to put a brake on world trade and hit European economies that are dependent on American demand, especially Germany and Italy. The geopolitical turnaround and the announced resurgence of Europeans in defence matters have also resulted in a rise in German sovereign yields, and therefore in yields across the entire continent. This tightening of bond yields runs counter to the European Central Bank's ongoing monetary easing, which had not yet been fully transmitted to the real economy. The only positive outcome for European households and companies is that the price of oil has fallen, dropping to $70 and thus providing them with some breathing space. Given this situation, the Eurozone looks set to remain mired in weak growth until June 2025 (+0.2% in Q1 then +0.1% in Q2) with some strong divergences in economies, especially between the boom in Spain and stagnation in Germany.

In France, activity came to a standstill at the end of the year (-0.1%), as an after-effect of the Paris Olympic and Paralympic Games which bolstered activity during the summer (+0.4%). Across the year as a whole, growth held up fairly well, at +1.1%, as in 2023. The French economy benefitted from a more favourable sector positioning than its European neighbours and, in addition, the turnaround in investment was offset by the acceleration of government spending. However, this supporting factor is expected to reverse in 2025: unlike its neighbours, which have for the most part made a start on their fiscal consolidation, France aims to make a substantial effort to reduce government deficit this year. Households are likely to be spared for the most part and they should also benefit from inflation dropping to +0.8% in February and remaining low until June (+1.1%), while their income (wages and, especially, pensions) is indexed to past price increases. Purchasing power should thus continue to grow, already gaining +0.9% by mid-year, after +2.5% in 2024. Consumption would then follow suit, despite savings intentions remaining at a high level. Conversely, businesses are more affected by budgetary recovery measures, which represent a 0.9 point reduction in their value added, and their financial situation is still penalised by the earlier rise in borrowing rates. Indeed, in an uncertain international context, few companies interviewed for the business tendency surveys were considering increasing their investments. Finally, the special law that remained in force for six weeks at the beginning of the year before the adoption of the 2025 budget reduced government spending to a minimum during this period: the slowdown in government consumption is likely to affect activity in Q1.

Ultimately, the French economy is expected to go slow in H1 (+0.1% in Q1 then +0.2% in Q2) with the growth overhang for 2025 likely to be only +0.4% by mid-year. This pace is consistent with the business survey responses: the business climate stood at 96 in February, below its long-term average. The situation is clearly gloomy in energy-intensive industries (for example in chemical industries and metallurgy).

On the labour market, salaried employment declined sharply at the end of the year, with the French economy shedding 90,000 jobs in the last three months of 2024. In business tendency surveys, the optimism that had prevailed since the health crisis has now fizzled out: the employment climate is below its long-term average and deteriorated in February 2025, hitting its lowest level in ten years (excluding the health crisis). Companies are expected to continue to reduce their workforce, by 50,000 salaried positions in H1, which will be partly offset by the creation of non-wage jobs. Combined with an increase in the labour force driven by the ramping up of pension reform, this decline in employment is expected to push the unemployment rate up to 7.6% by mid-2025.

Several uncertainties surround this forecast. First and foremost, the international situation remains very fluid. This *Economic Outlook* assumes that starting this spring the United States will raise customs duties for most of its major trading partners, which would slow world trade. However, the US administration's vacillations on this issue represent significant uncertainty, with both upside and downside risks. In addition, any potential retaliatory measures could push inflation beyond expected levels. Meanwhile, oil prices and long-term interest rates have experienced some severe fluctuations in recent weeks, in line with the evolving geopolitical situation, making the conventional stabilisation assumptions used for forecasting even more fragile than usual. In France, while the domestic political situation has stabilised for the time being, the reaction of private agents to fiscal consolidation is difficult to assess. Households' savings ratio represents an obvious reservoir for growth if confidence were to be restored, but conversely, the deterioration in the labour market could encourage them to further increase their precautionary savings.

In 2025, the effects of fiscal consolidation on growth are expected to be moderate, affecting companies' financial situation and, to a lesser extent, household purchasing power

The Finance Law for 2025, published in the *Journal Officiel* on 14 February 2025, provides for a structural fiscal adjustment of around +0.7 GDP points in order to reduce the public deficit to 5.4% of GDP, after 5.5% in 2023 and 6.0% forecast by the French government for 2024. Within the Eurozone, this adjustment in 2025 is likely to be specific to France, as most of the other major European countries have already reduced their deficits in recent years.

This effort, provided for in the Initial Finance Law (LFI) and the Social Security Financing Act (LFSS), is intended to improve the balance of public accounts, reduce public debt and meet France's European commitments. In addition, maintaining a high public deficit could lead to a further rise in the cost of sovereign debt, which could also hamper activity.

It is based on various mechanisms, which affect the prices paid by economic agents, household purchasing power, the financial situation of enterprises and public consumption and investment expenditure. As a result, the measures considered here are expected to reduce household purchasing power by 0.4 points over 2025 as a whole, although they would not prevent it from increasing due to other factors, and the financial situation of enterprises is likely to be affected to the tune of 0.9 points of their value added. However, their margin rates should remain relatively close to their pre-health-crisis levels.

The effects on growth are expected to spread slowly and be attenuated. For households, the high savings ratio should cushion the impact on consumption, especially as some measures are targeted at high-income households. For enterprises, certain measures are announced as temporary and are therefore less likely to slow investment, if they consider this announcement credible. Finally, regarding government consumption and investment, the special law remained in force in the first few weeks of 2025 before the Finance Law was passed, depressing central government spending and demand in Q1.

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The Finance Law provides for a structural adjustment of around 0.7 GDP points in 2025

The public deficit reached 5.5% of GDP in 2023 and is expected to stand at 6.0% in 2024 according to the government (►**Haut Conseil des Finances Publiques (HCFP – High Council of Public Finance), 2025**). The Finance Law for 2025, published in the *Journal Officiel* on 14 February 2025, has set a public deficit target of 5.4% of GDP in 2025, corresponding to a structural adjustment of +0.7 GDP points in 2025, after -0.4 points in 2024 (►**Figure 1**). This adjustment is based primarily on measures to increase taxes and social contributions (contributing +0.9 points to the structural adjustment). The non-discretionary component of the structural adjustment should once again be unfavourable in 2025 (contributing -0.2 points to the adjustment), due to taxes and social contributions being slightly less dynamic than activity in spontaneous terms (►**HCFP, 2025**).

At this stage, the scale of this budgetary adjustment is expected to be relatively comparable – over one year – to that implemented in France in the early 2010s. According to the European Commission, the annual structural adjustment carried out in France averaged +0.3 GDP points between 2011 and 2019, and the maximum budgetary effort was made in 2011 for a structural adjustment of +0.8 GDP points (►**Figure 2**).

►1. Public deficit forecasts and contributions to the structural adjustment of French public finances between 2023 and 2025

	2023	2024	2025
Public balance	-5.5	-6,0	-5.4
Structural balance	-5.1	-5.5	-4.7
Structural adjustment	-0.6	-0.4	0.7
- contribution from new revenue measures	*-0.4*	*0.2*	*0.9*
- expenditure	*1.5*	*-0.2*	*0.1*
- non-discretionary component (tax elasticity effects, revenue excluding taxes and social contributions)	*-1.7*	*-0.4*	*-0.2*

Forecast.
Source: HCFP, Opinion No. 2025 - 1 on amendments to the Finance Bill and the Social Security Financing Bill for 2025.

Furthermore, the fiscal consolidation envisaged in France in 2025 is unique in the European context, since the fiscal impulse in the Eurozone is less unfavourable with a planned structural adjustment of only +0.2 GDP points, against a current backdrop of significantly lower public deficits in the Eurozone than in France (►box).

The adjustment measures implemented to improve public finances will affect the accounting situation of the various economic players in several ways

Each adjustment measure envisaged in the Initial Finance Law (LFI) and in the Social Security Financing Act (LFSS) will affect the financial situation of one or more economic agents (households, enterprises, financial corporations, general government, etc.), in national accounting terms, in 2025. These measures may affect the agents' incomes either directly or indirectly via prices. Broadly speaking, they can be divided into four categories: measures affecting prices, those affecting household income, those affecting corporate income and, finally, those directly affecting GDP via final consumption and investment expenditure by general government.

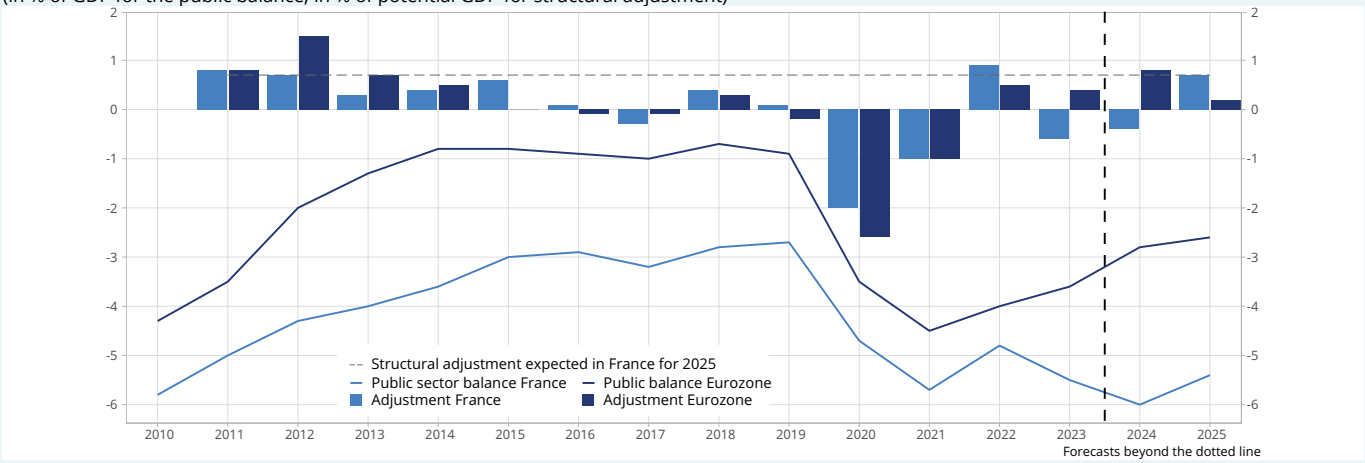
The scope of the measures included in this Focus and in the forecasts of this *Economic Outlook* corresponds to the main measures in the LFI and LFSS (►summary table). However, where a measure has been suspended by the Government, it is automatically removed from the analysis in this Focus. This applies to the lowering of the threshold for basic VAT exemption to €25,000 of turnover, for example, and also to the €1 billion increase in the additional solidarity tax on mutual insurers, whose application and timetable remain uncertain.

On the revenue side, the concept of new measures is generally firmly established, but this is not the case on the expenditure side, which explains why the fiscal stance for expenditure is usually defined as the difference between the actual growth in expenditure and potential growth. Describing the measures underlying changes in expenditure implies a division between the trend variation and the measures, which necessarily includes a degree of convention. However, this Focus presents the effects of several measures presented in the LFI and LFSS, which correspond to changes in the scale of benefits (notably daily allowances), whose analysis is similar to that of revenue measures. Conversely, this Focus does not consider the raising of social benefits in line with inflation, which effectively occurred, as an expenditure "measure": in fact, such indexing takes place "on a no-policy-change basis" (►European Commission 2016) and is therefore included in the trend rate for growth in expenditure. The overall effects of the fiscal stance on growth should ideally be analysed by considering the new measures on the revenue side, and the difference between the increase in expenditure and potential growth on the expenditure side.

Increases in indirect taxes are expected to raise household consumption prices by 0.2 percentage points

Several measures adopted in the LFI directly impact the price of certain products: these measures do not affect household income but do impact household purchasing power. For enterprises, with unchanged selling prices, they reduce value added by increasing the price of intermediate consumption. These measures include restoring excise duty on electricity in February 2025 to its pre-"price shield"

►2. Structural adjustment and public balance achieved and planned in France and the Eurozone since 2010
(in % of GDP for the public balance; in % of potential GDP for structural adjustment)



How to read it: in 2023, France's public balance corresponds to -5.5% of GDP. The structural adjustment achieved was -0.6 potential GDP points, compared with +0.4 GDP points in the Eurozone.
Source: European Commission, Initial Finance Act for 2025 for France, INSEE calculations.

level, implementing the solidarity tax on airline tickets (TSBA) on 1st March 2025 (►sheet Consumer price), tightening the "bonus-malus" on new motor vehicles (leading to an increase in the selling price and therefore in the household consumer price), and introducing a tax on soft drinks and gambling. Lastly, rather than raising the household consumer price, the increase in the duty on transfer for valuable consideration ("DMTO") will increase the price of household investment in services. Therefore, this measure will have no accounting impact on household purchasing power, but it will impact their financial savings.

Specifically, the increase in excise duty on electricity simply corresponds to the removal of the "price shield", amounting to around €4 billion. This measure should be borne equally by enterprises and by households, affecting household consumer prices by just over +0.1 percentage points, all other factors remaining equal. This measure came into force on 1st February 2025, in a context that has seen a sharp decline in the regulated sales tariff ("TRV"), which is indexed on market prices with a time lag, excluding tax. For example, electricity prices including all taxes fell by a total of 12.6% over one month in February, including households that opted for a market offering (►sheet Consumer price).

The tightening of the "bonus-malus" on new vehicles consists of a €0.3 billion increase in the malus on 1st March 2025 (considered as a tax in accounting terms), and a reduction of around €0.5 billion in the bonus since 1st December 2024 (considered as a subsidy on products in national accounting terms). An increase in the solidarity tax on airline tickets is expected to yield around €0.8 billion, while the tax on soft drinks and gambling should yield €0.3 billion. Assuming that half of these measures concern households and half concern enterprises (with the exception of the tax on soft drinks, which is likely to be borne entirely by households), they should contribute to an increase in household consumer prices of almost 0.1 percentage points in 2025.

The application of the various pricing measures in the LFI and LFSS should therefore raise household consumption prices by 0.2 percentage points in 2025. Furthermore, the LFI gives local authorities the option of increasing the duty on transfer for valuable consideration ("DMTO") by 0.5 percentage points (for an expected yield of €0.8 billion). The DMTO, collected by notaries, is a tax on the purchase of property. Consequently, although its rise does not affect consumer prices, it does impact the prices of household investment in services.

The scale measures on daily allowances and unemployment insurance, and the targeted tax rises, are expected to reduce household gross disposable income by -0.2 points

Other measures included in the LFI and LFSS impact household gross disposable income (GDI). These include the exceptional contribution on high incomes (CEHR), with an expected yield of €2 billion, to be levied at the end of the year.

The LFI also contains a measure to reduce the reimbursement rate for sick leave in the civil service to 90% in the spring of 2025, which will affect the public wage bill and lead to a reduction in household gross disposable income, with expected savings of €0.9 billion. The reduction in the upper limit for the reimbursement of daily sickness benefit for private-sector employees as part of the savings on the national health insurance expenditure target ("ONDAM") should result in lower payments of social security benefits in cash, with expected savings of €0.4 billion. Finally, the new unemployment insurance agreement for 2025, which came into force on 1st January, is expected to generate savings in benefits paid out, depressing household GDI by €0.3 billion (►sheet Household income).

Taken together, these different measures are likely to reduce household gross disposable income by 0.2 percentage points, all other factors remaining equal.

Increases in the cost of labour and taxation for enterprises are likely to lead to a deterioration in their financial situation corresponding to 0.9 points of their added value

Other measures in the Finance Laws concern enterprises. Firstly, reprofiling the general reductions in social security contributions should lead to an increase in employers' contributions of around €1.6 billion in 2025 (net of the return to corporation tax[1]), borne mainly by non-financial corporations. In addition, aid for employment and apprenticeships is expected to be reduced in 2025, adding around €1 billion to the cost of labour for enterprises. Taken together, both of these measures look set to reduce value added on the savings of non-financial corporations by 0.2 points.

1 Increasing employers' contributions automatically reduces an enterprise's taxable profits, and therefore the corporation tax that it is liable to pay. The figures used here take this effect into account.

In terms of taxation, the additional corporation tax for large enterprises will impact their savings to the tune of €8 billion, mainly at the end of the year, and the one-off tax on sea freight will cost €0.5 billion. An adjustment to the parameters of the Research Tax Credit ("CIR") should reduce this amount by around €0.4 billion. Lastly, the LFI and LFSS provide for the creation of a tax on share buy-backs, amounting to €0.4 billion, and an increase in the social levy ("forfait social") on free share allocations, amounting to €0.5 billion. In total, these various measures are expected to impact the financial position of non-financial corporations (NFCs) by 0.6 points of value added.

In addition, enterprises are likely to be subject to measures affecting prices (electricity, airline tickets, "bonus-malus" on motor vehicles), bearing around half of the cost (see above). Lastly, the LFI provides for a €0.5 billion increase in the tax on financial transactions. For enterprises, the impact of these measures on the price of intermediate consumption should amount to 0.2 points of their value added.

All in all, all of the measures targeting enterprises should contribute to reducing their financial savings by 0.9 points of added value.

The LFI and the LFSS also include some measures that hold back activity, via consumption and investment expenditure by the public sector

In addition to the measures affecting the private agents listed above, which mainly involve changes to benefit scales, the Finance Laws also include a number of measures to slow down government consumption and investment expenditure, whether through reductions in appropriations, moderation of the national health insurance spending target or measures to curb local authority spending.

The savings put forward by the government concern the various sub-sectors (State, local authorities and social security administrations). In particular, as far as the State is concerned, the special law adopted at the end of 2024 to ensure the services already approved under the ministries' expenditure pending the adoption of the Initial Finance Law would appear to have enabled the general government to make savings focused on the first six weeks of the year.

Measures affecting the final expenditure of general government are likely to slow down their consumer spending or investment, and therefore activity. In value terms, general government output is measured by its costs and the effect on GDP is therefore unitary. However, the impact in volume terms is likely to be much smaller than in unit terms: on the one hand, the output of individualisable public services (health, education, etc.) in volume terms is based on production indicators (number of pupils, healthcare, etc.) which are only indirectly affected by expenditure; on the other hand, for collective public services (defence, justice, etc.) certain measures, such as the reduction in sick pay for public employees, can be recorded as a variation in the price of this output rather than a change in volume.

In addition, measures targeting local authorities do not necessarily have a unitary effect on activity in the short term, as these bodies may draw on their savings to smooth out their expenditure. Local investment could also hold up well in 2025, due to the "electoral cycle" and the prospect of municipal elections in 2026 (**►Beatriz, 2019**): local authority investment expenditure is usually more dynamic in the two years preceding this type of event.

Overall, after contributing 0.6 percentage points to GDP growth in 2024, the mid-year growth overhang for the contribution of final expenditure by general government to GDP in accounting terms is expected to be three times lower (**►Figure 3**). In particular, because the special law remained in force for the first few weeks of the year, the expected downturn in collective consumption by general government is likely to hamper growth in Q1 2025.

The fiscal measures are expected to reduce household purchasing power by 0.4 points, but the effect on consumption should be mitigated

As the measures in the LFI and LFSS concerning households are expected to increase their consumer prices by +0.2 points and reduce their gross disposable income (GDI) by -0.2 points, the accounting effect of the budgetary measures should reduce their purchasing power by -0.4 points in 2025, all other factors remaining equal. However, these measures should have the effect of merely holding back purchasing power whose mid-year growth overhang is expected to stand at +0.8% in 2025 (after an average increase of +2.5% in 2024 (**►sheet Household income**), which should benefit from the spontaneous dynamism of benefits (notably the increase in pensions), the catch-up wage increases and the drop in electricity prices excluding tax.

This slightly negative impact is unlikely to be passed on in full to household consumption. Firstly, the effects of an income shock are not immediately felt: households generally adopt a smoothing behaviour by modulating their savings ratio. According to the *Mésange* model (**►Bardajo and al., 2017**), a 1% shock to household income results in a "mere" 0.5% decline in household consumption after one year.

In addition, beyond this short-term effect, the current level of the savings ratio and the composition of the measures adopted could lead households to absorb part of the shock to their income by reducing their savings ratio. Indeed,

the slowdown in household purchasing power in 2025 follows on from a significant upturn in 2024, against a backdrop of disinflation. So far, however, these purchasing power gains in 2024 have not led to significantly higher spending, with household consumption growing by only +0.9% in 2024. This is reflected by an increase in their savings ratio (►**Focus** Savings ratios in the Eurozone, *Economic Outlook* December 2024). This rise is partly due to the composition of the purchasing power gains recorded over the recent period, fuelled notably by the buoyancy of income from wealth, which is more likely to be saved than other types of income (especially earned income). In 2025, property income is expected to undergo a significant slowdown. Lastly, some measures in the LFI target wealthier households, which have a lower marginal propensity to consume: this especially applies to the exceptional contribution on high incomes. Moreover, this tax is expected to be focused on the end of the year and would therefore be unlikely to change consumer behaviour in H1 2025.

These factors collectively point towards consumption being more vigorous than purchasing power at the start of 2025. This upturn in consumption would therefore seem likely to result in a lower household savings ratio (18.2% forecast for mid-2025, compared with 18.4% in Q4 2024).

In addition to the decline in the savings ratio, the price measures affecting households in the LFI for 2025 are likely to change the structure of their consumption. The tightening of the "bonus-malus" on motor vehicles and the increase in the tax on air transport could therefore led to specific reductions in consumption on these items (►**sheet Household consumption**). Meanwhile, the increase in excise duty on electricity would appear to have a limited effect on their consumption in a context that sees electricity market prices, like the prices actually paid by households, easing in relation to the inflationary peak, and in which energy-saving practices have been developing since 2022.

Fiscal measures aimed at enterprises look likely to slow down employment and productive investment

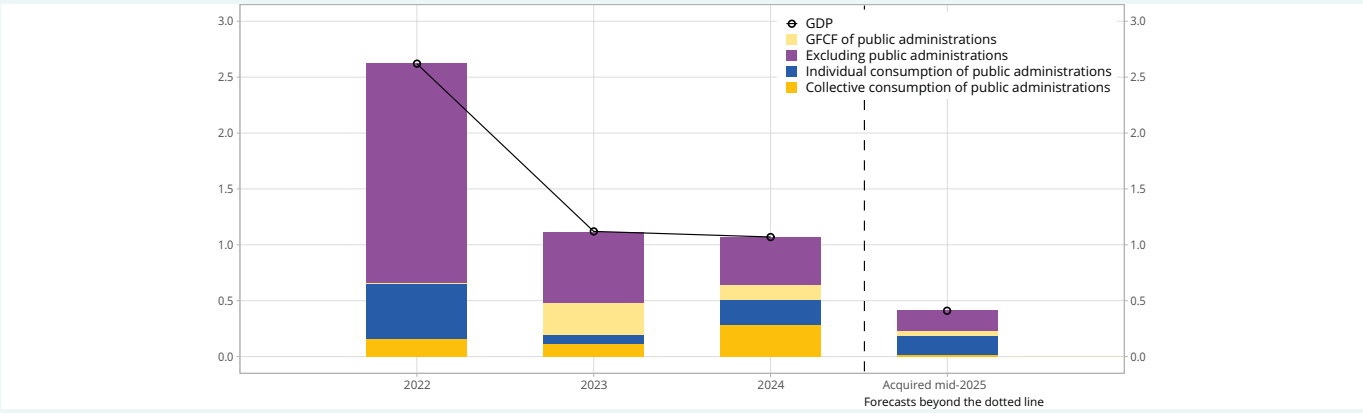
The measures in the LFI and LFSS targeting enterprises can be divided into those that increase the real cost of labour, i.e. the reprofiling of general tax relief and the reduction in aid for the recruitment of employees on work-linked training schemes, and those that affect enterprises' overall income, including the additional corporation tax, the tax on maritime freight enterprises and other tax measures (research tax credit, tax on share buybacks, increase in the social levy on free share allocations).

Labour cost measures alter the relative price of labour in relation to the other factors in the production function and are therefore likely to impact employment or curb the dynamism of wages. The economic effect on employment of the re-profiling of social security contribution reductions decided upon in the LFSS should correspond to a limited decline in the long term, based on the elasticities proposed by the ►**Bozio-Wasmer mission (2024)**. As these effects are relatively slow to appear, this measure would appear to have little effect on employment over the forecasting period. The reduction in aid for apprenticeships is likely to have a stronger impact. The Institut des politiques publiques (►**IPP, 2024**) claims that the introduction of exceptional aid on apprentice recruitment was responsible for more than half of the increase in apprentice recruitment observed over the 2019-2020 period.

Other measures concerning enterprises in the LFI and LFSS affect their overall income, such as the additional corporation tax, implemented at the end of the year, the exceptional maritime freight contribution and other tax measures (research tax credit, tax on share buybacks, increase in the social levy on free share allocations). These increases in taxes come on top of the rise in labour costs, with an overall negative effect on their financial situation of 0.9 points of value added. These measures

►3. Contribution of final expenditure by general government to annual GDP growth since 2022

(in percentage points)



How to read it: in 2024, the final expenditure of general government contributed +0.6 points to GDP growth.
Source: INSEE.

are therefore likely to have a negative impact on their overall expenditure, and more specifically on their investment. Given the long-term elasticity of investment to the business savings ratio (►**Hauseux and al., 2015**), this downturn could theoretically lead to a reduction of up to two points in the GFCF of NFCs in the long term. Nevertheless, this appears to be an upper-bound effect: it expected to be a permanent measure, whereas many of the tax increases for enterprises in the LFI are deemed to be temporary. ●

What fiscal stimuli will be provided in Europe in 2025?

The European Commission's forecasts in the autumn of 2024 point towards contrasting trends in the main European countries' fiscal policies in 2024 and 2025. Following the adoption of the LFI and LFSS, France is expected to undergo a unique fiscal consolidation in 2025 (►**figure 4**), after two years of deteriorating public deficit.

Throughout the Eurozone, the average public deficit would appear to have fallen from 3.6% of GDP in 2023 to 3.0% in 2024, reflecting a relatively widespread withdrawal from energy-price-crisis schemes. In terms of structural adjustment, the Commission considers that this corresponds to a fiscal consolidation of -0.8 points, from a structural deficit of 3.6% in 2023 to 2.8% in 2024. In 2025, however, the fiscal stance in the Eurozone is likely to be virtually neutral, with the structural deficit falling by 0.2 points, notwithstanding significant differences between countries. Fiscal consolidation is expected to be significant in France, more limited in Italy and Spain, and virtually non-existent in Germany. Conversely, Ireland, the Netherlands and, to a lesser extent, Belgium, look likely to adopt expansionary fiscal policies. Since these forecasts exclude France and were made last autumn, they do not take account of the most recent developments and announcements, notably the planned easing of the brake on debt in Germany. ●

►4. Public deficits in the Eurozone

Public deficit (% of GDP)	2022	2023	2024	2025
Germany	-2.1	-2.6	-2.2	-2.0
Spain	-4.6	-3.5	-3.0	-2.6
France	-4.7	-5.5	-6.0	-5.4
Italy	-8.1	-7.2	-3.8	-3.4
Euro zone	-3.5	-3.6	-3.0	-2.9
United Kingdom*	-4.8	-4.5	-4.5	-3.6

Forecast.
Source: European Commission, autumn 2024 forecast (for the years 2024 and 2025), Initial Finance Law 2025 for France.

Summary table: the fiscal measures in the 2025 PLF and PLFSS integrated into the forecast of the *Economic Outlook*

Fiscal measure	Institutional sector	Forecast amount (€ bn)	National accounting effect	Expected economic effect
Price measures				
End of the electricity "price shield"	Household and NFC	4	Increase in prices of household consumption and intermediate consumption of enterprises Increase in taxes on products	Drop in the savings or consumption ratio
Increase in solidarity tax on airline tickets	Household and NFC	0.8	Increase in prices of household consumption and intermediate consumption of enterprises (business travel) Increase in taxes on products	Increase in prices of household consumption and intermediate consumption of enterprises (for business travel)
Tightening of the bonus-malus for motor vehicles	Household and NFC	0.8	Increase in prices of household consumption and investment of enterprises Increase in taxes and drop in subsidies on products	Increase in the relative price of new motor vehicles and specific decline in the consumption of transport equipment
Increase in taxes on soft drinks and gambling	Household	0.3	Increase in household consumption prices Increase in taxes on products	Increase in the relative price of soft drinks and gambling, and specific decline in the consumption of these products
Increase in duty on transfer for valuable consideration (DMTO)	Household	0.8	Increase in prices of household investment in services Increase in taxes on products	Decline in the financial savings ratio of households or in their property purchases
Increase in the tax on financial transactions	Financial corporations	0.5	Increase in the prices of intermediate consumption by financial corporations Increase in taxes on products	Drop in the margin rate of financial corporations and decline in investment
Measures affecting household income				
Reduction in the reimbursement rate for sick leave in the civil service to 90%	Household	0.9	Drop in earned income for civil servants Drop in household GDI Decline in collective expenditure by general government in value (price effect only)	Drop in the savings or consumption ratio
Reduction in the upper limit for reimbursement of daily allowances	Household	0.4	Reduction in social benefits paid out to households Drop in household GDI	Drop in the savings or consumption ratio
New unemployment insurance agreement for 2025	Household	0.3	Reduction in social benefits paid out to households Drop in household GDI	Drop in the savings or consumption ratio
Exceptional contribution on very high incomes	Household	2	Increase in income tax paid by households Drop in household GDI	Drop in the savings ratio, or possibly in the consumption ratio

Fiscal measure	Institutional sector	Forecast amount (€ bn)	National accounting effect	Expected economic effect
Measures affecting the situation of companies				
Increase in the cost of labour (re-profiling of general tax relief, reduction in aid for apprenticeships)	NFC and FC	2.6	Increase in employers' contributions and drop in subsidies on production Drop in all in the margin rate of enterprises	Drop in private payroll employment
Increase in corporate taxation: additional corporation tax for large enterprises, exceptional tax on maritime freight, reduction in the research tax credit, tax on share buybacks, increase in the social levy on free share allocations, etc.	NFC and FC	9.8	Increase in income tax and reduction of investment aid for financial corporations and non-financial corporations Decline in the financial savings of enterprises	Drop in corporate investment

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Warning
This sheet was modified on 23/04/2025 to correct Figure 1 (correction of contributions to annual growth in 2024).

Economic activity

In Q4 2024, activity declined slightly in France (-0.1% after +0.4%; ►**Figure 1**), the result of a backlash effect after the one-off boost from the Paris Olympic and Paralympic Games in the summer. Domestic demand increased once again, still driven by household consumption (+0.3% after +0.6% in Q3) and government consumption (+0.4% after +0.5%), while investment was virtually stable (-0.1% after -0.7%). However, companies met this additional demand, in particular the one-off upturn in vehicle registrations, by drawing on their inventories: the contribution of changes in inventories (-0.3 points) thus cancels out that of domestic demand (+0.2 points) (►**Figure 2**). Foreign trade made zero contribution this quarter: exports rebounded (+0.4% after -0.8%), as did imports (+0.4% after -0.3%), but this apparent overall equality masks some significant divergences by product: exports of services declined after exceptional sales of Olympic Games tickets and broadcasting rights, while exports of manufactured goods increased sharply.

On the supply side, activity continued to decline in the manufacturing industry: value added decreased by 0.7%, after -0.3% in Q3 (►**Figure 3**). Activity in the manufacturing of transport equipment remained depressed (-0.7% after -1.5%) and edged down in the manufacture of "other industrial products" (-1.6% after being stable) and capital goods (-0.6% after +0.1%). In construction, activity declined for the sixth consecutive quarter and more sharply than in Q3 (-0.8% after -0.2%). Meanwhile, activity in market services fell back slightly in reaction to the one-off boost from the Olympic Games in Q3 (-0.2% after +0.6%). Only non-market branches ensured that activity was able to hold up (+0.2% after +0.5%).

On average throughout 2024, GDP increased by 1.1%, as in 2023, but its composition changed. Private domestic demand stagnated: penalised because financing conditions remained difficult, both corporate investment (-1.6% after +3.1%) and household investment (-6.0% after -8.2%) fell back, while household consumption increased at the same rate as the previous year (+0.9%). However, activity benefitted from the acceleration in government consumption (+2.0% after +0.8%) and support from foreign trade (contribution of +0.9 points to growth, after +0.6 points; ►**Figure 4**), although partly offset by changes in inventories (-0.4 points). On the supply side, manufacturing value added weakened in 2024 (-0.4%) after a year of dynamic growth in 2023 (+2.5%). The decline was even sharper in construction: -2.8% in 2024 after +2.2%. Activity was further penalised by poor harvests in 2024 which hampered agricultural value added (-11.9% after +4.9% in 2023), but was supported by a further increase in value added in the energy branch (+8.3% after +23.5%) following the restarting of nuclear power plants. Finally, value added in market services accelerated slightly (+1.9% after +1.4%), driven by the Paris Olympic and Paralympic Games.

►1. Goods and services: resources-uses balance at chain-linked prices for the previous year, in quarterly and annual change

(quarterly and annual changes, in %; seasonally adjusted data - YTD)

	2023				2024				2025		2023	2024	2025 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross domestic product	**-0.1**	**0.7**	**0.1**	**0.5**	**0.1**	**0.3**	**0.4**	**-0.1**	**0.1**	**0.2**	**1.1**	**1.1**	**0.4**
Imports	-2.0	1.8	-0.8	-1.8	-0.2	0.2	-0.3	0.4	0.1	0.4	0.7	-1.4	0.6
Total resources	-0.3	0.9	0.0	0.2	0.1	0.4	0.3	0.1	0.0	0.2	1.3	0.9	0.5
Household consumption expenditure	0.2	0.0	0.5	0.2	0.1	0.0	0.6	0.3	0.4	0.2	0.9	0.9	1.0
General government consumption expenditure*	-0.3	0.1	0.5	0.5	0.7	0.4	0.5	0.4	0.0	0.2	0.8	2.0	0.8
of which individual general government expenditure	*-0.3*	*-0.1*	*0.5*	*0.3*	*0.5*	*0.2*	*0.5*	*0.4*	*0.3*	*0.3*	*0.5*	*1.4*	*1.1*
of which collective general government expenditure	*-0.3*	*0.5*	*0.6*	*0.9*	*1.1*	*0.8*	*0.6*	*0.5*	*-0.7*	*0.0*	*1.2*	*3.4*	*0.2*
Gross fixed capital formation (GFCF)	-0.3	0.5	-0.1	-0.7	-0.7	0.1	-0.7	-0.1	0.2	-0.1	0.7	-1.5	-0.4
of which Non-financial enterprises (NFE)	*0.1*	*0.8*	*0.4*	*-0.7*	*-0.9*	*0.0*	*-1.1*	*-0.2*	*0.2*	*-0.4*	*3.1*	*-1.6*	*-0.8*
Households	*-3.0*	*-1.4*	*-2.3*	*-1.8*	*-2.2*	*-0.9*	*-0.6*	*-0.3*	*-0.3*	*0.0*	*-8.2*	*-6.0*	*-1.1*
General government	*2.3*	*2.1*	*0.8*	*0.4*	*1.1*	*1.3*	*-0.1*	*-0.1*	*0.5*	*0.4*	*7.1*	*3.2*	*1.0*
Exports	-1.6	3.2	-0.7	0.6	-0.1	0.8	-0.8	0.4	0.0	0.4	2.5	1.1	0.4
Contributions (in points)													
Domestic demand excluding inventory**	*-0.1*	*0.2*	*0.4*	*0.1*	*0.1*	*0.1*	*0.3*	*0.2*	*0.2*	*0.1*	*0.9*	*0.6*	*0.6*
Changes in inventories**	*-0.2*	*0.1*	*-0.3*	*-0.5*	*0.0*	*-0.1*	*0.3*	*-0.3*	*-0.1*	*0.1*	*-0.4*	*-0.4*	*-0.2*
Foreign trade	*0.2*	*0.5*	*0.0*	*0.9*	*0.0*	*0.2*	*-0.2*	*0.0*	*0.0*	*0.0*	*0.6*	*0.9*	*-0.1*

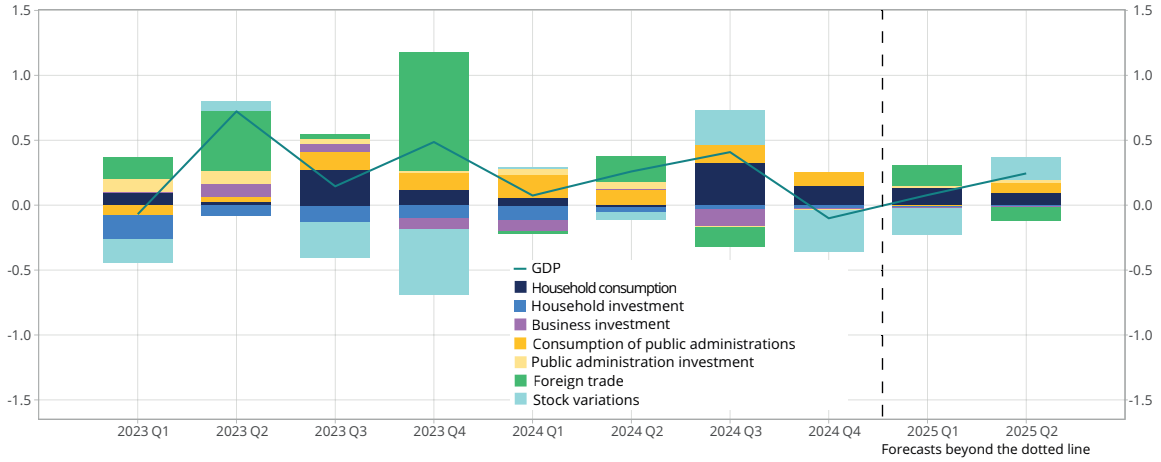
Forecast.
* Consumption expenditure of general government and non-profit institutions serving households (NPISH).
** Changes in inventories include acquisitions net of valuable items.

How to read it: in Q4 2024, the imports increased by 0.4%.
Source: INSEE.

According to business tendency surveys, the situation at the beginning of 2025 remains gloomy. The business climate indicator, which stood at 96 in February, has remained below its long-term average since the summer (►Figure 5). The employment climate returned to normal in 2024, while still remaining slightly more positive than the business climate, but then deteriorated significantly in February. It reached 94, its lowest level since March 2015 (excluding the health crisis). Lastly, household confidence, which picked up briefly in early autumn 2024, edged down in December then rallied at the start of the year to reach 93 in February, one of its highest levels since the invasion of Ukraine, but still below its long-term average.

►2. Quarterly variations in GDP and contributions of main demand items

(variations in % and contributions in points)



How to read it: in Q1 2025, GDP is expected to increase on the first quarter (+0.4%); the contribution of household consumption contributing around +0.1 points.
Source: INSEE.

►3. Quarterly changes in economic activity by industry

(quarterly changes in value added in %)

Branch	weight in %	2023				2024				2025		2023	2024	2025 ovhg
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Agriculture, forestry and fishing	**1.6**	**1.9**	**0.9**	**-1.6**	**-3.7**	**-4.8**	**-4.2**	**-2.3**	**-0.2**	**3.6**	**3.2**	**4.9**	**-11.9**	**3.5**
Industry	**13.4**	**2.6**	**3.2**	**0.9**	**1.9**	**-0.9**	**0.1**	**0.7**	**-0.5**	**-0.5**	**-0.2**	**5.8**	**2.0**	**-0.6**
Manufacturing industry	**11.2**	**1.3**	**1.7**	**-0.1**	**0.5**	**-0.2**	**-0.8**	**-0.3**	**-0.7**	**-0.4**	**-0.1**	**2.5**	**-0.4**	**-1.3**
Manufacture of food products, beverages and tobacco-based products	1.9	-1.1	0.8	-1.6	-0.7	3.6	-1.6	-0.6	0.9	0.0	-	-4.7	1.2	-
Coke and refined petroleum	0.1	-2.9	8.6	10.7	0.1	-1.8	6.0	2.5	10.5	0.0	-	31.5	14.4	-
Manufacture of electrical, electronic. computer quipment; manufacture of machinery	1.5	3.4	1.6	-1.1	-0.8	-1.1	-0.8	0.1	-0.6	-0.8	-	4.8	-2.6	-
Manufacture of transport equipment	1.7	6.5	5.3	-0.9	1.7	-5.8	-1.8	-1.5	-0.7	0.5	-	14.0	-5.9	-
Manufacture of other industrial products	6.1	-0.1	0.7	0.4	0.9	0.4	-0.4	0.0	-1.6	-1.0	-	0.5	0.7	-
Extractive industries, energy. water, waste treatment and decontamination	2.2	9.1	10.6	5.3	7.6	-5.5	2.4	3.1	0.1	-0.8	-0.4	23.5	8.3	-
Construction	**5.7**	**1.4**	**0.9**	**-0.3**	**-0.7**	**-1.5**	**-0.7**	**-0.2**	**-0.8**	**-0.3**	**-0.1**	**2.2**	**-2.8**	**-1.3**
Mainly market services	**57.5**	**-0.5**	**0.8**	**0.2**	**0.6**	**0.5**	**0.4**	**0.6**	**-0.2**	**0.1**	**0.3**	**1.4**	**1.9**	**0.6**
Trade; repair of automobiles and motorcycles	10.2	-1.2	0.5	-0.1	-0.1	0.4	-0.3	-0.6	0.4	-0.3	-	-1.1	0.1	-
Transport and storage	4.4	-3.7	0.9	-1.5	0.1	0.9	0.4	0.1	0.3	0.3	-	-3.9	0.9	-
Financial and insurance activities	3.6	-1.5	-1.4	-1.6	-0.3	0.6	2.1	0.1	-1.3	0.3	-	-2.3	0.4	-
Real estate activities	14.0	0.0	0.2	0.1	0.2	0.3	0.3	0.2	0.2	0.2	-	0.6	0.9	-
Accomodation and catering	2.4	2.3	3.9	1.0	0.6	0.6	0.8	0.4	0.4	0.2	-	12.8	3.5	-
Information and communication	5.5	1.1	1.7	1.3	1.4	1.0	0.8	2.0	-0.3	0.8	-	6.3	4.7	-
Scientific and technical activities; administrative and support services	14.5	0.1	1.5	1.1	1.6	0.4	0.5	0.8	-0.3	0.3	-	3.3	3.4	-
Other service activities	3.0	0.4	0.7	-0.1	0.1	0.6	0.3	3.4	-3.2	0.0	-	3.3	1.9	-
Mainly non-market services	**21.7**	**-0.4**	**-0.4**	**0.1**	**0.5**	**0.5**	**0.5**	**0.5**	**0.2**	**0.2**	**0.2**	**-0.7**	**1.5**	**0.9**
Total VA	**100**	**0.1**	**0.9**	**0.2**	**0.6**	**0.1**	**0.3**	**0.5**	**-0.2**	**0.1**	**0.2**	**1.6**	**1.3**	**0.4**

Forecast.

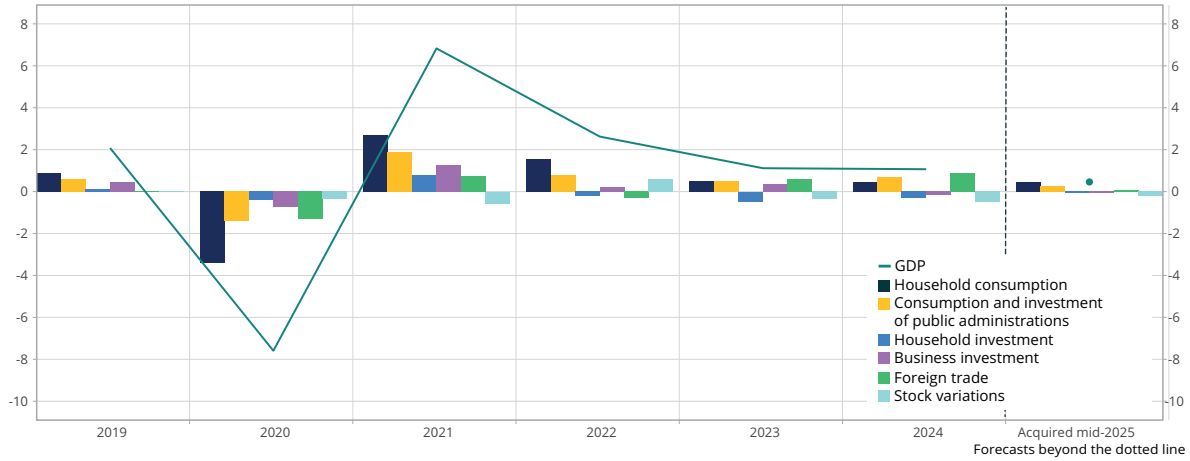
How to read it: in Q4 2024, value added in the transport equipment manufacturing branch fell by 0.7%. It is expected to rise by 0.5% in Q1 2025.
Source: INSEE.

In this unfavourable climate, GDP is not expected to increase much at all in Q1 (+0.1%). Activity in the manufacturing industry is unlikely to get going straight away (-0.4% in Q1): although a slight rebound is expected in automobile production after it plummeted in 2024 (-14% in 2024 compared to 2023), activity in the manufacture of capital goods, and also in "other manufacturing industries" – which notably include the energy-intensive industries – is likely to deteriorate considerably. This weak industrial activity is also likely to hamper that of market services (+0.1%), even though final jobs are more dynamic in relative terms: in particular, household consumption of market services is expected to increase by +0.4% and corporate investment by +0.5%. Activity in construction is likely to see a decline, although a little less pronounced than at the end of 2024 (-0.3% after -0.8%). Finally, activity is expected to be particularly dynamic in agriculture, as a reaction to the poor harvests in 2024 (+3.6% growth in Q1).

In Q1, no support can be expected from foreign trade and only domestic demand is likely to make a positive contribution to growth. With the State operating under special law before the 2025 budget was adopted, it is likely that government consumption will come to a standstill (►**Focus** on the effects of the consolidation of the 2025 budget on growth). In particular, collective expenditure, which boosted growth especially well in 2024, is expected to edge down significantly (-0.7% after seven consecutive quarters of increase). Household consumption is likely to accelerate slightly (+0.4%), but household investment looks set to continue its decline (-0.3%): investment in construction is also expected to continue to decline, although less sharply than previously (-0.5% after -1.7% in Q4 2024), and investment in services looks set to increase in the wake of real estate transactions (+0.5% after +4.5%). Regarding businesses, investment in manufactured goods is expected to be given a short-term boost by automobile purchases (+0.5% after +0.1%), due to advance purchases before the tightening of the ecological penalty came into effect on 1st March, while the decline in construction investment is expected to continue (-0.5% after -1.1%), reflecting the small numbers of construction starts for business premises. Only investment in services looks set to continue to increase a little (+0.5% after +0.2%), leading overall to a slight improvement in corporate investment in Q1 (+0.2% after -0.2%).

In Q2 2025, activity is expected to accelerate slightly (+0.2%), but manufacturing output looks set to be sluggish (-0.1%), penalised by planned shutdowns in the metallurgy industry, while construction activity should stabilise gradually (-0.1%). The value added of market services is expected to accelerate slightly (+0.3%), with agricultural activity remaining dynamic (+3.2%).

►4. Annual variations in GDP and contributions of main demand items
(annual variations in %; contributions in points)

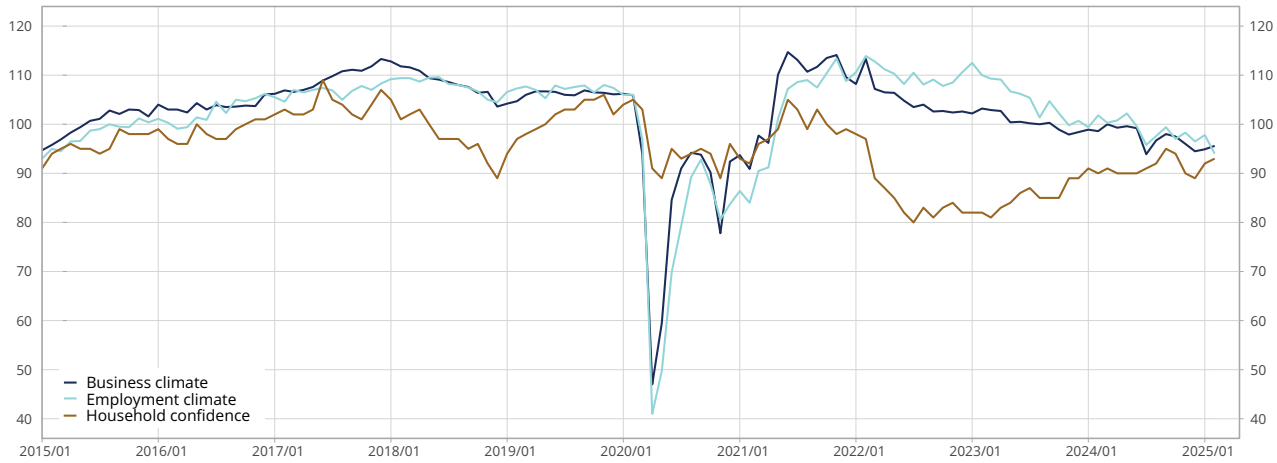


Note: general government consumption also includes consumption by non-profit institutions serving households (NPISH).
How to read it: in 2023, GDP would increase by 1.1%; the contribution of household consumption amounted to +0.9 points.
Source: INSEE.

As in Q1, growth is expected to be driven solely by domestic demand. Corporate investment is expected to edge down (-0.4%): investment in services and construction should maintain the same pace as in the previous quarter, while investment in manufactured goods is no longer expected to benefit from advance automobile purchases (-1.5%). Household investment should finally stop its decline and household consumption is expected to continue its moderate growth (+0.2%). Finally, after the standstill linked to the institutional situation at the beginning of the year, government consumption is likely to increase a little in Q2 (+0.2%), but at a significantly slower pace than in 2024, reflecting the budgetary guidelines adopted at the beginning of the year.

The mid-year growth overhang for 2025 is expected to be modest, at +0.4%. This forecast remains surrounded by uncertainty, however, especially with regard to the effects of fiscal consolidation (►**Focus** on the effects of the consolidation of the 2025 budget on growth), the continuing decline in interest rates (►**Focus** on the transmission of base interest rate cuts to corporate lending rates) and US customs measures (►**Box in the International synthesis sheet** on the impact of US tariffs). ●

►5. Business climate, employment climate and household confidence in France
(normalized with mean 100 and standard deviation 10)



Last point: February 2025.
How to read it: in February 2025, business climate in France stands at 96, below its long-term average of 100.
Source: business and consumer surveys, INSEE.

Five years after the health crisis, where does the French economy stand compared to its potential?

The health crisis resulted in a collapse in activity followed by a rapid rebound. Once the French economy had reopened, it seemed to quickly run into supply constraints, which were exacerbated during the energy crisis. The dissipation of these shocks raises the question of the economy's position in the economic cycle and its rebound potential. To assess this, it is necessary to estimate a potential GDP that is not directly observable (i.e. the output that would be obtained if the economy operated by mobilising all available factors without generating tensions), and an output gap, which is equal to the difference between real GDP and potential GDP. Two approaches are traditionally used (►**Guillet and al., 2018**): a direct method based on company responses to the business tendency surveys and a structural model based on national accounting data.

While the two methods show a good level of agreement for the period 1995-2019, updating the output gap estimates revealed some significant divergences over the period 2020-2024. The method based on the business tendency surveys suggests that the decline in GDP during these crises was accompanied by a fall in potential GDP, whereas the structural approach considers that the economy evolved below its potential during these years. This divergence stems from the fact that the business tendency surveys capture a deviation from a "short-term" potential, while the structural method seeks to identify the "long-term" potential. When shocks are essentially demand shocks or lasting changes in supply, the two notions can be conflated, but this is not the case in periods of temporary supply shocks, such as the health crisis or supply chain disruptions. In these cases, inflation-free potential output is temporarily lowered without lowering the long term potential as much, if at all. For the direct method, the resulting decline in GDP corresponds to a decline in potential GDP and not to a widening of the output gap, whereas the structural approach treats it as a one-off event with no impact on potential GDP. However, both methods seem to indicate that by the end of 2024, the economy was relatively close to its potential.

Marie-Cécile Cazenave-Lacrouts et Denys Médée-Welter

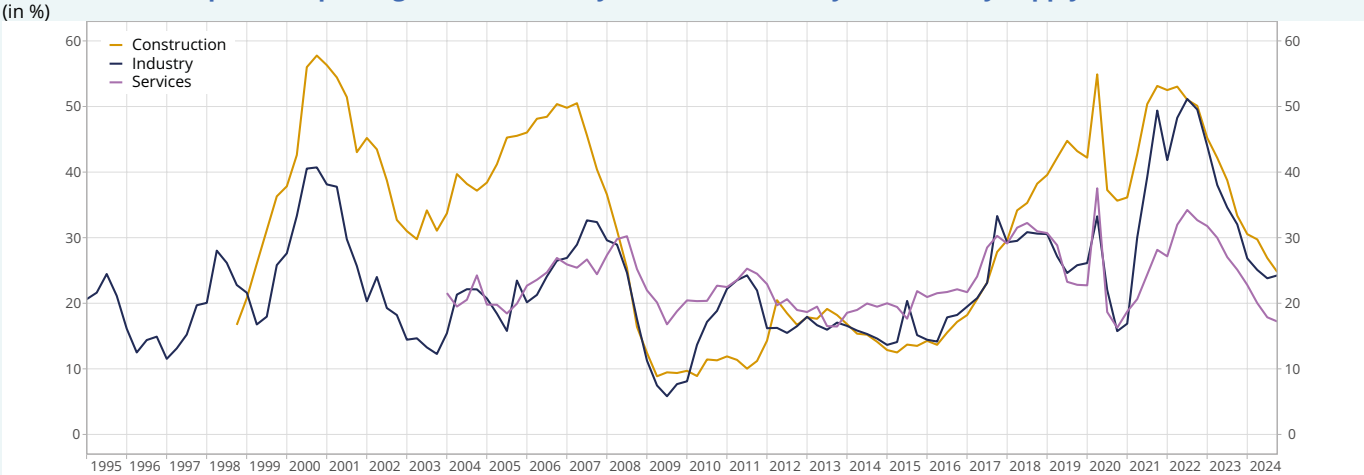
Supply tensions that emerged following the health crisis have diminished to be succeeded by demand tensions

Since the end of the health crisis, the nature of factors causing tension in the economy has changed. Business leaders' responses to questions in the business tendency surveys on production capacity provide some insight into this.

Since the end of 2020 and until mid-2022, companies in industry, construction and services have come up against supply constraints associated with the end of the health crisis, then supply chain difficulties linked to the war in Ukraine. In the construction sector, the share of companies declaring that their ability to increase output is limited by supply constraints alone briefly exceeded 50% between Q3 2021 and Q4 2022. This situation has been seen twice during the last thirty years: during the period of strong growth at the very beginning of the 2000s and more briefly between 2006 and 2007, again in a period of sustained growth (►**Figure 1**). In industry and services, this share reached unprecedented proportions in summer 2022, with

►1. Share of companies reporting that their ability to increase activity is limited by supply constraints alone

(in %)



How to read it: in Q4 2024, 24% of companies in the industry and construction sectors reported that their ability to increase activity was limited by supply constraints alone, compared to 17% of companies in services.
Source: INSEE, business surveys.

34% in services and 51% in industry. Periods of supply shocks of such intensity are relatively rare and distort the usual tools used by the forecaster, who seeks to capture fluctuations in demand, which are responsible for most cycles (►Bourassi and al., 2024, ►Forni and al., 2024).

Once this peak was reached, the trend was then largely reversed and fewer and fewer companies reported obstacles to increasing output linked to supply constraints. Whatever the reasons (supply and/or demand constraints), the share of companies reporting that they experienced obstacles to growing their activity thus decreased, and at the end of 2024 reached a relatively low level after 30 years in industry and construction and a minimum in services since a break in the series occurred in Q2 2019 (►Figure 2).

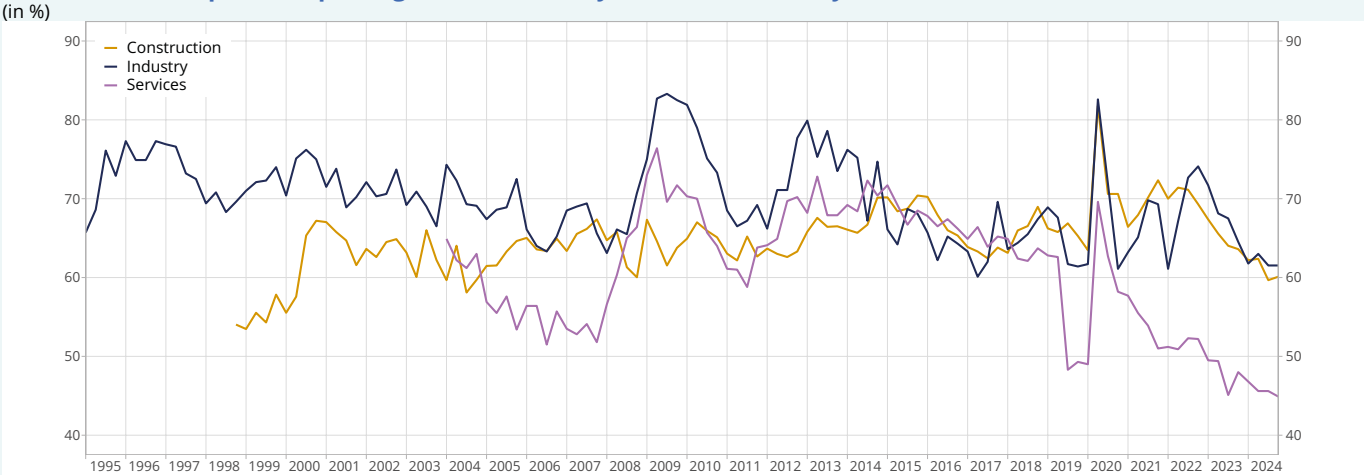
At the same time, the nature of the obstacles to increased production has also changed, with the companies concerned believing that insufficient demand had replaced supply constraints. Between Q2 2022 and the end of 2024, the share of companies reporting demand constraints alone rose from 4% to 18% in construction and from 9% to 27% in industry (►Figure 3). Similarly, the balances of opinion on order book levels in industry and construction declined sharply.

Thus, after a period of tensions linked to exogenous supply constraints, the economy is currently believed to be in a phase where companies have regained production capacity but are coping with demand that is now less favourable than at the end of the health crisis.

This observation raises the question of the economy's rebound potential, and thus of the economy's position in the cycle: does the reduction in supply tensions reflect the proximity of a cycle peak, which may have already passed, or on the contrary, does it signal the proximity of the cycle low point?

►2. Share of companies reporting that their ability to increase activity is limited

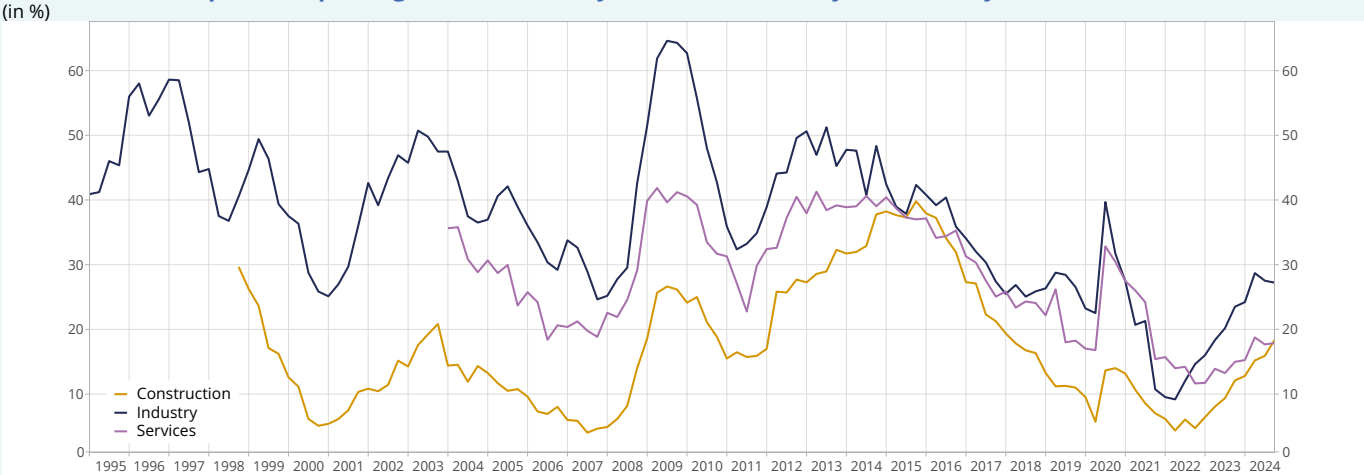
(in %)



How to read it: in Q4 2024, 62% of companies in industry and 60% of construction companies reported that their ability to increase activity was limited, compared to 45% of companies in services.
Source: INSEE, business surveys.

►3. Share of companies reporting that their ability to increase activity is limited by demand constraints alone

(in %)



How to read it: in Q4 2024, 27% of companies in industry and 18% of construction companies reported that their ability to increase activity was limited by demand constraints alone, compared to 18% of companies in services.
Source: INSEE, business surveys.

Two different methods can be used to estimate the output gap

The cyclical component of economic activity is called the "output gap", or the relative difference between the measured GDP level and potential output, i.e. the volume of output that an economy can sustainably achieve without creating inflationary tensions. Potential output therefore resembles a structural quantity in the economy, exhibiting relative persistence and reflecting productive capacities in the medium term,[1] whereas the output gap reflects short-term fluctuations in the economy in response to different shocks.

To estimate the output gap, two different approaches can be used, already applied in ►**Guillet and al. (2018)** (►**Boxes 1 and 2**):

- a "direct" method, which aims to extract a common factor from a series of economic indicators, considered as a direct measure of the output gap: this is a purely statistical method which uses only companies' responses to business tendency surveys and therefore relies directly on tensions analysed previously;

- a "structural" method, which explains potential output as the resultant of the potential level of the components of the labour factor (potential labour force participation rate, structural unemployment rate[2] and potential average annual number of hours worked per person) and the potential level of total factor productivity (TFP), aggregated via a Cobb-Douglas-type production function. This method also assumes a Phillips curve that links inflation to the unemployment gap at its long-term level. The model also captures the effect on TFP of tensions affecting the production capacity utilisation rate (CUR) in industry derived from business tendency surveys, as well as the effects of flexibility in the labour market that affect the labour force participation rate.

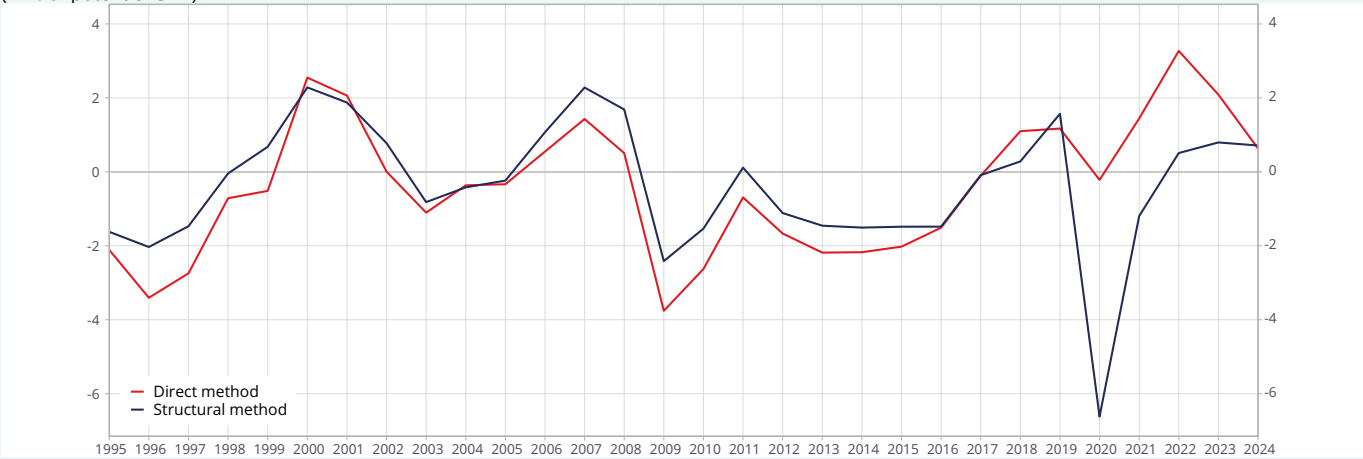
The direct method has the advantage of having been revised very little and of quickly giving a good idea of the position in the cycle, whereas the structural method is not very effective "in real time" because it uses methods of smoothing potential growth. However, the direct method alone is not enough to give a measure of the output gap: as the common factor that it produces has no unit, it must be normalised with an output gap measured elsewhere. In addition, only the structural method is able to break down the origin of the shock according to the factors of production.

The two methods converged relatively well until 2019

These two methods appear to converge relatively well over the period 1997 to 2019 (►**Figure 4**). In 2019, the French economy was thus in a relatively high phase in its economic cycle, with a positive output gap, estimated to be 1% greater than potential GDP, after having spent almost 10 years below its potential (from 2009 to 2017) in the wake of the great recession and then the sovereign debt crisis of 2012.

1 In the long term, potential output is also likely to experience significant variations, affected by underlying demographic and technological trends.
2 The term "structural unemployment rate" will be used rather than "potential unemployment rate" because this is well-established terminology, particularly in the literature on the Phillips curve. This does not mean that there is a minimum level of unemployment below which it is impossible to fall.

►4. Output gap in France according to the two estimation methods
(in % of potentiel GDP)



How to read it: in 2024, the output gap calculated using the structural method was 0.7%.
Source: INSEE calculations.

During the phase of gradual reduction in the output gap from 2014 onwards, the signals captured by the direct method from business leaders' declarations on their supply or hiring difficulties thus agree with the structural diagnosis based on macroeconomic data and CUR. Over the period 2011-2019, the main contributing factor to the output gap in the structural method is the unemployment rate. This rate hovered significantly above the structural unemployment rate between 2011 and 2018 (►**Figure 5**), in a context of very moderate core inflation, less than 1% per year between 2013 and 2019.

In 2020 and 2021, the structural method measured an unprecedented output gap while the direct method indicated a decline in potential GDP

During the two years of the health crisis, according to the structural method, the observed GDP deviated very significantly from potential GDP, resulting in an output gap of unprecedented magnitude. In fact, GDP recorded a marked decline in 2020 (-7.4% in volume) followed by an immediate rebound (+6.9% in 2021).

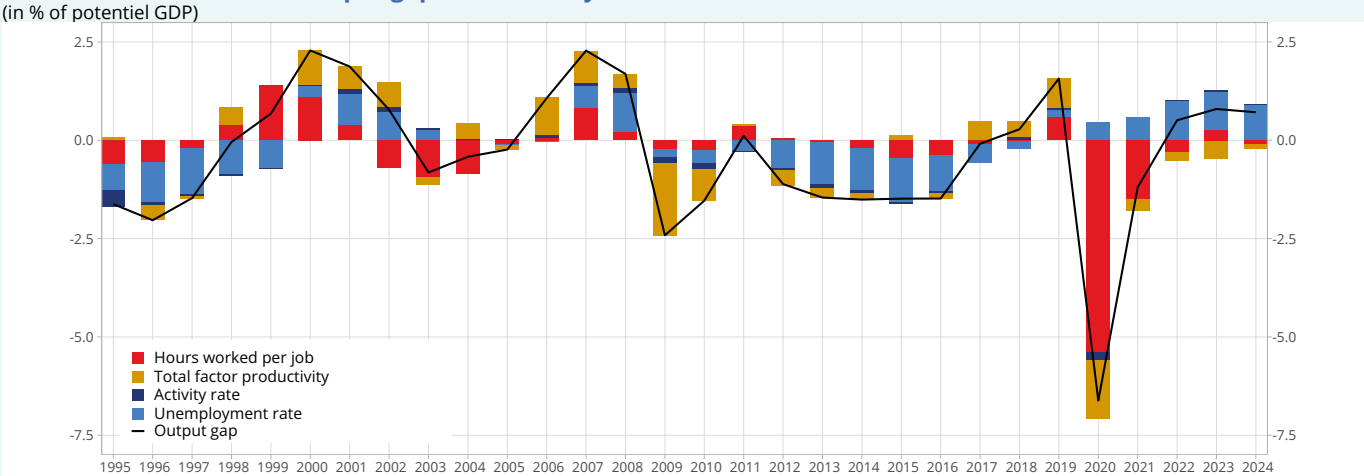
For the structural method, this is a cyclical shock, mainly reflected in the average annual number of hours worked per job. With the decline in activity linked to lockdowns and the use of short-time working, this indicator plummeted by 6.8% in 2020 before rebounding by 3.1% in 2021 (►**Duc and Souquet, 2020**). The TFP also fell below its potential in 2020-2021, but this fall (relative gap compared to the potential TFP of -1.5% in 2020, then -0.3% in 2021) is not commensurate with the shock observed in GDP. Moreover, this sequence is less severe than the episode of the great recession linked to the financial crisis, when TFP gaps amounted to -1.8% in 2009, and -0.8% in 2010. Similarly, the unemployment rate and the labour force participation rate fluctuated during the health crisis episode, but not in proportion to the magnitude of the shock suffered by production; their deviation from their potential level therefore contributes only slightly to the total output gap over 2020-2021 (►**Figure 5**).

At the same time, the balances of opinion in business tendency surveys experienced some marked upheavals, but not of a historic magnitude like the fall in GDP. Thus, the share of companies reporting only supply constraints fell further during the 2008-2009 episode than in 2020 in industry and construction (►**Figure 1**). Similarly, the share of companies reporting only demand constraints increased less in 2020 than during the great recession of 2008, and this in all three sectors (+36.5 points between Q3 2008 and Q3 2009 compared to +8.2 points between Q2 and Q4 2020 in industry, +20.0 points against +8.3 points in building construction over the same periods, and +19.3 points compared to +13.6 points in services over the same periods). As a result, the output gap measured using these balances fell in 2020 but remained positive, which implicitly means that it is the output potential that is then affected. Thus, according to the direct method, the health crisis episode should not be interpreted solely as cyclical fluctuation; it also seems to have largely coincided with a drop in potential GDP (►**Figure 6**).

In 2024, the methods converge once again and the output gap seems to be virtually zero

Between 2022 and 2024, the structural method estimates that GDP returns to its potential. For the structural method, the complete reopening of certain partially restricted sectors of activity in 2021 (retail trade, accommodation-catering, air transport, etc.) completely eliminated the deficit in hours worked in the economy by 2022. In addition, the method

►5. Contributions to the output gap estimated by the structural method
(in % of potentiel GDP)



How to read it: in 2020, the contribution of the average annual number of hours worked to the output gap was -5.4 points.
Source: INSEE calcuations.

notes that the inflationary shock was only transitory and therefore considers that unemployment was not far from its long-term level. The output gap stabilised from 2023 in an area that was slightly positive.

In the direct method, indicators of imbalance between supply and demand taken from the business surveys clearly reflected the emergence of overheating due to excess supply in 2022, but the latest surveys show that this is being resolved.

In 2024, the methods seemed to converge towards a near-zero output gap, although it was slightly positive:[3] in the direct approach because hiring and supply difficulties remained high; and for the structural method, because the unemployment rate remained low from a historic perspective.

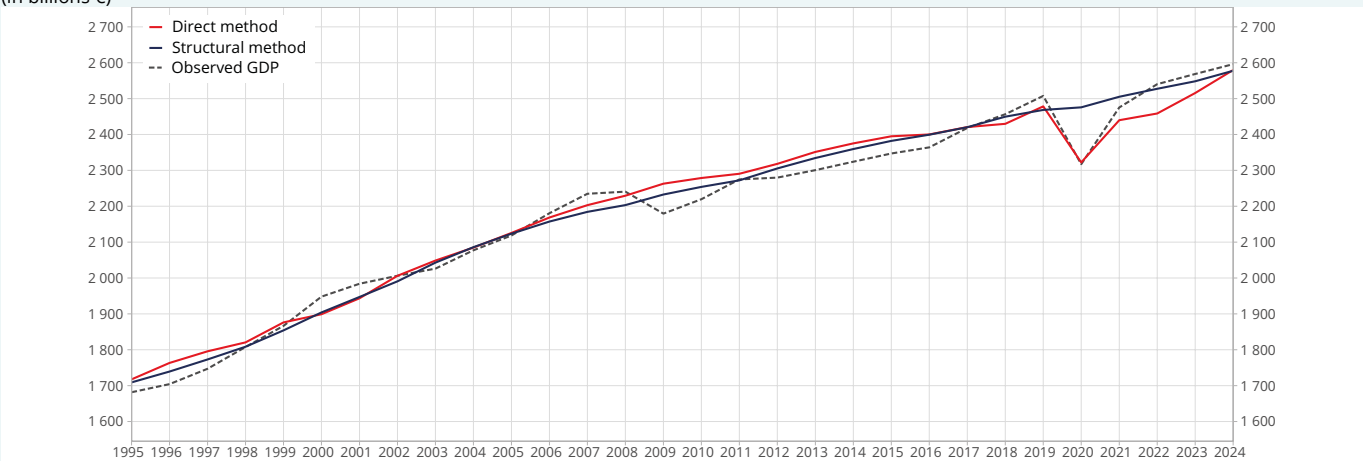
This diagnosis of a fairly insignificant output gap is shared by other bodies that produce output gap estimates for the French economy: for 2024, both the IMF and the Government estimate this output gap at -0.6% of potential GDP, the OECD at -0.5% and the European Commission at -0.1%. Using the direct method it is also possible to estimate a quarterly output gap: after an average of +0.6% in 2024, it is expected to reach +0.2% at the start of 2025, thus shutting down and indicating the gradual easing of supply constraints in the French economy.

The fact that the structural method presented here results in a slightly positive output gap, whereas most bodies conclude that it is slightly negative stems from the diagnosis of the cyclical or structural nature of the decline in the unemployment rate in France since 2019. Given the short time scale, the chosen model considers this decline to be largely cyclical and estimates that structural unemployment remains at around 8.5%. As stated above, structural methods are not very effective in real time and can be subject to major revisions: if unemployment were to remain sustainably below 8% in France, then

3 By including service variables in the direct method, this gap is even closer to zero (►Box1, Figure 9).

►6. Potential GDP according to the estimation methods

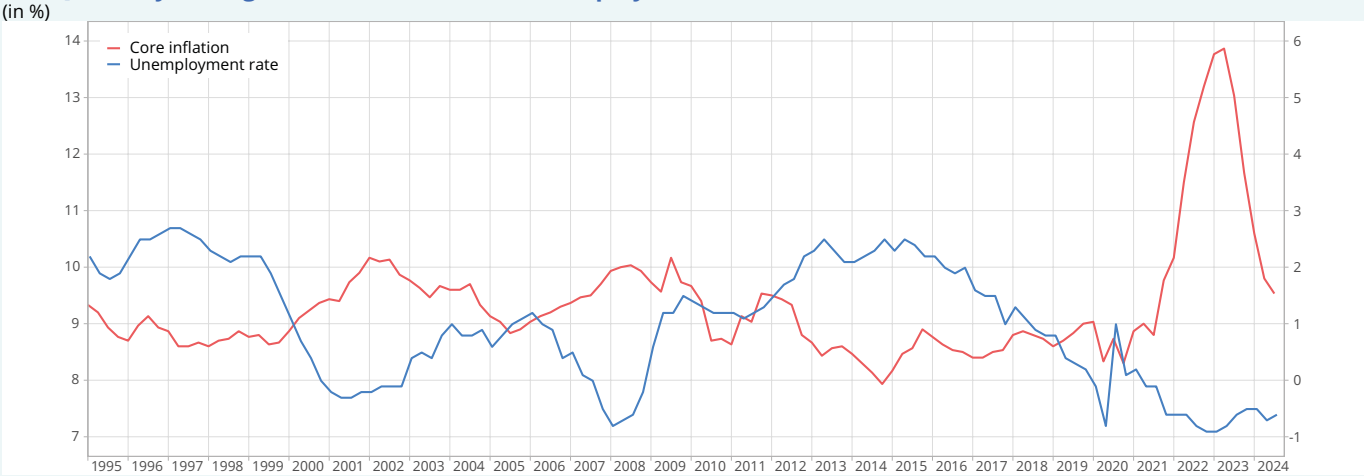
(in billions €)



Note: annual GDP is calculated as the sum of quarterly GDPs by volume at the previous year's chained prices.
How to read it: in 2024, potential GDP according to the structural method amounts to €2,580 bn.
Source: INSEE calcuations.

►7. Quarterly average of core inflation and unemployment rate

(in %)



Last point: Q3 2024.
How to read it: left scale for unemployment rate, right scale for core inflation.
Source: INSEE.

structural unemployment in 2024 would be gradually revised downward by this method, leading to a subsequent revision of the output gap. To circumvent this difficulty, some organisations extend existing data using simulated data to estimate the structural level of recent years (►**Blondeau and al. 2021**). In doing so, they introduce a target to be determined by experts based on non-model information such as reforms that may have been carried out and which are likely to reduce structural employment. The European Commission thus estimates that structural unemployment in France was around 7.7% in 2024, a level very close to the actual rate. If this estimate for structural unemployment were used in our model, this would lead to an output gap of zero, with the other components (TFP, labour force participation rate) contributing virtually nothing to the level estimated for 2024.

In the event of a supply shock that temporarily limits the economy's potential, approaches diverge significantly

The analysis shows that the two approaches converged well from 1997 to 2019 when most shocks were demand shocks, but they do not describe the same potential in the event of a temporary supply shock:

- the health crisis was primarily a shock to labour supply, with lockdowns putting the economy into a situation of partial inactivity. This rationing of the labour factor is treated by the direct method as a drop in potential GDP, albeit temporary. The structural method, which seeks to capture long-term potential, does not allow for this kind of dynamic for potential variables, and attributes these shocks to the output gap: the potential described by this method is not affected. The end of these restrictions also led to a very rapid return to normal, and therefore a return of potential GDP from the direct method to its pre-crisis levels. Conversely, the structural method interprets it as a return of the average number of hours worked per job to its "normal" level, and hence as a closing of the output gap;

- the economy then entered a phase of overheating linked to the catch-up after the crisis, a phase that was described more as a postponement of demand rather than a drop in demand. This overheating gave rise to global tensions in value chains and led to an increase in core inflation and in energy and gas inflation in particular, from 2021, before the start of the war in Ukraine. In this context, the direct method identifies a temporary decline in potential GDP compared to its pre-crisis level, due to rationing as a result of supply constraints. Meanwhile, the structural method treats it as a temporary shock, again with no major impact on long-term potential. ●

Box 1: Presentation of the structural and direct methods

Potential output (within the meaning of potential gross domestic product) is often defined as the volume of output of goods and services that an economy can sustainably achieve without creating inflationary pressures, either upwards or downwards (►**Okun, 1962**). This concept, and its complement, the output gap, is therefore based on the logic of an economic cycle generated by the misalignment of supply and demand, with this misalignment having repercussions on inflation, which can exceed its long-term level (excess demand) or fall below it (excess supply).[1]

Since potential output is an unobservable quantity, identifying the economy's position within the economic cycle requires the use of indicators capable of capturing an excess (or deficit) in demand over supply. Once this selection has been made, two categories of method can be distinguished for identifying potential growth (and/or output gap), ►**Guillet and al. (2018)** and **Lequien and Montaut (2014)**. The first series of methods can be described as "statistical" or direct, in the sense that they extract the desired information from observed series without relying on economic theory. A second series of methods can be described as structural, and are based on economic models establishing links between observable and unobservable variables.

The direct and structural methods of ►**Guillet and al. (2018)** are adopted and updated:

- concerning the direct method, greater use has been made of variables from business tendency surveys reflecting demand and supply shocks affecting the productive fabric, while the macroeconomic variables usually used to identify the position in the cycle (unemployment rate, inflation, etc.) have been excluded. This change aims to further separate the thinking behind the two methods;

- concerning the structural method, the changes made are limited and reflect changes in the underlying data, in particular the high-inflation episode of 2021-2024. Details of these modifications are given below.

1 This concept of an economic cycle can be demonstrated, for example, by the Samuelson oscillator model, or multiplier-accelerator model: current investment is a function of past variations in output (accelerator effect), whereas consumption is a fraction of the output of the previous period (multiplier effect). Thus, when growth in output slows (the economy approaches the top of the cycle), investment declines, and this effect, coupled with the multiplier effect that prevents consumption from fully compensating, leads total output to decrease and the cycle to turn around.

Direct method, based solely on business tendency surveys

Following the example of ►Guillet and al. (2018), the direct method is based entirely on a principal component analysis (PCA) conducted on a set of variables fixed over time. The first principal axis constitutes an overall indicator of imbalance, made homogenous to an output gap by standardising the mean and variance using the output gap estimated from the structural method.

Unlike ►Guillet and al. (2018), however, only variables from business surveys are retained for the PCA.[2] Similarly, since the production capacity utilisation rate (CUR) is used in the structural method, it is excluded from the direct method in order to verify whether the cyclical diagnosis remains convergent despite different inputs.[3] However, level variables are added on order books in industry and construction (►Figure 8).

Services variables and supply and demand difficulties in construction have been excluded from the analysis because they are only available from 1998 (for construction) and 2003 (for services). However, it is easy to check that their inclusion would not alter the diagnosis: the output gap calculated over the period 2004-2024 with all available variables (i.e. the six reference variables and the five variables not available before 1998) is extremely well correlated with the reference output gap (►Figure 9). Finally, the responses of industrial companies are by far the most influential and over this common period limiting the analysis to the six reference variables modifies the result only marginally.

Structural method

The structural method, as for ►Guillet and al. (2018), is inspired by the work of ►Lequien and Montaut (2014) and ►D'Auria and al. (2010). It is based on a model of production capacity in the form of a Cobb-Douglas function. This production function uses two factors (capital stock and labour, measured in the form of number of hours worked), and total factor productivity (TFP) multiplying all together in order to replicate the GDP measured. TFP absorbs fluctuations in production that are not explained by the combination of production factors, notably technical progress or partial capacity utilisation. The production function is written:

$$Y = PGF \times K^{\alpha} \times \left(POP_{15-64} \times TxAct \times (1-U) \times Nb\,h \right)^{1-\alpha}$$

Where:

- *Y* denotes GDP;
- *PGF* denotes total factor productivity;
- *K* denotes capital stock;
- *α* denotes elasticity of output to capital;[4]
- $POP_{15\text{-}64}$ denotes the working-age population (assimilated to people aged 15 to 64);
- *TxAct* denotes the labour force participation rate;
- *U* denotes the unemployment rate;
- *Nb h* denotes the number of hours worked per job over the period of time considered.

►8. Indicators selected in the direct method and coefficients in the first axis of the PCA

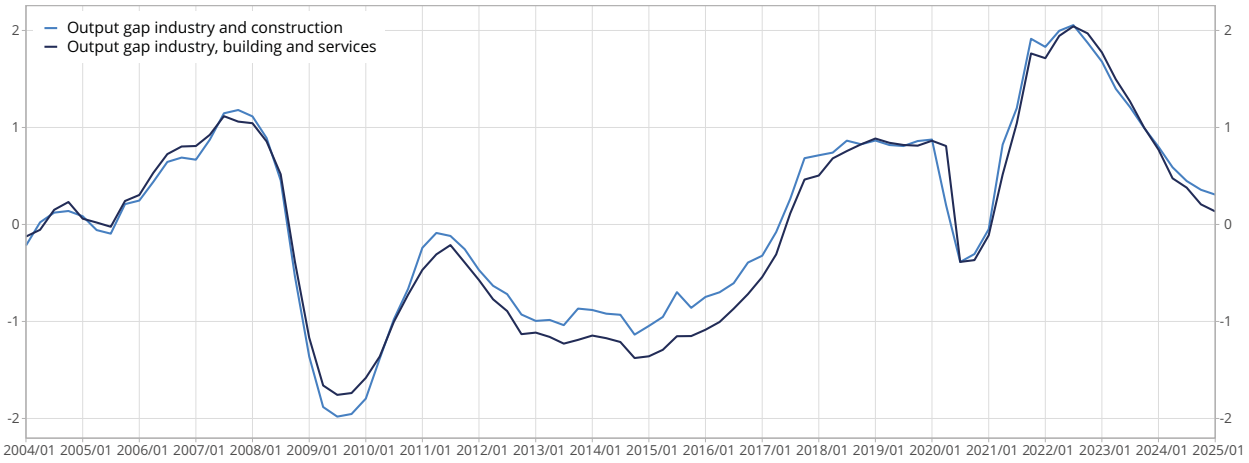
(in %)

Sector	Indicator	Unit	Coefficient to calculate the first principal axis	
			Central scenario	Variant with addition of CUR
Industry	Supply difficulties only	Share of companies reporting	0.45	0.42
	Demand difficulties only	Share of companies reporting	-0.44	-0.41
	Hiring difficulties	Share of companies reporting	0.44	0.41
	Level of order books	Balance of opinion in points	0.31	0.33
	Production capacity utilisation rate			0.28
Construction	Hiring difficulties	Share of companies reporting	0.39	0.37
	Level of order books	Balance of opinion in points	0.41	0.40
Share of variance accounted for by 1st principal component			0.73	0.66

2 This approach, based exclusively on balances from business tendency surveys, has already been implemented by ►De Waziers (2018).
3 The additional effect of the CUR, measured in an alternative scenario (by adding the CUR to the PCA variables, all other things being equal), is virtually zero most of the time. It is only visible in the trough periods of 2009 and 2020, where the output gap is greater when the CUR is included, and to a lesser extent in the recent period where the output gap is slightly smaller with the CUR.
4 This quantity is calibrated at 0.35 in line with ►Guillet et al. (2018).

►9. Comparison of the output gap calculated with and without service sector variables

(in %)



How to read it: in Q1 2021, the output gap in the direct method with industry and construction sector variables alone was 0%.
Source: INSEE calcuations.

The structural method is based on estimating the potential quantities of all the variables involved in the production function. For capital, there is no gap between actual stock and potential stock. For the variables of TFP, the labour force participation rate and the unemployment rate, a space-state model is proposed. This is based on economic relations between variables and assumptions about the dynamics of unobserved variables. This space-state model is estimated by likelihood maximisation and Kalman smoothing (►**Figure 10**)[5]. The economic-dynamic equations can be classified into three distinct but interdependent sub-blocks:

a) TFP block

$$\begin{cases} pgf_t = pgf_t^p + \lambda \times \left(TUC_t - TUC_{ref}\right) + \varepsilon_{pt} \\ \Delta\, pgf^p{}_t = \theta \times \Delta\, pgf^p{}_{t-1} + \varepsilon_{ft} \end{cases}$$

where pgf_t (resp. $pgf^p{}_t$) denotes the logarithm of TFP (or potential TFP). The purpose of this block is, on the one hand to represent TFP as a non-stationary series[6] (here a random walk), and on the other hand to integrate an economic relationship between TFP and the CUR.[7] A slight difference compared to ►**Guillet and al. (2018)** is that the second equation does not include a trend term: the model estimate leads to a very weak trend, not significantly different from 0, probably the consequence of the slowdown in productivity gains observed over the decade 2015-2024 (the removal of this element from the specification has no perceptible impact on the estimate of the output gap).

b) Phillips curve block

$$\begin{cases} \pi_t &= \pi_{ref} + \rho^{\pi} \times \pi_{t-1} + \lambda^{\pi} \times \left(U_t - U_t^p\right) + \lambda^{energ} \times \pi_{t-1}^{energ} + \varepsilon_{infl} \\ U_t &= U_t^p + c_t \\ \Delta U_t^p &= \rho^U \times \Delta U_{t-1}^p + \varepsilon_{ut} \\ c_t &= \rho^C \times c_{t-1} + \varepsilon_{ct} \end{cases}$$

Where π_t denotes the core inflation rate, U_t the unemployment rate and U_t^p the structural unemployment rate and π_t^{energ} the growth rate of energy prices.[8] The first equation in this block corresponds to the Phillips curve, which

5 Estimating the model does not require the output gap to be zero on average over the period.
6 A simplified definition of non-stationarity is the fact that a time series has a mean that is not constant over time (e.g. with a deterministic trend) or a variance that is not constant over time (e.g. for a random walk).
7 The assumed relationship between TFP and the CUR is both a direct and an indirect link. In the former case this reflects the fact that TFP is calculated from GDP and observed factors. However, since the capital stock is never utilised to its full capacity, using its "theoretical" level amounts to including the partial capacity utilisation effect when measuring TFP. Moreover, indirectly, there are economic reasons to assume an increasing relationship between demand and TFP ►**Crespi and Pianta (2008)**, ►**Hein and Tarassow (2010)**, with the gap between the CUR and its average reflecting an excess of demand over supply.
8 The series chosen is that of French industrial energy producer prices for all markets (MIG). As it is only available from January 1995, the year 1994 is imputed by calibrating the MIG series to the consumer price index (CPI) for energy. The annual growth rate is then calculated.

establishes a relationship between deviations in core inflation[9] observed around its long-term level and the gap between unemployment and structural unemployment, reflecting excess or deficit in demand. In theory, this relationship justifies the use of core inflation as the preferred means of measuring the position in the cycle. A core inflation lag term is also introduced to model the contribution of inflation expectations, assumed to be equal to past inflation, in price formation. One change compared to ►**Guillet and al. (2018)** is the introduction of lagged energy output price inflation. This change was brought in to take into account the dissemination of the rise in energy prices from 2021 into core inflation. This dissemination mechanism can be explained by companies passing on increases in their production costs (direct cost from energy consumption, wage negotiations) to their selling prices. The purpose of the following three equations is to model the underlying dynamics of the structural unemployment rate, which should be stationary.

c) Labour force participation rate block

$$\begin{cases} TxAct_t &= TxAct_t^p + \lambda^{TUC} \times \left(TUC_t - TUC_{ref}\right) + \sigma \times \left(U_{t-1} - U_{t-1}^p\right) \\ \Delta TxAct_t^p &= \xi + \rho^{TA} \times \Delta TxAct_t^p + \varepsilon_{TAt} \end{cases}$$

Where $TxAct_t$ denotes the labour force activity rate. Estimating the potential labour force activity rate assumes, on the one hand, a relationship between deviations in the labour force activity rate compared to its potential and deviations in the CUR from its reference level, and on the other hand, deviations of observed unemployment from structural unemployment. The aim of these two effects is to model the flexibility effect, i.e. the increase in labour market participation in the event of excess labour demand. Unlike ►**Guillet and al. (2018)**, the labour force activity rate equation does not contain a residual, as its introduction appears to under-identify the model, and the primary difference in the labour force activity rate is modelled as an AR(1) and not as a random walk. Finally, the equation incorporates the lag in the difference between observed unemployment and structural unemployment, which is also different from ►**Guillet and al. (2018)**, where this term is contemporaneous.

The potential value of the number of hours worked is estimated via a Hodrick-Prescott filter.

From potential quantities, the structural output gap is estimated via the following formula:

$$OG_t = pgf_t - pgf^p{}_t + (1-\alpha) \times \left[\ln\left(TxAct_t\right) - \ln\left(TxAct_t^p\right) + \ln\left(1-U_t\right) - \ln\left(1-U_r^p\right) + \ln\left(Nbh_t\right) - \ln\left(Nbh_t^p\right)\right]$$

►**10. Estimates of structural model parameters over the period 1995-2024**

TUC_{ref}	λ	θ	π_{ref}	ρ^{π}	λ^{π}	λ^{energ}	ρ^{U}	ρ^{C}	λ^{TUC}	σ	ρ^{TA}	ξ
82.0	0.002	0.94	1.07	0.22	-0.29	0.04	0.43	0.85	0.03	-0.05	0.28	0.005
(0.52)	(0.0003)	(0.04)	0.25)	(0.10)	(0.10)	(0.006)	(1.88)	(0.10)	(0.02)	(0.06)	(0.18)	(0.003)

9 By selecting core inflation, the measurement of inflation can be adjusted for the impact of energy prices, fresh produce prices and government tariffs. The first two of these are more subject to climatic or geopolitical fluctuations, and the third to changes in government policy. These sources of volatility are considered to be exogenous to the economic cycle, although this is more debatable with regard to government tariffs.

Box 2: Alternative measurement of the output gap using a mixed method

A third method, proposed by **Guillet and al.**, breaks down the observed GDP into its trend (potential GDP) and its cycle (output gap). It places constraints on the dynamics of these components and on relationships between the output gap and observable values: the French business climate and the CUR in industry. This method combines responses to business tendency surveys and data from national accounting, earning it the title "semi-structural" method. It is also updated here as an extra check on the structural method results, as it approximates to the principle of this method.

The output gap is inferred from two global indicators derived from the business tendency surveys: the French business climate and the capacity utilisation rate (CUR) in industry. The dynamics reflected in the equations describe potential output as a non-stationary process, and the output gap as a stationary process, insofar as it reflects the cyclicality of the economy around its potential. The equations describe the following linear space-state system:

$$\begin{cases} y_t = y_t^p + OG_t \\ TUC_t = TUC_{ref} + \alpha \times 100 \times OG_t + \varepsilon_{1t} \\ Climat_t = Climat_{ref} + \beta \times 100 \times \left(OG_t - OG_{t-1}\right) + \varepsilon_{2t} \end{cases}$$

$$\begin{cases} y_t^p = y_{t-1}^p + \eta_t \\ \eta_t = \gamma \times \eta_{t-1} + \varepsilon_{\eta t} \\ OG_t = \delta \times OG_{t-1} + \varepsilon_{OGt} \end{cases}$$

Where:

- y_t denotes GDP and y_t^p its potential (both in logarithms);
- OG_t denotes the output gap;
- TUC_t denotes the capacity utilisation rate in industry and TUC_{ref} a constant estimated by the model;
- $Climat_t$ denotes the French business climate and $Climat_{ref}$ a constant estimated by the model;
- η_t denotes the potential growth rate.

As in ►**Guillet and al. (2018)**, potential GDP is modelled as a first-order integrated process (random walk), rather than a deterministic process, in order to maintain continuity with previous studies in the modelling of the output gap. The model (parameters and unobservable variables) is estimated by likelihood maximisation via Kalman smoothing. The CUR and the reference climate are estimated at 82 and 101.2 respectively (►**Figure 11**).

This method produces very similar results to the structural method over the entire period, especially from 2020 onwards (►**Figure 12**). Potential GDP is modelled as a non-stationary process persistently incorporating structural shocks. In this framework, as with the structural method, the shock suffered by the French economy in 2020 and 2021 cannot be interpreted as a shock affecting potential GDP: change in GDP is captured as an almost entirely cyclical fluctuation, mainly affecting the output gap.

Over the following period, this method does not associate the deviation of the French business climate at its reference level with a positive widening of the output gap. In fact, the sharp rise in the climate in 2022, then the return to its average, should then result in a persistent high-amplitude shock to the output gap, which is incompatible with changes in the CUR over the same period (►**Figure 13**). This rise is then partially absorbed by the residuals, and the method finds a fully closed output gap in 2022.

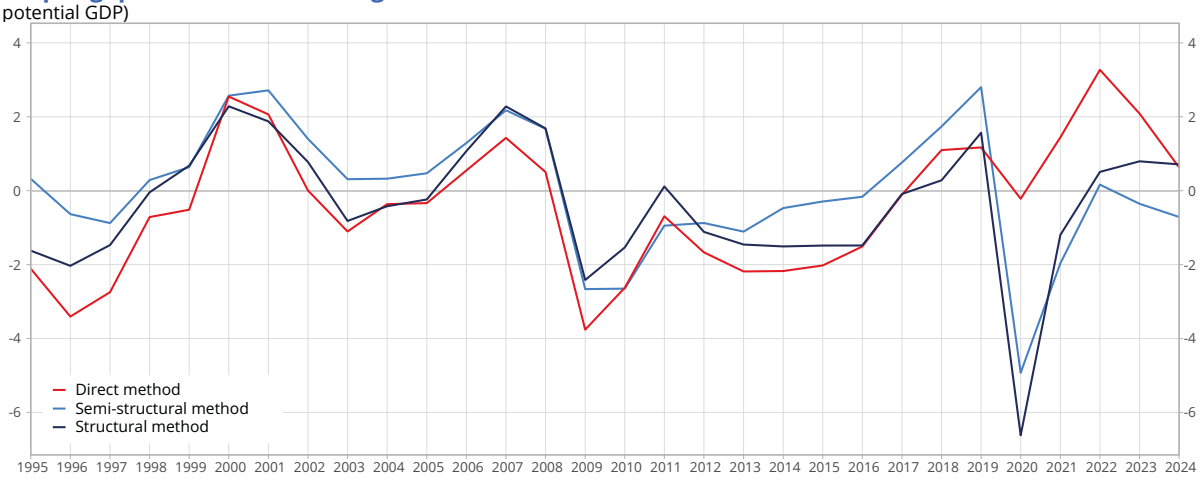
►11. Estimates of the semi-structural model parameters over the period 1995-2024

TUC_{ref}	$Climat_{ref}$	α	β	γ	δ
82.03 (0.66)	101.2 (1.15)	1.45 (0.12)	2.61 (0.60)	1.00 (0.003)	0.36 (0.17)

In 2024, the semi-structural method differs from the other two and measures a slightly negative output gap. This is explained by the fact that the CUR is fairly deteriorated. ●

►12. Output gaps in France according to the three estimation methods

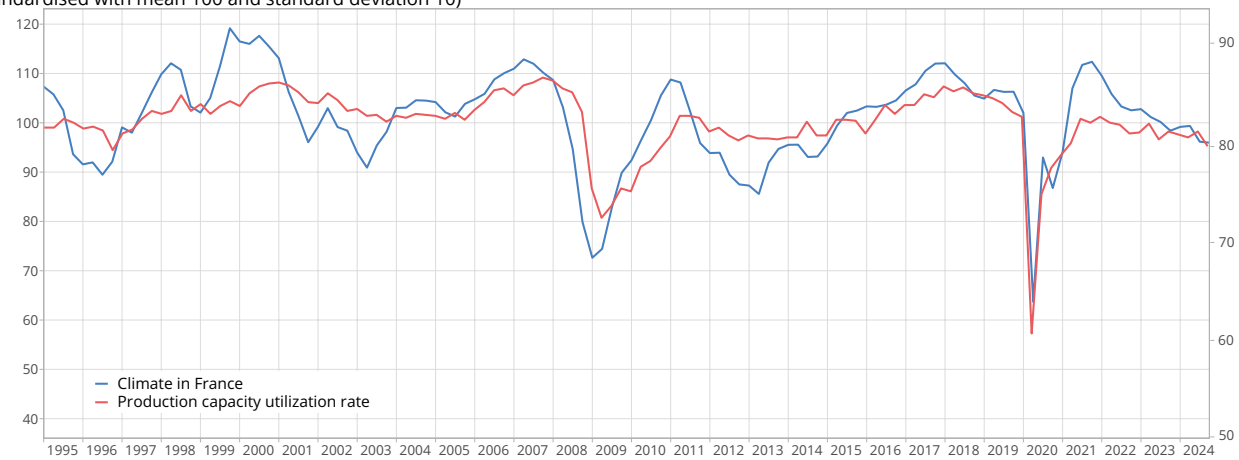
(in % of potential GDP)



How to read it: in 2024, the output gap measured with the semi-structural method was -0.7%.
Source: INSEE calculations.

►13. Business climate in France and capacity utilisation rate in the manufacturing industry

(standardised with mean 100 and standard deviation 10)



Last point: Q4 2024.
How to read it: left scale for business climate, right scale for capacity utilisation rate.
Source: INSEE calcuations.

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Foreign trade

In Q4 2024, exports grew at the same pace as imports (+0.4%), resulting in a zero contribution by foreign trade to GDP growth over the quarter. This increase was driven by the dynamism of sales of manufactured products (+1.9% after -2.1%; ►**Figure 1**), with a surge of shipments of certain products in December in anticipation of increased customs duties, whereas exports of services declined (►**Figure 2**) as a reaction to the recording of ticketing and audiovisual broadcasting revenue from the Paris Olympic and Paralympic Games in Q3. On the import side, purchases of manufactured products fell once again (-0.6% after -0.3%), but energy supplies soared (+5.9% in Q4) as did those of agricultural products (+6.6%), with the increase in the production of coke and refined petroleum and poor harvests in France 2024. Across the year as a whole, the contribution of foreign trade to GDP growth was positive (+0.9 percentage points on annual growth). However, this boost stems more from the decline in imports (-1.4%) as a result of sluggish domestic demand and destocking by companies, than any buoyancy in exports, which increased only slightly (+1.1%), at a similar pace to demand for French goods (+1.3%).

Exports are expected to remain stable in Q1 2025, before accelerating a little in Q2 (+0.4%). Over the last two quarters, the opinions of industrialists on change in foreign demand have been below their long-term average (►**Figure 3**). In addition, after the surge in December, customs data for January suggest a sharp decline in exports of manufactured products, excluding aeronautical and naval goods in Q1 (-1.0%). They should pick up a little in the spring (+1.0%) but their change over the half-year is likely to be less dynamic than world demand for French goods, which is itself affected by the announcements of tariff increases by the United States (►**Box sheet International synthesis**). French industrialists, especially those in energy-intensive industries, continue to suffer from higher energy costs than their American or Asian competitors. Concerning the aeronautical and naval sector, a cruise liner is due to be delivered in March but aeronautical sales are expected to improve only slightly, as the increase forecast by Airbus for 2025 mainly concerns models assembled outside France. Agricultural exports are likely to shrink again in Q1 (-3.0%), as a result of the poor harvests in 2024, before beginning to rebound in the spring (+1.0%). Similarly, exports of energy products are expected to contract in Q1 2025 (-4.1%), given the decline in electricity production in France this winter, before catching up a little in the spring (+2.1%).

Imports are expected to trend in line with exports across the half-year (+0.1% in Q1 then +0.4% in Q2), and thus the contribution of foreign trade to growth is likely to be zero in each of the two quarters of the forecast. Imports of manufactured products are expected to be at a standstill in Q1, before increasing moderately in the spring (+0.5%), in the wake of relatively sluggish domestic demand (►**Figure 4**).

Trade in services is expected to have a similar profile to trade in goods, virtually stable in Q1, before increasing slightly in Q2 (+0.4%). All in all, the mid-year growth overhang is expected to be a little faster for imports than for exports (+0.6% and +0.4% respectively), i.e. a slightly negative contribution by the external balance to GDP. In particular, the mid-year carry-over for exports is expected to be less than that of world demand for French goods (+1.6%). ●

►1. French foreign trade
(variation in %, contributions in points)

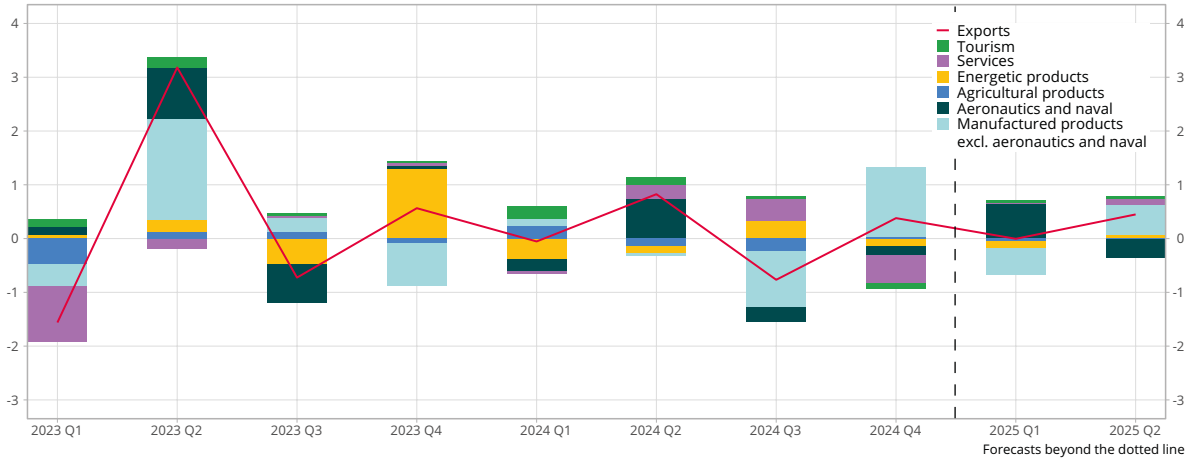
	Quarterly variations										Annual variations		
	2023				2024				2025				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2023	2024	2025 ovhg
Total Exports	**-1.6**	**3.2**	**-0.7**	**0.6**	**-0.1**	**0.8**	**-0.8**	**0.4**	**0.0**	**0.4**	**2.5**	**1.1**	**0.4**
Manufactured products	-0.5	4.7	-0.8	-1.2	-0.1	1.1	-2.1	1.9	0.2	0.3	2.8	0.0	1.0
Total Imports	**-2.0**	**1.8**	**-0.8**	**-1.8**	**-0.2**	**0.2**	**-0.3**	**0.4**	**0.1**	**0.4**	**0.7**	**-1.4**	**0.6**
Manufactured products	-1.6	1.8	-1.5	-2.4	0.0	-0.2	-0.3	-0.6	0.0	0.5	0.5	-2.5	-0.3
Contribution of foreign trade to GDP	**0.2**	**0.5**	**0.0**	**0.9**	**0.0**	**0.2**	**-0.2**	**0.0**	**0.0**	**0.0**	**0.6**	**0.9**	**-0.1**

Forecast

How to read it: in Q4 2024, French exports increased by 0.4% .
Source: INSEE.

►2. Contributions of different products to exports

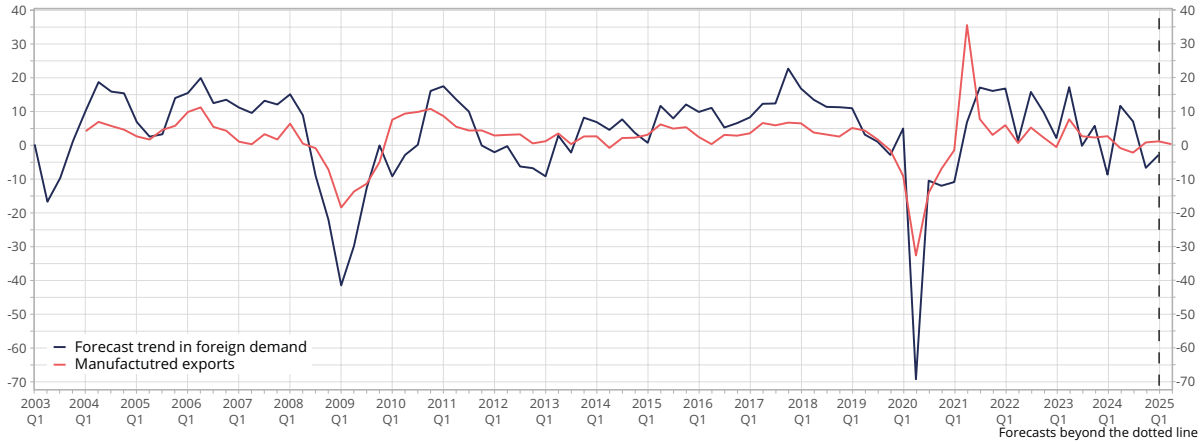
(quarterly changes in total exports, in %, and contributions of individual products, in points)



How to read it: French exports increased by 0.4% in Q4 2024. Exports of services contributed -0.5 points.
Source: INSEE.

►3. Exports of manufactured goods (year-on-year variation) and trend forecast for foreign demand (balance of opinion)

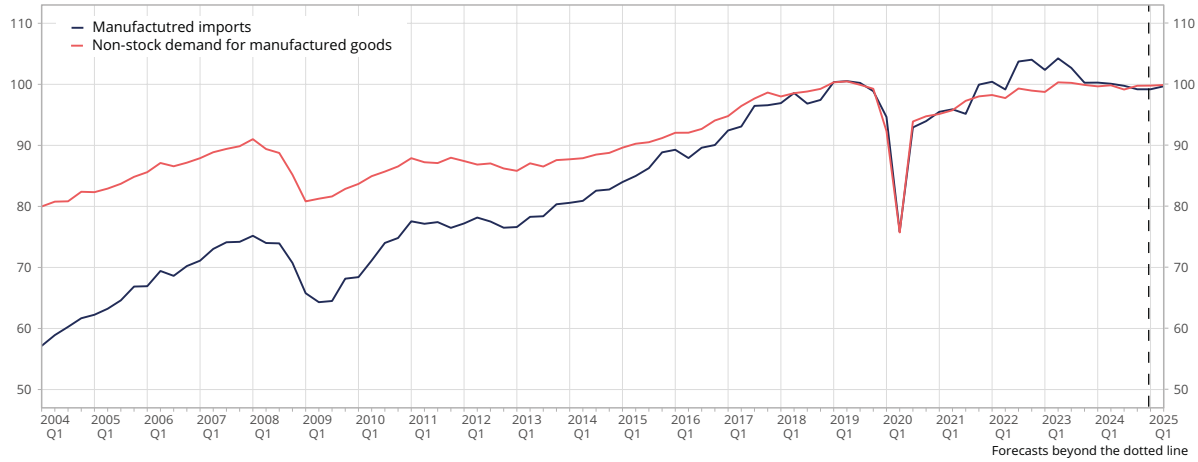
(year-on-year in %; balance of opinion in %, seasonally adjusted)



Last point: balance of opinion in February 2025; exports of manufactured goods in Q2 2025.
How to read it: the year-on-year variation in exports of manufactured goods in Q4 2024 was +0.7%.
Source: INSEE.

►4. Imports and demand for manufactured goods

(manufactured imports and domestic demand excluding inventory for manufactured goods, base 100, 2019; volumes at previous year's chained prices)



Last point: Q4 2024 for the observed; Q2 2025 for the forecast.
How to read it: in Q4 2024, imports of manufactured goods were slightly below their 2019 average.
Source: INSEE.

Employment

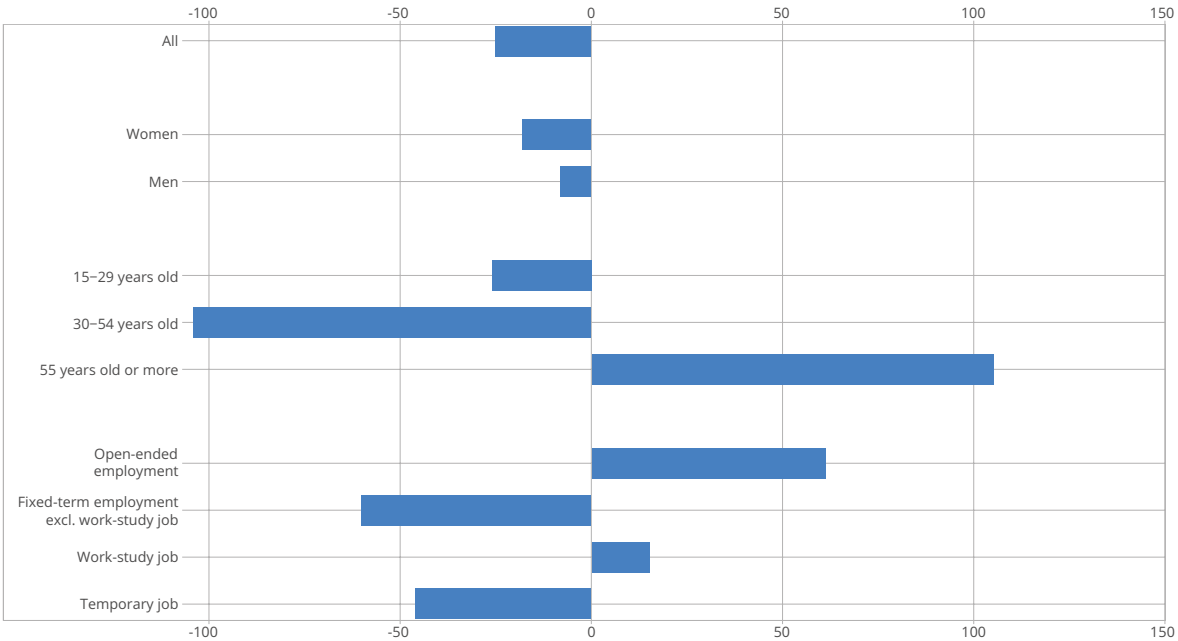
In 2024, payroll employment slowed and by December it was stable across the year (after +0.6% at the end of 2023). After a surge in Q3 2024, it fell back sharply in Q4 2024 (-0.3% i.e. -90,100 jobs), a decline that affected both the private and public sectors (-68,000 and -22,100 jobs respectively). Employment in the non-market tertiary sector in particular, excluding temporary workers, edged down for the first time since Q2 2013 (excluding the health crisis). In the private sector, payroll employment of seniors continued to grow (+104,500 jobs year on year for those aged 55 and over). However, private payroll employment of the under-30s declined (-25,800 year on year), as did that of 30-54-year-olds (-103,900) (►**Figure 1**).

Responses from business leaders in the business tendency surveys suggest a drop in their workforce in Q1 2025: the climate in which their replies were analysed was below its long-term average and deteriorated significantly in February 2025 (►**Figure 2**). Fewer and fewer companies are reporting hiring difficulties (►**Focus** on the situation of the French economy compared to its potential) and uncertainty around the economic situation is now the main barrier to hiring cited by service companies ahead of the lack of skilled labour, which had been the main barrier since the health crisis (►**Figure 3** and **4**). In addition, work-study programmes made a substantial contribution to the earlier increase in total employment (accounting for about one third between the end of 2019 and the end of 2022) then slowed in 2023 and came to a virtual standstill in 2024 as a result of the reduction in the hiring aid for apprenticeship contracts. Employment in these work-study programmes is expected to decline slightly in H1 2025, while still remaining high. Thus, it is likely that private sector employment will continue to fall in H1 2025, especially in industry, construction and temporary employment, but it should stabilise in the market tertiary sector (excluding temporary employment). Meanwhile, public employment looks set to fall back slightly in Q1 2025 as a result of the slowdown in hiring under the special law at the end of 2024, and then is expected to be virtually stable in Q2, after four years of growth between 2021 and 2024. By mid-2025, total payroll employment should edge down year on year (-0.4%, i.e. about -106,000 jobs), mainly due to the private sector.

Self-employment is expected to continue to increase in H1 2025, but less vigorously: at the beginning of 2025, year on year, business creations were no longer increasing. Ultimately, total employment is expected to stabilise in H1 2025 (►**Figure 3**). Over the year to mid-2025, it looks set to remain almost unchanged (i.e. -36,000 jobs), after +0.5% year on year at the end of 2024 (i.e. +87,000 jobs).

Activity should increase more quickly (+0.6% expected year on year by mid-2025), which should give apparent labour productivity the chance to continue to pick up. In the non-agricultural market sector, excluding those on work-study programmes, per capita productivity has been in excess of its pre-health crisis level since the end of 2023 (►**Figure 4**), and has exceeded its pre-crisis level in the market tertiary sector since early 2022. Conversely, productivity is still well below its pre-health crisis level in industry and construction and is likely to remain so through to mid-2025. ●

►1. Number of private payroll jobs created between Q4 2023 ans Q4 2024
(evolution, in thousand)



How to read it: between Q4 2023 ans Q4 2024, private salaried employment rose by 104,500 for those aged 55 or over.
Source: INSEE, Employment estimates; quarterly estimates URSSAF, DARES, INSEE.

►2. Employment climate and change in market payroll employment

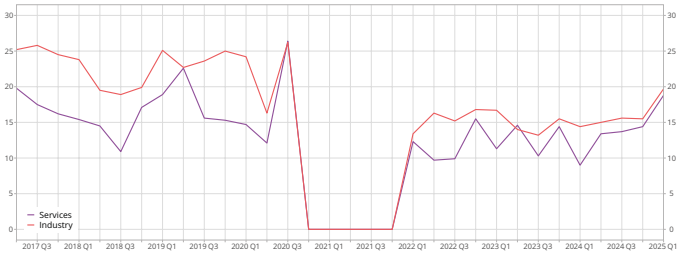
(year-on-year, in %) (long-term average 100)

Last point: February 2025 for the employment climate, Q4 2024 for the year-on-year change in employment in the non-agricultural market sectors (forecast for the last two points).
How to read it: in February 2025, the employment climate stands at 94 points, at the level of its long-period average; in Q4 2024, non-farm payroll employment was 0.2% lower than a year earlier.
Source: INSEE, business surveys and DARES-INSEE-URSSAF, quarterly employment estimates, INSEE forecast.

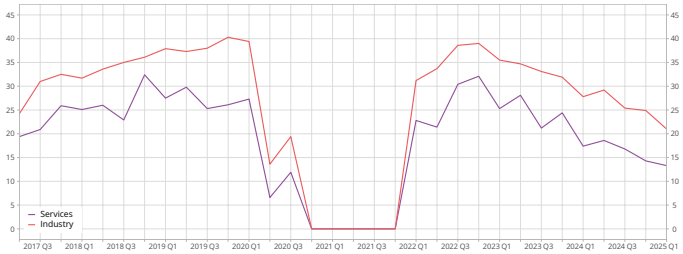
►3 and 4. Barriers to hiring cited by companies

(in % of all companies)

Uncertainty over the economic situation



No competent workforce available



Source: INSEE.

►4. Change in payroll employment

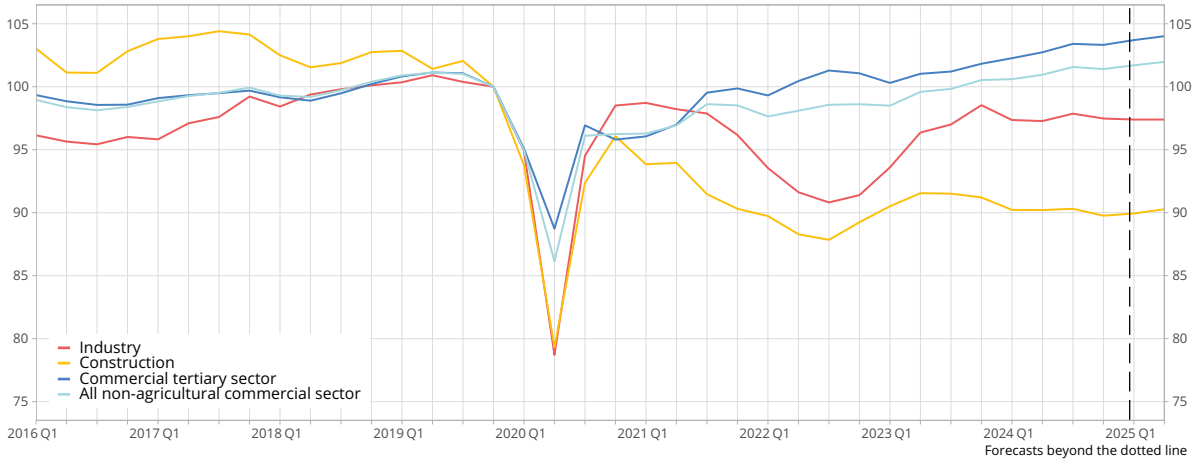
(in thousand, SA, at the end of the period)

	Evolution over 3 months										Evolution over 1 year		
	2023				2024				2025		Q4 2022	Q4 2024	Q2 2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Payroll employment	**38**	**60**	**18**	**51**	**71**	**-10**	**36**	**-90**	**-28**	**-23**	**167**	**7**	**-106**
	0.1%	**0.2%**	**0.1%**	**0.2%**	**0.3%**	**0.0%**	**0.1%**	**-0.3%**	**-0.1%**	**-0.1%**	**0.6%**	**0.0%**	**-0.4%**
By sector of activity													
Agriculture	-9	4	4	5	2	-3	1	0	0	0	3	0	1
Industry	7	8	10	11	7	4	2	-3	-3	-3	36	10	-7
Construction	-2	-3	-5	-4	-7	-9	-3	-10	-10	-10	-13	-29	-32
Market tertiary	25	34	-4	-3	42	-23	7	-43	-7	-7	53	-16	-50
of which: temporary work	-19	-7	-17	-11	-3	-20	-6	-17	-7	-7	-54	-46	*-37*
of which: excl. temporary work	44	41	13	8	45	-3	12	-25	0	0	106	29	*-13*
Non-market tertiary	16	18	14	41	27	21	30	-36	-8	-3	88	42	-17
By type of employer													
Private	18	48	15	17	54	-28	17	-68	-21	-21	98	-25	-93
Public	20	12	3	34	17	19	19	-22	-7	-2	69	32	-12
Self-employment	**23**	**23**	**23**	**23**	**20**	**20**	**20**	**20**	**15**	**15**	**90**	**80**	**70**
All	**60**	**83**	**41**	**73**	**91**	**10**	**56**	**-70**	**-13**	**-8**	**257**	**87**	**-36**
	0.2%	**0.3%**	**0.1%**	**0.2%**	**0.3%**	**0.0%**	**0.2%**	**-0.2%**	**0.0%**	**0.0%**	**0.9%**	**0.5%**	**-0.1%**

Forecast.
Note: in this table, temporary workers are counted in the commercial tertiary sector.
How to read it: in Q4 2024, payroll employment rose by 0.3%.
Scope: France (excluding Mayotte).
Source: INSEE.

►6. Apparent per capita productivity, excluding work-study

(base 100 = Q4 2019)



Note: apparent per capita productivity is measured here using the ratio of the value added of each branch to payroll employment excluding work-study in the corresponding sector.
How to read it: in Q4 2024, apparent per capita productivity excluding work-study in the industry sector was 2.5% lower than its Q4 2019 level.
Source: INSEE, National accounts and quarterly employment estimates.

Unemployment

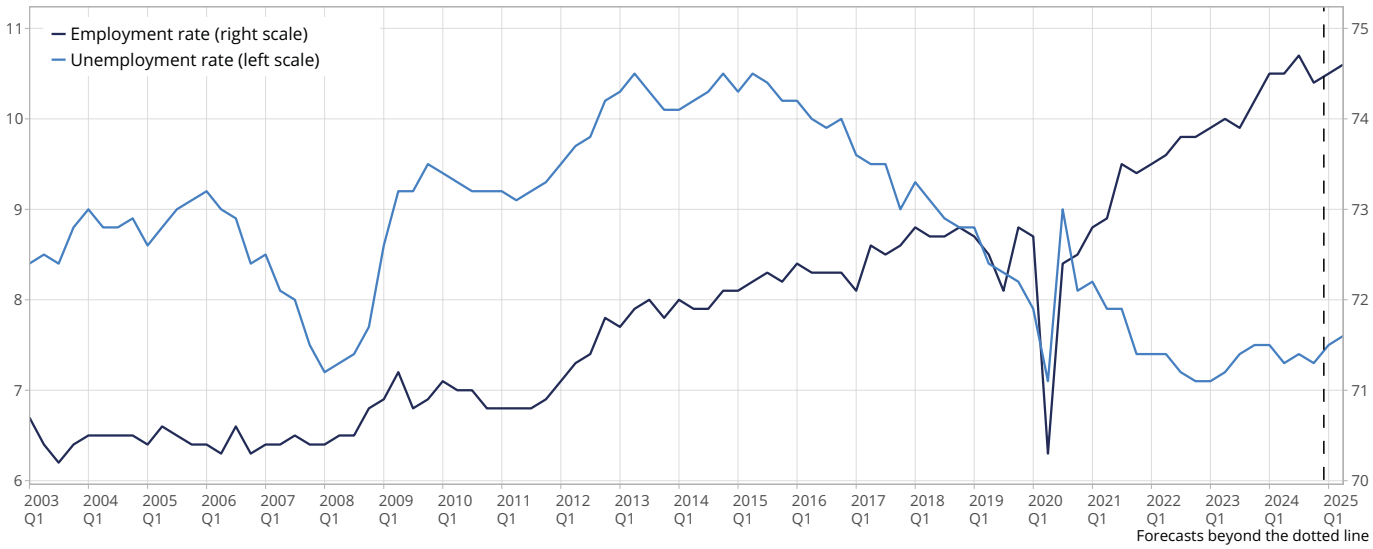
In Q4 2024, the unemployment rate according to the ILO definition was virtually stable compared to the previous quarter: -0.1 points, at 7.3% of the labour force (►**Figure 1**), a slight decline year on year (7.5% at the end of 2023). Year on year, employment slowed (159,000 net jobs created in 2024 compared to 283,000 jobs in 2023) but was more dynamic than the labour force (87,000 additional workers in 2024, after +429,000 in 2023), which was slowed by a decline in 15-24-year-olds. The unemployment rate is slightly above its low point of 7.1%, reached in Q4 2022 and Q1 2023, and remains significantly below its mid-2015 peak (10.5%).

Year on year, the unemployment rate for 15-24-year-olds rose to 19.0% (+1.4 points compared to Q4 2023), although much less sharply than the 1.6 points downturn in their employment rate, which stood at 33.7% (►**Figure 2**), would suggest, due to withdrawal from the labour force. Their labour force participation rate dropped by 1.3 points, to 41.5%, its lowest level since the start of 2022. This decline in the labour force participation rate is due for the most part to an increase in the halo of unemployment, itself driven mainly by young people who are still studying. In contrast to the situation for young people, the employment rate for 25-49 year-olds, and especially for the over-50s, increased year on year and their unemployment rate declined.

In H1 2025, mainly as a result of the pension reform, the labour force is expected to continue to grow (about +35,000 workers per quarter). However, the slight downturn in the number of apprentices is likely to have a slightly negative effect on the growth of the labour force, in the same way that the dynamism of apprenticeships was partly responsible for the sizeable increase in the labour force in previous years. Given the slight decline expected in employment over the next two quarters, the unemployment rate looks set to rebound by 0.2 points in Q1 2025, to 7.5%, then increase by 0.1 points in Q2 to reach 7.6% of the labour force by mid-2025 (►**Figure 3**).

This forecast is shrouded in uncertainty. First, the assumption is made that withdrawal from the labour force will become normal practice. In addition is the implementation of the "law on full employment" at the beginning of 2025 (►**Box sheet Employment**, *Economic Outlook,* December 2024), which provides for the automatic registration with France Travail of "everyone without employment", especially those receiving the earned income supplement "RSA". The aim of this reform is ultimately to bring these people back into employment and hence increase their labour force participation rate, as a large proportion of the targeted population are currently inactive. However, the short-term effects of this reform on indicators according to the ILO definition are uncertain and depend on how the reform is put in place. Thus, no impact is forecast as a result of this law for H1 2025. ●

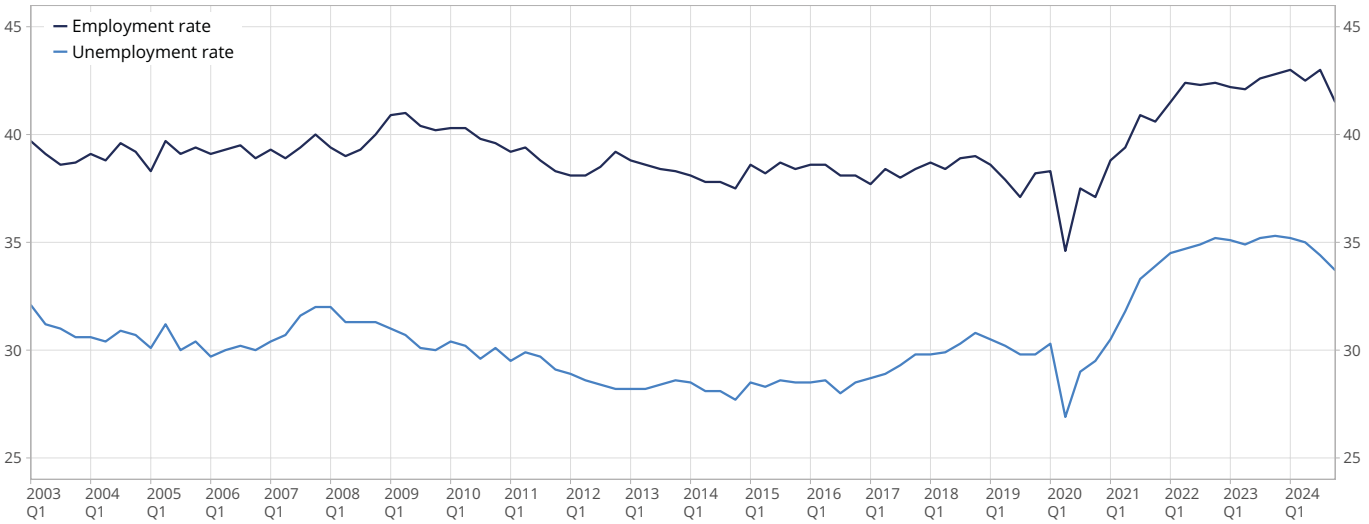
►1. Unemployment rate (ILO definition)
(quarterly average as % of labour force, SA data)



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

►2. Employment rate and labour force participation rate for young people

(quarterly average as % of population aged 15-24; seasonally-adjusted data)



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

►3. Change in employment, unemployment and the active population

(variation in quaterly average in thousands, SA data)

	Quaterly change										Annual change		
	2023				2024				2025		Q4 2023	Q4 2024	Q4 2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Employment (1)	**92**	**72**	**62**	**57**	**82**	**51**	**33**	**-7**	**-42**	**-11**	**283**	**159**	**-27**
reminder: employment at the end of the period	*60*	*83*	*41*	*73*	*91*	*10*	*56*	*-70*	*-13*	*-8*	*257*	*87*	*-36*
Unemployment (2)	**2**	**39**	**54**	**51**	**-7**	**-41**	**41**	**-64**	**74**	**42**	**146**	**-71**	**93**
Active population = (1) + (2)	**94**	**111**	**116**	**108**	**75**	**9**	**74**	**-71**	**33**	**32**	**429**	**87**	**68**
Trend labour force (a)	*11*	*9*	*23*	*39*	*38*	*38*	*39*	*39*	*35*	*36*	*82*	*154*	*149*
"Pre-crisis" cyclical bending effect (b)	*9*	*7*	*6*	*6*	*8*	*5*	*3*	*-1*	*-4*	*-1*	*28*	*15*	*-3*
Effect of work-linked training on youth activity (c)	*10*	*16*	*7*	*1*	*11*	*16*	*5*	*-1*	*2*	*-4*	*34*	*31*	*2*
Residue (d)	*64*	*78*	*79*	*62*	*18*	*-50*	*27*	*-108*	*0*	*0*	*283*	*-113*	*-81*
Variation in unemployment rate	**0.0**	**0.1**	**0.2**	**0.1**	**0.0**	**-0.2**	**0.1**	**-0.1**	**0.2**	**0.1**	**0.4**	**-0.2**	**0.3**
Unemployment rate	7.1	7.2	7.4	7.5	7.5	7.3	7.4	7.3	7.5	7.6			

Forecast

(a) Trend based on adjusted 2022 active population projections, including the effect of the 2023 pension reform and the effect of the 2023 unemployment insurance reform.

(b) This flexibility effect represents the fact that new workers enter the labour market when the employment situation improves.

(c) Effect based on sandwich contract numbers from DARES, calculations by INSEE.

(d) Between the end of 2019 and the end of 2024, the residual will total 804,000, including 502,000 attributable to differences in sources between the Employment survey and administrative data.

Note: employment here corresponds to total employment (payroll workers and self-employed), measured as a quarterly average.
How to read it: between the Q3 2024 and Q4 2024, employment falls by an average of 7,000 people, unemployment by 64,000 and the working population by 71,000. Unemployment rate down 0.1 points to 7.3%.
Scope: France (excluding Mayotte), persons aged 15 or over.
Source: INSEE, Labour Force Survey, Quarterly employment estimates.

Consumer prices

Since 2023, the year-on-year variation in consumer prices in France has fallen back sharply, from +6.3% in January 2023, to +1.1% in September 2024. After a phase of near stability in the autumn, it rebounded to +1.7% in January 2025 (►Figure 1), due to the increase in doctors' consultation fees at the end of December 2024 and the rise in oil prices. In February 2025, inflation fell sharply to +0.8% (►Figure 2): this is the first time since February 2021 that it has been below 1%. This new drop in inflation is mainly due to energy prices: notably, the year-on-year variation in electricity prices went from +9.3% in January, as it still included the tariff increase from February 2024, to -12.6% in February, following the reduction in the sales tariff introduced in February 2025; at present, the price of electricity is still 35% higher than its 2019 average. Regarding the consumer price of gas, it currently exceeds the level reached in 2022 at the peak of the surge in market prices (►Figure 3).

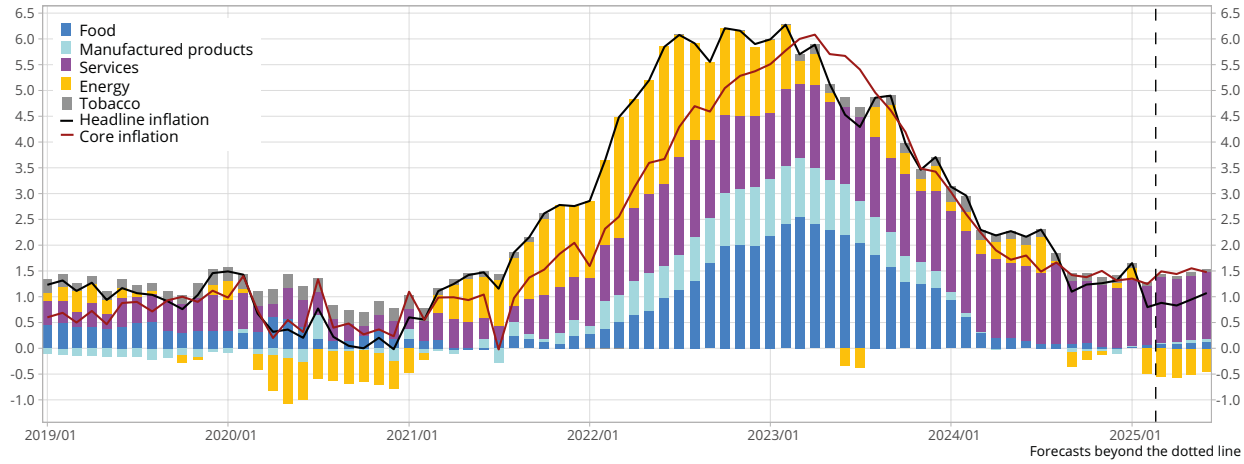
The inflation gap between the French consumer price index (CPI) and the Harmonised Index of Consumer Prices (HICP) narrowed in early 2025, reaching +0.1 points in favour of the HICP in February (+0.9% year on year) even though it still stood at +0.5 points in December 2024. In fact, the HICP measures prices net of reimbursements, whereas the CPI measures gross prices, especially in the healthcare sector. The increase in medical deductibles in spring 2024, which only affected the HICP, is now offset by the increase in doctors' and daycare fees which occurred in January, and which is more heavily weighted by the CPI than the HICP.

Over the forecasting period, inflation is expected to pick up a little and reach +1.1% in June 2025 year on year. The contribution of food to headline inflation is expected to rise slightly until June, reflecting the recent rise in producer prices in the agrifood industry. Inflation in services is also likely to rise, as telecommunications prices gradually stop falling and social protection prices accelerate. Core inflation, which excludes energy prices and administered tariffs (such as social protection), is also expected to increase, from +1.2% in February to +1.5% year on year in June. However, year-on-year inflation within the meaning of the HICP is not expected to increase and is likely to be lower than that defined by the CPI in June 2025. The increase in medical deductibles in spring 2024 is likely to fall outside the year-on-year variation in the HICP.

The decline in the price of energy products is expected to remain virtually stable year on year in June (-5.7%) compared to February (-5.8%). Assuming that the price of Brent remains stable at €65.4 per barrel over the forecasting period, petroleum product prices year on year are expected to fall back more in June (-7.0%) than in February (-4.5%). Conversely, given the tense situation regarding gas inventories in Europe towards the end of winter, gas prices for the consumer, which follow market price trends with a slight time lag, should remain stable in the spring, whereas they fell a year earlier: thus the year-on-year increase in expected to reach +21.5% in June after +11.7% in February.

Food inflation is set to rise over the forecasting period, from +0.3% year on year in February to +0.9% in June. Food prices, excluding fresh produce, are likely to be a little more dynamic than last year, with the result that their year-on-year increase is expected to reach +0.8% in June 2025, after +0.1% in February, given the slight rebound in agrifood industry

►1. Headline inflation and contributions by item
(inflation year-on-year in %, contributions in points)



Last point: February 2025, Final CPI.
How to read it: in February 2025, headline infl ation is expected to rise by +0.8%. Energy contributed -0.5 points, while services contributed +1.2 points.
Source: INSEE.

producer prices at the beginning of 2025 (►Figure 4). Balances relating to expected prices in the business surveys of the food industry and retail trade are picking up compared to the end of 2024, however, the annual trade negotiations in the major retail sector have just finished. In addition, prices of tropical foodstuffs are increasing substantially, especially cocoa and coffee, while the prices of beverages are expected to rise due to the increase in contributions on sugary drinks (►Focus on the effects of the 2025 fiscal consolidation on growth). In contrast, prices of fresh produce are expected to decelerate slightly, dropping from +1.8% in February to +1.5% in June, due to the base effect. However, the speed with which agreements on consumer prices reached in the spring are disseminated is likely to affect this trajectory, in either direction.

Prices of manufactured products are expected to accelerate a little across the forecasting period, reaching +0.2% year on year in June 2025, after +0.0% in February. Inflation in manufactured products is likely to be boosted in particular by the price of new cars, due to the strengthening of restrictions on the ecological bonus from March.

Prices of services are also expected to accelerate slightly over the forecasting period, reaching +2.4% in June year on year after +2.2% in February: services look set to remain the main contributors to headline inflation throughout the forecasting period, due to their own momentum and their weighting in the index (accounting for about half of the consumer basket). In communication services, the year-on-year decline in prices is likely to lessen gradually after the sharp falls seen in 2024: it should be back to -9.5% in June after -13.6% in February. In transport services, prices decelerated significantly in January 2025, due to the new pricing in the Île-de-France transport system and the year-on-year decline in air travel. Over the forecasting period, transport prices are expected to accelerate, increasing from +1.5% year on year in February to +3.8% in June, due mainly to the rise in the solidarity tax on airline tickets in the spring. Inflation in "other services" to households (+3.3% in February) is expected to edge down slightly over the forecasting period, reaching +3.1% in June. Prices of insurance services were very dynamic in 2024 in all European countries (►Figure 5), but are expected to slow very slightly, limited to +7.5% in June after +8.5% in February. Disinflation should be possible in these "other services" as a result of the slowdown in wage costs, particularly in accommodation and catering. However, these slowing factors are likely to be offset by the expected increase in the price of social protection services, as some private nursing homes for elderly dependent people are now allowed to adjust their prices.

►2. Headline inflation, past and forecast

(change in %, contributions in points)

CPI groups* (2023 weightings)	Jan. 2025	Feb. 2025	Mar. 2025	Apr. 2025	May 2025	June 2025	Annual averages 2023	Annual averages 2024
Food (14.6%)	0.1	0.3	0.5	0.5	0.7	0.9	11.8	1.4
fresh food (1.7%)	0.4	1.8	2.4	1.9	1.5	1.5	9.6	1.9
other food products (12.9%)	0.1	0.1	0.2	0.4	0.6	0.8	12.2	1.3
Tabacco (1.6%)	6.0	4.5	4.1	4.1	4.1	4.0	8.0	10.3
Manufactured products (22.8%)	0.2	0.0	0.1	0.2	0.2	0.2	3.5	0.2
clothing and footwear (3.3%)	1.7	1.6	1.0	1.0	1.0	1.0	2.5	0.8
medical products (4.1%)	-1.8	-1.4	-1.4	-1.5	-1.4	-1.4	-0.7	-1.2
other manufactured products (15.4%)	0.3	0.0	0.3	0.4	0.5	0.5	4.7	0.4
Energy (8.1%)	2.7	-5.8	-6.7	-6.9	-6.4	-5.7	5.6	2.2
oil products (3.3%)	-1.3	-4.5	-8.2	-10.4	-8.5	-7.0	-1.7	-4.9
Services (52.8%)	2.5	2.2	2.5	2.3	2.4	2.4	3.0	2.8
rent, water, refuse collection (8.0%)	2.7	2.7	2.6	2.5	2.5	2.5	2.8	2.8
health services (6.4%)	1.9	1.2	1.3	1.3	1.3	2.0	-0.2	0.9
transport (3.1%)	1.5	1.5	2.6	3.0	3.4	3.8	6.3	1.5
communications (1.8%)	-12.8	-13.6	-11.4	-10.9	-10.9	-9.5	-3.6	-5.7
other services (33.5%)	3.5	3.3	3.5	3.1	3.2	3.1	3.9	3.8
including accommodation and catering (9.0%)	*2.9*	*3.0*	*3.0*	*2.7*	*2.8*	*2.7*	*5.3*	*3.1*
including social protection (5.0%)	*4.6*	*4.2*	*4.2*	*4.3*	*4.3*	*4.5*	*4.2*	*3.5*
including insurance (3.5%)	*9.0*	*8.5*	*9.9*	*7.9*	*8.4*	*7.5*	*3.4*	*7.6*
All (100%)	1.7	0.8	0.9	0.8	0.9	1.1	4.9	2.0
All excluding energy (91.9%)	1.6	1.4	1.6	1.5	1.6	1.7	4.8	2.0
All excluding tabacco (98.4%)	1.6	0.7	0.8	0.8	0.9	1.0	4.8	1.9
Core inflation (61.4%)**	1.4	1.2	1.5	1.4	1.6	1.5	5.1	1.8

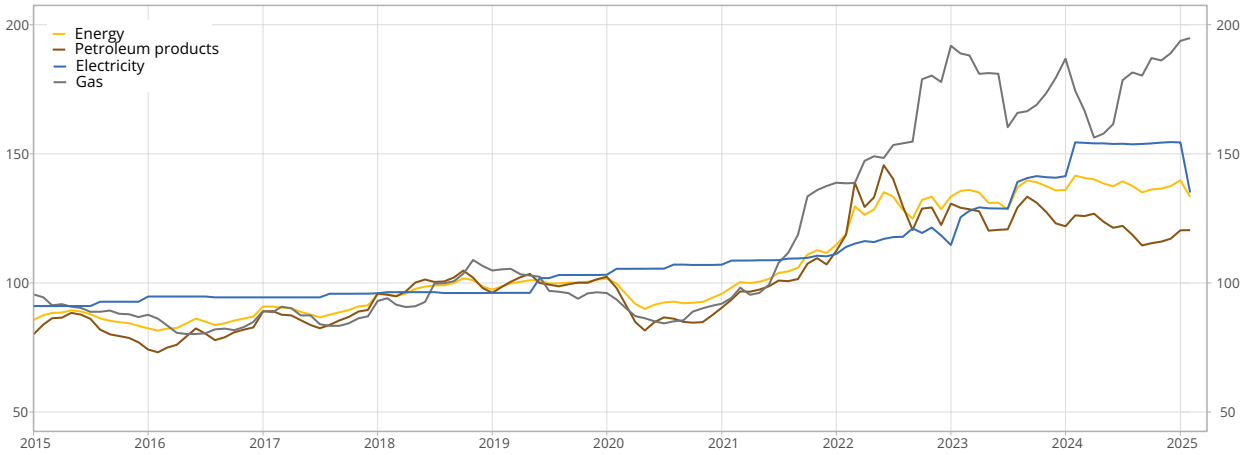
Forecast.
* Consumer price index (CPI).
** Index excluding public tariffs and products with volatile prices, corrected for tax measures.
Note: the table shows the definitive CPI for February, published on 14 March 2025.
How to read it: in February 2025, the year-on-year rise in food prices is 0.3%.
Source: INSEE.

The increase in tobacco prices, which reached +4.5% in February year on year, is expected to slow until June to +4.0% due to the base effect. Assuming no new measures were to be introduced, excise duty was indexed against earlier inflation at the beginning of 2025.

All in all, core inflation is expected to increase, from +1.2% year on year in February to +1.5% in June. In contrast to headline inflation, the core price index is not affected by the fall in electricity prices, nor by administered tariffs, especially those relating to social protection and healthcare.

►3. Variation in energy product prices and their components

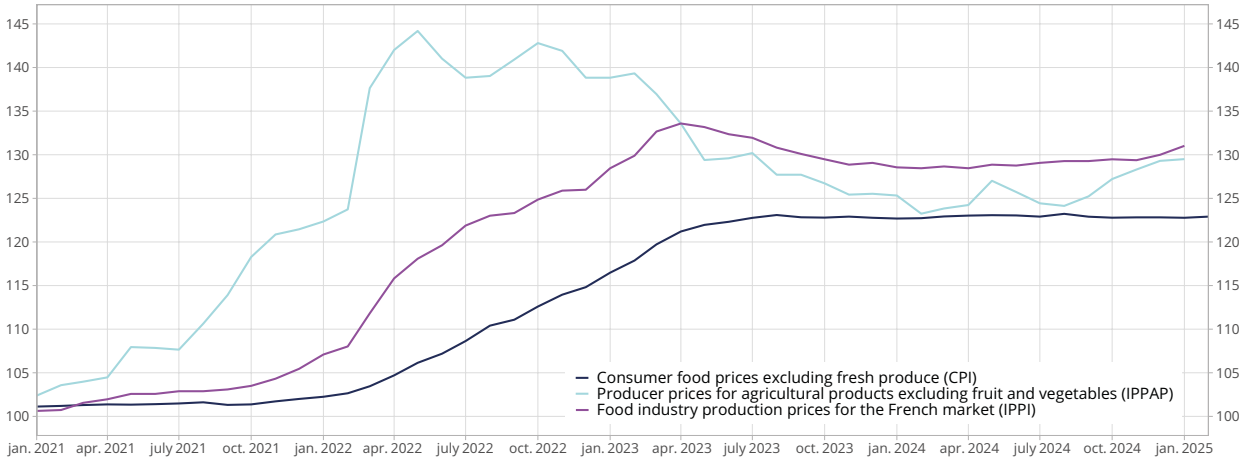
(in level, base=100 in 2019)



Last point: February 2025.
How to read it: in February 2025, electricity prices increased by 35.0% compared to their 2019 average.
Source: INSEE.

►4. Variation in prices along the food production chain

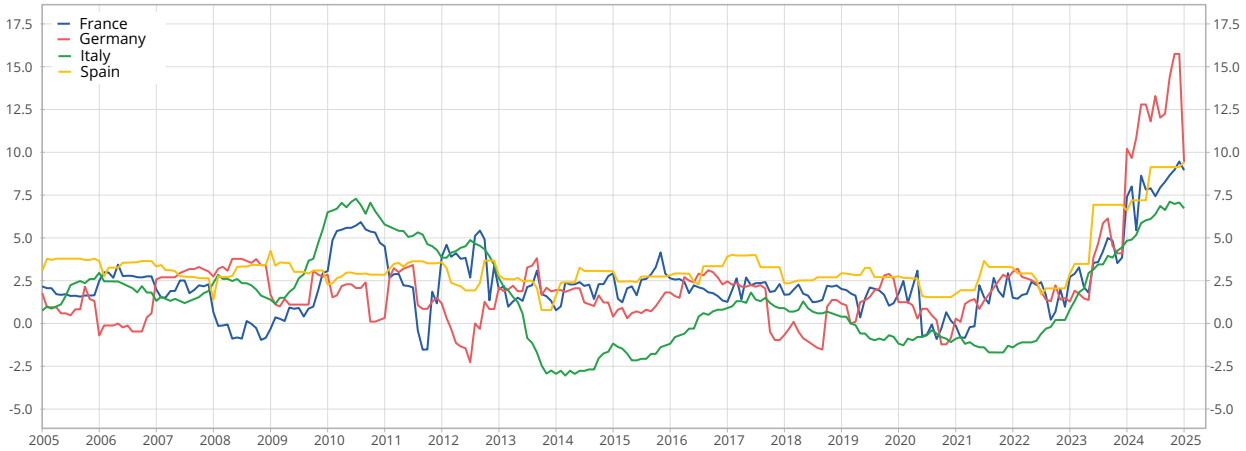
(in level, base=100 in 2019))



Last point : January 2025 for IPPAP and IPPI, February 2025 for CPI.
How to read it: in February 2025, compared to their 2019 average, consumer food prices excluding fresh produce increased by 22.8%, agrifood industry producer prices for the French market by 31.0% and agricultural producer prices (excluding fruit and vegetables) by 29.5%.
Source: IPPAP, IPPI, CPI, INSEE.

►5. Variation in prices of insurance services in the four main Eurozone countries

(year-on-year % change in the Harmonised Index of Consumer Prices)



Last point: January 2025.
Note: the data below use the Harmonised Index of Consumer Prices (HICP) at European level to facilitate comparisons; they therefore differ slightly from the French national index (CPI) referred to in ►**Table 2**.
How to read it: in January 2025, the year-on-year variation in the HICP for "insurance services" was +9.0% in France, whereas it was +9.4% in Germany.
Source: Eurostat.

Wages

In H2 2024, the average wage per capita (SMPT) in the non-agricultural market branches continued to increase, but at a less sustained pace than at the start of the year (+0.3% in Q3 2024 then +0.5% in Q4, after +0.7% per quarter in H1 2024 ►**Figure 1**). This improvement was hindered mainly due to fewer payouts under the value sharing bonus scheme (PPV[1]) at the end of the year than in previous years: thus, year on year, the SMPT increased by 2.2% in Q4, after +2.6% in Q3. Meanwhile, the basic monthly wage (SMB[2]) accelerated slightly at the end of 2024 (+0.6% after +0.5% in Q3), due to the anticipated increase in the minimum wage by 2.0% on 1st November. Between Q1 and Q4 2024, the year-on-year variation in the SMB dropped from +3.3% to +2.8%.

As an annual average, wages decelerated significantly in 2024, with the decline in inflation being taken into account in wage negotiations: +2.9% for the SMB (after +4.3% in 2023) and +2.6% for the SMPT (after +4.1%). However, this slowdown was less pronounced than that in prices, and thus employees regained purchasing power after two years of decline. The real SMB increased by 0.9% in 2024, the real SMPT by 0.6%.

In Q1 2025, wages are expected to increase by 0.5% over the quarter for both the SMB and the SMPT, i.e. a much slower pace than in the first quarters of 2023 and 2024. This reduced momentum at the beginning of 2025 is probably because there was no automatic increase in the minimum wage on 1st January, as it had been awarded early, in November, and because the slowdown in prices was included in the annual compulsory wage negotiations. Thus fewer and fewer companies report significant wage increases (►**Figure 3**). In Q2 2025, nominal wages are expected to continue to slow (+0.4% over the quarter for both the SMB and the SMPT), reaching an annual rate of barely 2.0% (+2.0% year on year for the SMB and +1.8% for the SMPT; ►**Figure 1** and **2**).

1 The PPV scheme allows employers to pay, under certain conditions, €6,000 in bonuses per employee, per year, exempt from social security contributions (►**Focus** "Value sharing bonus: massive payouts at the end of 2022, with potential windfall effects, *Economic Outlook*, March 2023). Since 1st January 2024, payouts of this bonus have been subject to a flat-rate social security contribution and income tax for some recipients.
2 The SMB corresponds to the core component of the SMPT, alongside the short-term component which is affected mainly by value-sharing bonus payouts and overtime hours.

►1. Variation in the average wage per capita (SMPT) and the basic monthly wage (SMB)
(changes in %, seasonally adjusted data)

	Quarterly growth rates										Annual growth rates										Average annual change			
	2023				2024				2025		2023				2024				2025					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2022	2023	2024	2025 ovgh
Average wage per capita (SMPT) in non-agricultural market branches	0.9	0.7	0.4	0.9	0.7	0.7	0.3	0.5	0.5	0.4	5.1	4.6	3.6	3.0	2.8	2.7	2.6	2.2	2.1	1.8	5.4	4.1	2.6	1.6
SMPT adjusted for short-time working* in non-agricultural market sectors	0.9	0.7	0.4	0.9	0.7	0.7	0.3	0.5	0.5	0.4	4.7	4.5	3.6	3.0	2.8	2.7	2.6	2.2	2.1	1.8	3.2	3.9	2.6	1.6
Basic monthly wage (SMB)	1.6	0.9	0.8	0.5	1.1	0.6	0.5	0.6	0.5	0.4	4.6	4.5	4.2	3.8	3.3	2.9	2.7	2.8	2.2	2.0	3.2	4.3	2.9	1.6
SMPT in general government																					4.3	4.1	4.0	1.7
Real SMPT** in the non-agricultural market branches	-0.5	-0.3	-0.3	0.3	0.3	0.3	0.0	0.4	0.3	0.2	-0.9	-0.5	-1.0	-0.8	0.0	0.5	0.9	0.9	1.0	0.9	0.2	-0.8	0.6	0.8
SMPT** adjusted for real short-time working* in non-agricultural market sectors	-0.5	-0.3	-0.3	0.3	0.3	0.3	0.0	0.4	0.3	0.2	-1.3	-0.6	-1.0	-0.8	0.0	0.5	0.9	0.9	1.0	0.9	-1.9	-0.9	0.6	0.8
Real SMB**	0.2	0.0	0.0	-0.1	0.6	0.2	0.2	0.4	0.3	0.2	-1.3	-0.6	-0.4	0.1	0.5	0.7	0.9	1.4	1.1	1.0	-1.9	-0.6	0.9	0.8
Real SMPT** in general government																					-0.9	-0.7	1.9	0.9

Forecast

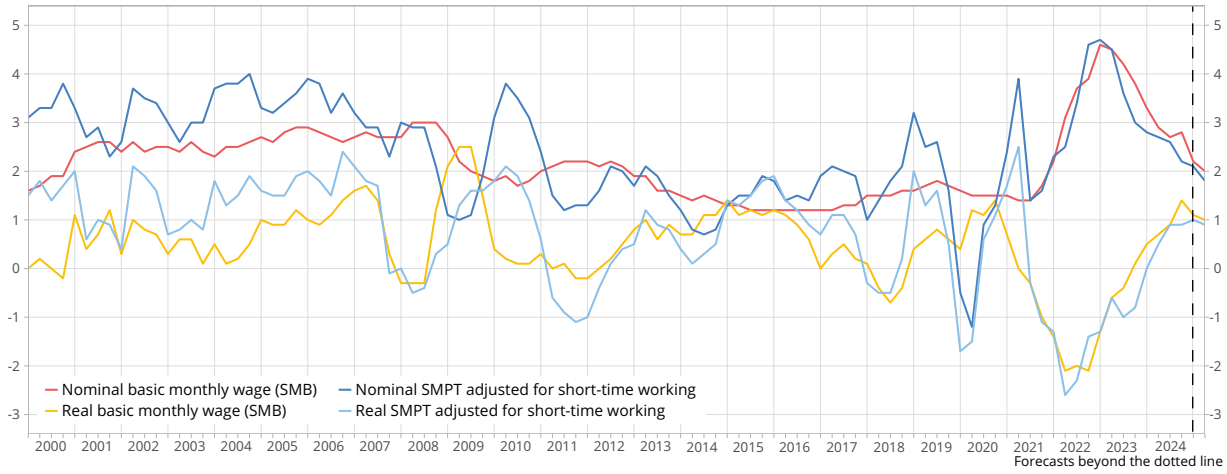
* in the sense of the household consumption price (quarterly national accounts).
** in the sense of the CPI - household consumption price index.
How to read it: in Q2 2025, the basic monthly wage (SMB) would grow by 0.4% compared to the previous quarter.
Source: DARES, INSEE.

The mid-year growth overhang for 2025 for the SMB and the SMPT is expected to be +1.6%, a greater increase than for prices (+0.8% expected; ►**Sheet Consumer prices**). Thus employees should continue to gain in purchasing power in H1 2025: the mid-year growth overhang is expected to reach +0.8% for both the real SMB and the real SMPT. By cumulating 2024 and early 2025, real wages would seem to have recovered a little over half of the losses suffered in 2022 and 2023 (+1.7% after -2.4% for the SMB and +1.4% after -2.8% for the SMPT).

In general government, the nominal SMPT increased by 4.0% in 2024, driven by various measures (increase in the index point for all public employees at the beginning of the year, increase for teachers from September 2023, bonuses paid for the Olympic and Paralympic Games), even though the one-off purchasing power bonus "GIPA" was not paid at the end of the year. Thus the real SMPT in general government increased by 1.9% on average in 2024, after edging down by 0.7% in 2023. Wages in the public sector are expected to slow significantly in 2025: no general measure has been announced, and there are expected to be fewer statutory measures. At the beginning of 2025, it is likely that the nominal SMPT in general government will increase at a similar pace to that in the private sector (+1.7% carry-over by mid-2025), i.e. an increase in real terms of 0.9%. ●

►2. Nominal and real changes* in average wage per capita (SMPT) adjusted for the effect of short-term working, and in basic monthly wage (SMB)

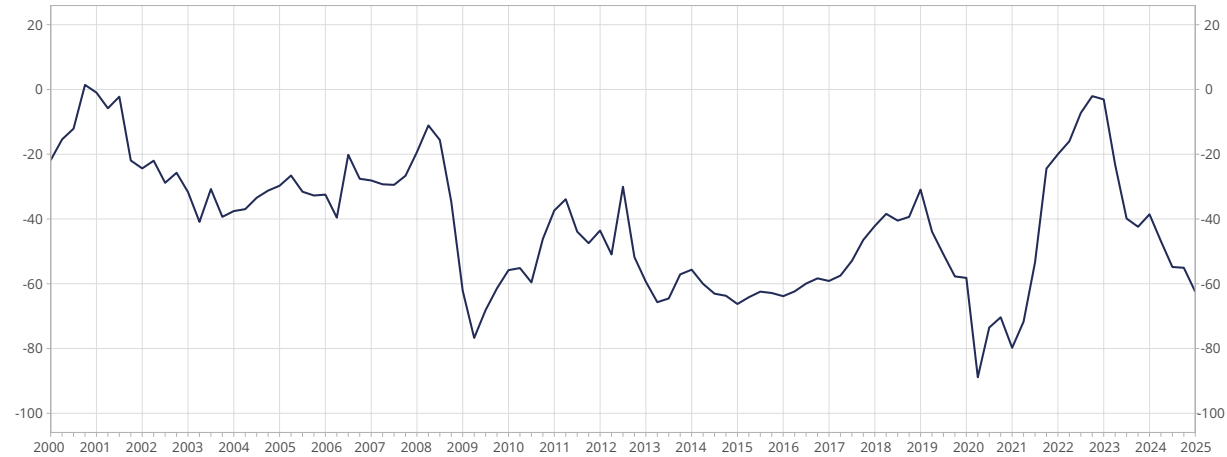
(year-on-year, in %)



* in the sense of the CPI - household consumption price index.
Note: here, the SMPT is adjusted for short-term working: these payments are not counted as wages and therefore led to some very wide variations when the SMPT was not adjusted during the health crisis ►blog post on wage indicator (in French).
How to read it: in Q2 2025, year-on-year growth in nominal SMPT would be 2.0%.
Scope: non-agricultural market sector.
Source: DARES, INSEE.

►3. Balance of opinion on general expectations for wages in industry

(SA, in %)



Last point: Q1 2025.
Note: industrial companies have been surveyed every quarter since 1991 on probable change in wages in their sector over the coming three months.
How to read it: in Q1 2025, the balance of opinion on the general outlook for wages in industry rises to -62.5 points.
Source: quarterly business survey in industry, INSEE.

Household income

In Q4 2024, household gross disposable income (GDI) slowed (+0.4% adjusted for the effect of Financial Intermediation Services Indirectly Measured, FISIM), after a 1.2% increase in Q3 (►**Figure 1**). Social benefits remained vigorous (+1.0% after +1.3%), with the increase in additional pensions. Earned income increased moderately (+0.4% after +0.5%): employment fell back and the wage dynamic remained steady, as the effect of the early increase in the minimum wage on 1st November was offset by the reduction in payments under the value-sharing bonus scheme at the end of the year (►**Sheet Wages**). Property income slipped back temporarily in the last quarter with the further increase in property tax. Income from financial investments, meanwhile, stayed at a moderate pace, with the drop in income from interest-bearing products being offset by the dynamism of payments from life insurance. Social and tax contributions rebounded at the end of the year, after edging down considerably in the summer: income tax paid by households decreased across the whole of H2. Finally, household consumer prices, excluding the FISIM effect, increased by 0.2% at the end of the year, as they had done in the previous quarter. Thus the purchasing power of household GDI slowed at the end of the year (+0.2% after +1.0% in Q3).

Across the whole of 2024, purchasing power overall increased much more than GDP growth (+2.5% +1.1% respectively), and purchasing power per consumption unit (CU) picked up (+1.9% after +0.3% in 2023) in a context of disinflation (►**Figure 2**). In real terms, social benefits in cash increased significantly in 2024, as there was a time lag in indexing them to earlier inflation, especially the 5.3% increase in basic pensions at the beginning of the year.

In Q1 2025, household GDI excluding the FISIM effect is expected to grow at the same pace as at the end of 2024 (+0.4%). Earned income should continue to increase moderately: employment is expected to fall back but wages should increase a little. In addition, sole proprietors' income is expected to be buoyant, driven by the increase in the consultation fee for general practitioners, which was effective from the end of December 2024. Social benefits are expected to rise once again, faster than earned income because basic pensions are indexed to earlier inflation (+2.2% on 1st January 2025). Property income looks set to rebound automatically at the beginning of the year. Income from investment is expected to edge down substantially: interest-bearing products will probably be quick to pass on the cut in the ECB's base interest rate, as with the reduction in the "Livret A" savings account rate in February, whereas interest paid by households is expected to continue to rise, as the average rate on the stock of real estate loans is more sluggish. Dividend payments are likely to slow since financial results were less favourable in 2024 and because of the exceptional increase in corporate tax decided

►1. Components of household gross disposable income
(variations in %)

	Quarterly changes										Annual changes		
	2023				2024				2025		2023	2024	2025 ovgh
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross disposable income (100%)	**1.4**	**1.5**	**1.4**	**1.6**	**1.2**	**0.5**	**1.1**	**0.1**	**0.2**	**0.1**	**8.0**	**4.5**	**1.0**
Gross disposable income excluding SIFIM (98.8%)	***0.9***	***0.9***	***1.1***	***1.4***	***1.3***	***0.9***	***1.2***	***0.4***	***0.4***	***0.2***	***6.1***	***4.6***	***1.6***
Earned income (69.1%)	1.0	0.7	0.9	1.4	0.5	0.8	0.5	0.4	0.4	0.3	5.2	3.2	1.4
of which Gross wages and salaries (61.8%)	*1.0*	*0.7*	*0.9*	*1.5*	*0.5*	*0.9*	*0.5*	*0.4*	*0.3*	*0.3*	*5.3*	*3.4*	*1.4*
GOS of sole proprietors (7.3%)*	*0.8*	*1.0*	*0.8*	*0.7*	*-0.1*	*0.1*	*0.5*	*0.0*	*1.0*	*-0.1*	*4.6*	*1.3*	*1.2*
Social benefits in cash (33.5%)	0.9	0.5	0.9	1.3	2.7	1.0	1.3	1.0	1.1	0.6	4.7	6.1	3.2
Property income, of which GOS of pure households (22.9%)	5.6	4.8	2.6	1.0	2.0	-1.0	0.2	-1.3	0.2	-0.6	17.1	4.2	-1.4
Income from assets excluding FISIM (20.7%)	*3.1*	*1.9*	*1.3*	*0.2*	*2.5*	*0.8*	*0.7*	*-0.3*	*1.0*	*0.1*	*8.4*	*4.7*	*1.4*
Of which Property income excluding FISIM (7.1%)	*8.3*	*5.3*	*2.9*	*1.9*	*2.0*	*0.8*	*0.8*	*1.0*	*-1.7*	*-1.5*	*23.6*	*7.5*	*-1.4*
Of which GOS of pure households excluding FISIM (13.6%)	*0.8*	*0.3*	*0.5*	*-0.8*	*2.7*	*0.9*	*0.6*	*-1.1*	*2.5*	*1.0*	*1.9*	*3.2*	*2.9*
Social contributions and taxes (-24.6%)	3.1	0.8	0.4	0.3	2.0	0.7	-0.9	0.8	2.0	0.8	3.6	2.9	2.9
Household consumer prices**	**2.4**	**1.8**	**1.1**	**0.5**	**0.7**	**-0.1**	**0.1**	**0.0**	**0.1**	**0.0**	**7.1**	**2.0**	**0.1**
Income from assets excluding FISIM	***1.7***	***1.0***	***0.7***	***0.3***	***0.8***	***0.5***	***0.2***	***0.2***	***0.3***	***0.2***	***4.8***	***2.1***	***0.8***
Purchasing power of gross disposable income	**-0.9**	**-0.3**	**0.3**	**1.1**	**0.6**	**0.6**	**1.0**	**0.2**	**0.1**	**0.1**	**0.9**	**2.5**	**0.9**
Purchasing power per consumption unit	**-1.1**	**-0.4**	**0.2**	**1.0**	**0.4**	**0.4**	**0.9**	**0.0**	**0.0**	**-0.1**	**0.3**	**1.9**	**0.5**

Forecast.

* the gross operating surplus (GOS) of sole proprietors is the balance of the operating account of sole proprietorships. This is mixed income as it remunerates work carried out by the owner of the sole proprietorship, and possibly members of their family, but it also contains profit made as a sole proprietor.
** The dynamics of household consumer prices in 2023 differ significantly from those of the Consumer Price Index (CPI) as a result of the accounting effect of the earlier increase in interbank rates.
Note: figures in brackets give the structure for 2023.
How to read it: the purchasing power of household gross disposable income (GDI) rose by 0.2% in Q4 2024.
Source: INSEE.

for 2025 (►**Focus** on the effects of the 2025 fiscal consolidation on growth). Finally, social and tax contributions are expected to be dynamic. Income tax in particular is expected to pick up, after being hampered in H2 2024 by adjustments linked to the indexing of the income tax scale to prices. Since household consumer prices are expected to increase by 0.3%, excluding the FISIM effect, the purchasing power of GDI looks set to increase very modestly at the beginning of the year (+0.1%).

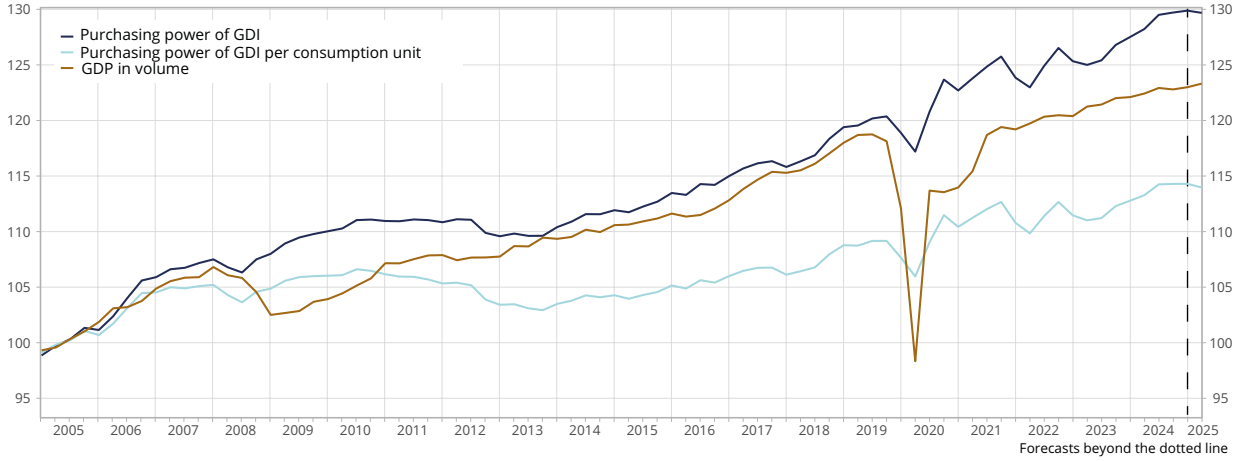
In Q2 2025, household GDI is expected to slow (+0.2% adjusted for the FISIM effect). Earned income should again increase weakly due to the contraction in employment and wage moderation. In addition, sole proprietors' income is unlikely to show any further benefit after the one-off boost at the beginning of the year with the increase in doctors' income. Wealth income is also expected to slip back, in line with further cuts expected in the ECB's base interest rate, whereas property income should return to a more trend-based pace. Social benefits look set to slow, because of the lowering of the ceiling on daily allowances and the entry into force of the new rules on unemployment benefits (►**Focus** on the effects of the 2025 fiscal consolidation on growth). Finally, social and tax contributions are likely to return to a more trend-based pace. As household consumption prices are expected to increase by 0.2%, excluding the FISIM effect, GDI purchasing power should be virtually stable in spring 2025 (+0.1%).

For 2025, the mid-year overhang for change in purchasing power (i.e. the annual change forecast if purchasing power were to remain stable in H2) is higher (+0.9%, i.e. +0.5% per consumption unit) than the GDP growth overhang (+0.4%), mainly due to the dynamism of benefits in real terms, especially pensions. This purchasing power overhang for 2025 had basically been achieved by the end of 2024, since the GDI purchasing power is only expected to increase slightly in H1 2025 (►**Figure 3**). ●

►2. Annual variation in purchasing power of household gross disposable income (GDI) and its main contributions exc. FISIM
(annual changes in %, contributions in points)

How to read it: GDI purchasing power increased by 2.5% in 2024. Social benefits accounted for 2.1 percentage points of the increase in household GDI excluding the FISIM effect.
Source: INSEE.

►3. Change in purchasing power of household gross disposable income (GDI) and of GDP since 2005
(base 100 = 2005)



Last point: Q2 2025 (forecast from Q1 2025).
Source: INSEE.

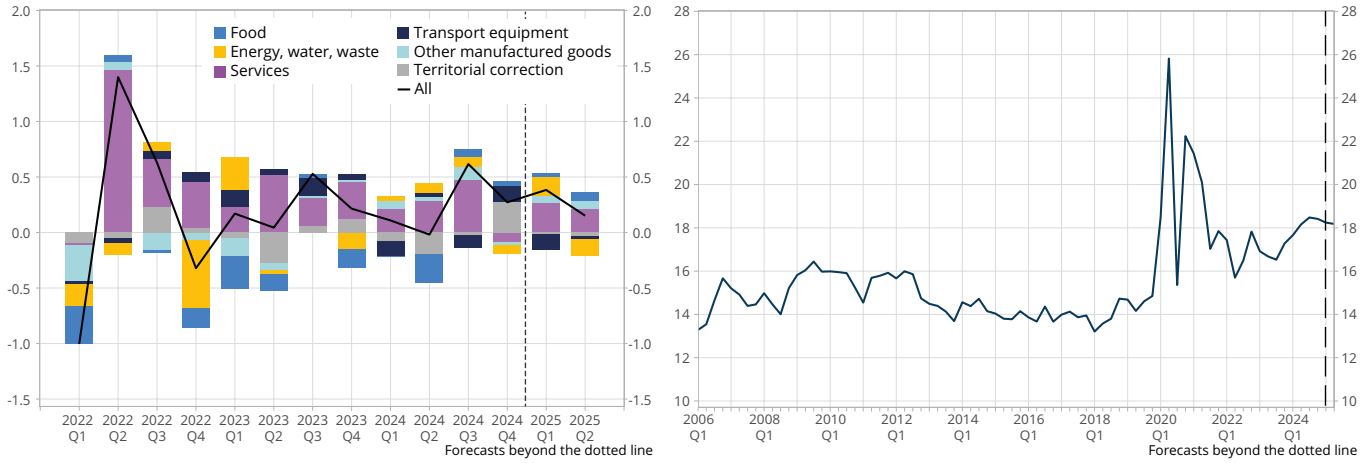
Household consumption and investment

In Q4 2024, consumption remained relatively dynamic (+0.3% after +0.6%; ►**Figure 1**). In services, consumption was virtually unchanged (-0.1% after +0.8%), although purchases in recreational services declined sharply, in reaction to the sales of tickets for the Paris Olympic and Paralympic Games, which were recorded in the national accounts in the summer. In contrast, after coming to a standstill in the summer, probably due to the crowding-out effects associated with the Games, consumption in accommodation-catering and transport services was dynamic in the autumn (+0.4% and +0.9% respectively), especially air transport. Consumption of goods continued to pick up, although at a slightly slower pace than in the previous quarter (+0.2% after +0.4%). Food purchases, which are still 6 points below their 2019 level, continued the increase that had begun in the summer, bolstered by disinflation for these products. Automobile purchases in particular rebounded strongly (+2.9% after -2.2%), thus contributing over 0.1 points to the overall increase in consumption in Q4. While the reduction in the bonus for the purchase of an electric vehicle at the beginning of December may have tempered purchases at the very end of the year, households seem to have anticipated the entry into force in 2025 of other measures that could raise vehicle prices (tightening of the European CAFE standard on vehicle emissions). However, purchases of automobiles are still below their 2019 level and intentions to buy a car declined overall in the course of 2024 (►**Focus** on vehicle purchase intentions). Meanwhile, energy consumption edged down: while autumn was colder than in the previous two years, it also followed a relatively cool Q3, especially in September, when consumption soared. All in all, at the end of 2024, gas and electricity consumption remained four points below the 2019 level, whereas they were six points below at the end of 2023.

Over 2024 as a whole, consumption increased at the same pace as in 2023 (+0.9%). Consumption of goods declined less (-0.3% after -1.6%), mainly due to the recovery in consumption of capital goods (+3.3% after -2.1%) and the near-stabilisation of gas and electricity consumption (+0.5%) after two years of sharp decline. Conversely, food purchases continued to tumble (-1.8% after -3.5%). Spending on clothing did not pick up (-0.1% after -2.4%): consumption declined particularly during the sales (►**Focus** on household consumption during the end-of-year holiday season), in a more general context of declining clothes purchases since the health crisis. Meanwhile, spending on services slowed (+2.0% after +3.1%), especially on transport and accommodation-catering, which in 2023 were still benefitting from the post-health crisis recovery momentum.

►1. Past and expected quarterly consumption (left) and household savings ratio (right)

(quarterly variations in % and contributions in points) (in % of gross disposable income)



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.
How to read it: in Q4 2024, household consumption rose by 0.3% compared to the previous quarter. Consumption of transport equipment contributed +0.1 points to the rise in consumption. The household savings rate stood at 18.4% of gross disposable income Q4 2024.
Source : INSEE.

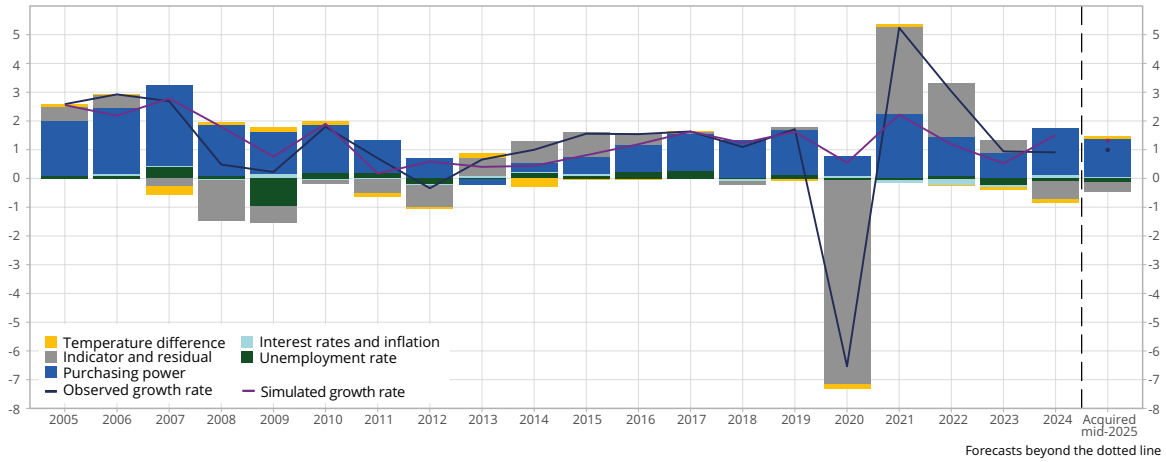
In H1 2025, household consumption is expected to be generally buoyant (+0.4% then +0.2%). Gains in purchasing power achieved at the end of 2024, due to the reduction in income tax, should provide delayed fuel for consumption in 2025. However, any increase in spending is likely to remain slightly slower than the expected pace, given its determinants (►**Figure 2** and ►**Focus** on household consumption since the 2008 crisis, *Economic Outlook*, June 2012), and the savings ratio is expected to remain well above its pre-health crisis level (►**Focus** on savings ratios in European households, *Economic Outlook*, December 2024). In the business tendency surveys, large numbers of households believe that this is the right time to save. The 2025 mid-year consumption overhang is therefore expected to be +1.0% (►**Figure 3**), scarcely higher than purchasing power (+0.9%), and the savings ratio, which reached 18.4% at the end of 2024, is likely to come down only slightly in the spring to 18.2%.

On the goods side, consumption is expected to be sluggish in H1 2025. In Q1 in particular, consumption of goods is likely to be hampered by the decline in purchases of transport equipment (automobiles and motorcycles, ►**Figure 4**), as a backlash to the increase at the end of 2024. The profile for the quarter is also expected to be affected by that of spending on gas and electricity: this spending should pick up in Q1 due to harsh temperatures (+2.5%) then in spring return to a level close to that in the autumn. Food consumption should continue its recovery: however it is only expected to increase by 0.2% in Q1, weakened by the drop in tobacco sales in response to the January price rise, and it should then regain momentum in the spring (+0.5%). Finally, consumption of petroleum products is expected to increase in Q1 (+1.0%) with major purchases of fuel oil, then begin to decline again in spring (-0.5%), in the wake of the downward trend in fuel purchases.

Consumption of services is expected to maintain a lively pace, close to its trend (+0.5% then +0.4%). Consumption of transport services is expected to be dynamic at the beginning of the year (+1.0%), driven by train and plane ticket purchases, then come to a standstill in Q2 (+0.1%), as the increase in the solidarity tax on plane tickets comes into force on 1st March (►**Focus** on the effects of the 2025 fiscal consolidation on growth). However, its effects are not expected to be fully felt until H2, given the long booking times in the sector. In addition, consumption in accommodation-catering and information-communication are expected to maintain a relatively strong pace.

Household investment fell back only slightly in Q4 2024 (-0.3% after -0.6%; ►**Figure 5**), after two and a half years of severe decline. Household investment in construction continued to deteriorate sharply (-1.7%): over 2024 as a whole, it plunged further (-6.7%), even though 2023 was already worse than 2022 (-5.3%). As for household investment in services, which reflects real estate transactions in second-hand properties (agency and notary fees), it also collapsed in 2024, although less sharply than the previous year (-3.6% after -17.1%). However, it rebounded in Q4 (+4.7 after +0.5%), reflecting the movement in the real estate market made possible by interest rate cuts. In H1 2025, household investment scarcely hampered growth (-0.3% then 0.0% in Q1 and Q2): construction starts for new housing stabilised, the outlook for activity in maintenance-improvements is looking better (►**Figure 6**) and real estate transactions are expected to continue to rebound (+0.5% per quarter). ●

►2. Annual variation in consumption and contributions of explanatory variables
(annual variations in % and contributions in points)



Last point: 2025.
Note: for 2025, the points plotted correspond to annual overhang (simulated and forecast respectively). The simulated growth derives from an error correction model, in which the explanatory variables are similar to those in the model shown in *Economic outlook* June 2012.
Lecture: in 2025, consumption grew by 2.6% compared to the previous year. Purchasing power contributed +1.9 points to this increase according to the chosen model.
Source: INSEE.

►3. Estimated and projected quarterly household consumption

(quarterly and annual variations. in %. SA-WDA)

Products	weight(1)	2023				2024				2025		2023	2024	2025 ovgh
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
All goods	**44%**	**0.0**	**-0.5**	**0.5**	**-0.5**	**-0.1**	**-0.2**	**0.4**	**0.2**	**0.3**	**-0.1**	**-1.6**	**-0.3**	**0.5**
Food goods	17%	-1.8	-1.0	0.3	-1.0	0.0	-1.6	0.5	0.3	0.2	0.5	-3.5	-1.8	0.6
Agricultural products	3%	-0.7	1.4	-0.3	-1.1	0.0	-1.7	-0.6	0.0	0.6	0.6	-2.6	-2.2	0.3
Food product	14%	-2.0	-1.4	0.4	-1.0	0.1	-1.6	0.6	0.3	0.2	0.5	-3.6	-1.7	0.7
Coke and refined petroleum	4%	-0.6	-1.7	-0.3	-1.2	0.8	0.6	-0.2	-0.9	1.0	-0.5	-2.2	-0.6	0.0
Other industrial products	19%	-0.1	0.0	0.9	0.4	-0.3	0.4	0.0	0.6	-0.5	0.2	0.4	0.9	0.2
Capital goods	3%	-0.8	-1.5	2.2	0.3	1.4	0.6	0.5	0.7	0.5	0.9	-2.1	3.3	2.1
Transport equipment	5%	3.0	1.0	3.1	1.2	-2.5	0.8	-2.2	2.9	-2.9	-0.7	7.8	0.3	-2.2
Other industrial products	11%	-1.2	-0.1	-0.4	0.0	0.3	0.1	0.9	-0.4	0.4	0.4	-2.1	0.6	0.9
Energy, water, waste	5%	8.7	0.8	0.3	-2.2	0.1	1.3	2.0	-0.8	2.5	-2.5	-2.4	0.5	1.3
All services	**57%**	**0.4**	**0.9**	**0.4**	**0.6**	**0.4**	**0.5**	**0.8**	**-0.1**	**0.5**	**0.4**	**3.1**	**2.0**	**1.2**
Construction	2%	0.6	0.1	-0.1	0.2	-0.3	-0.3	-0.3	-0.1	0.0	0.0	0.2	-0.6	-0.3
Trade (2)	0%	-0.6	-0.4	-0.9	0.3	-2.3	0.5	-1.0	-1.7	-0.4	-0.2	0.8	-3.0	-2.1
Market services excluding trade	46%	0.4	1.0	0.4	0.5	0.5	0.5	0.9	-0.2	0.5	0.3	3.2	2.1	1.2
Transport	3%	0.0	2.6	0.3	1.9	0.5	0.4	-0.5	0.9	1.0	0.1	6.6	3.0	1.6
Accommodation and food	9%	-0.3	2.5	0.0	-0.5	0.5	0.8	0.1	0.4	0.5	0.5	5.5	1.5	1.4
Information-communication	4%	1.9	0.9	2.2	1.7	1.5	0.8	1.3	1.0	0.5	0.5	5.7	5.7	2.5
Financial services	8%	0.3	0.4	0.4	0.5	0.2	0.4	0.4	0.3	0.4	0.3	1.7	1.5	1.1
Real estate services	19%	0.3	0.3	0.4	0.4	0.3	0.4	0.3	0.3	0.4	0.3	1.4	1.3	1.1
Business services	3%	0.4	1.4	0.7	1.7	0.4	-1.2	1.8	0.3	0.1	0.1	4.7	2.4	1.0
Household services	4%	0.9	1.0	-0.3	0.1	1.0	1.2	7.2	-6.1	0.4	0.4	3.6	4.1	-0.3
Non-market services	5%	0.9	0.4	1.0	1.8	-0.1	1.2	0.3	0.1	0.8	0.8	3.3	3.0	2.0
Total consumption in France	**101%**	**0.2**	**0.3**	**0.5**	**0.1**	**0.2**	**0.2**	**0.6**	**0.0**	**0.4**	**0.2**	**1.0**	**1.0**	**0.9**
Territorial correction	-1%	6.3	33.7	-5.8	-11.5	8.9	20.2	1.8	-23.5	1.0	3.1	6.3	12.3	-9.5
Imports of tourism services		*1.8*	*-3.6*	*3.3*	*3.9*	*2.1*	*-2.8*	*0.4*	*5.5*	*1.0*	*0.5*	*10.4*	*5.2*	*4.5*
Exports of tourism services		*2.6*	*3.4*	*1.1*	*0.4*	*3.4*	*2.0*	*0.8*	*-1.7*	*1.0*	*1.0*	*9.5*	*6.7*	*1.3*
Total consumption of residents	**100%**	**0.2**	**0.0**	**0.5**	**0.2**	**0.1**	**0.0**	**0.6**	**0.3**	**0.4**	**0.2**	**0.9**	**0.9**	**1.0**

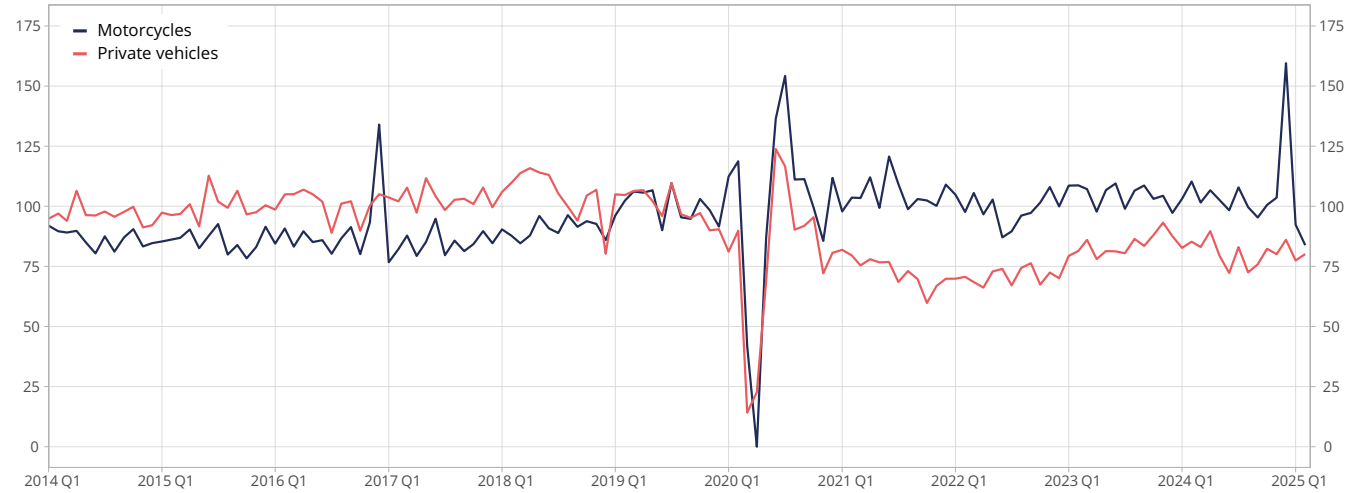
Forecast

(1) weight in household final consumption expenditure in current euros in 2023.
(2) this item corresponds to sale and repair of motor vehicles and motorbikes. Expenditures in retail trade, excluding cars and motorcycles, are allocated to the corresponding products.

How to read it: in Q4 2024, household consumption of food rose by 0.3% compared to the previous quarter.
Source: INSEE.

►4. Monthly registrations

(base 100 = 2019, SA-WDA data)



Last point: February 2025.
How to read it: in February 2025, the number of registrations of small motorcycles was 16 points below its 2019 average.
Source: SDES, INSEE calculations.

►5. Household consumption. investment and savings ratio

(quarterly and annual variations. in %. SA-WDA data)

	2023				2024				2025		2023*	2024*	2025* ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Consumption: *quarterly changes*	0.2	0.0	0.5	0.2	0.1	0.0	0.6	0.3	0.4	0.2	0.9	0.9	1.0
Purchasing power: *quarterly changes*	-0.9	-0.3	0.3	1.1	0.6	0.6	1.0	0.2	0.1	0.1	0.9	2.5	0.9
Savings ratio: *as % of gross disposable income*	16.9	16.7	16.5	17.3	17.7	18.2	18.5	18.4	18.2	18.2	16.9	18.2	18.2
Investment: *quarterly changes*	-3.0	-1.4	-2.3	-1.8	-2.2	-0.9	-0.6	-0.3	-0.3	0.0	-8.2	-6.0	-1.1

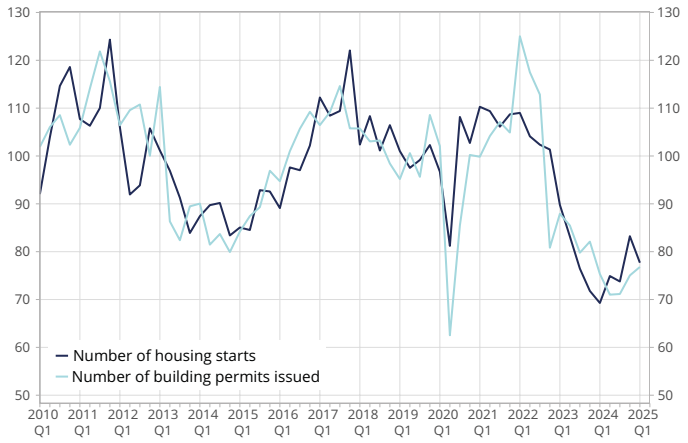
Forecast

* annual variations for the last three columns (apart from the annual average for savings ratio).

Source: INSEE.

►6a. Number of housing starts and building permits

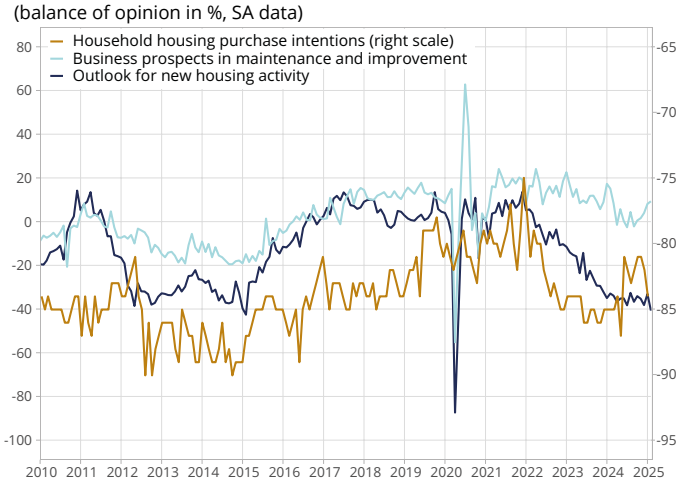
(base 100 = 2019, SA data)



Note: the point at Q1 2025 corresponds to the overhang from January 2025.
How to read it: in Q4 2024, the number of building permits issued was 25 points below its 2019 average.
Source: SDES.

►6b. Balances of opinion on expectations for activity in the next three months in construction

(balance of opinion in %, SA data)



Last point: February 2025.
How to read it: in February 2025, the balance of opinion on expectations for activity in the next three months in the construction of new homes stands at -41%.
Source: monthly business survey of the construction industry, INSEE

In 2024, intentions to buy a car declined further for younger people and households in urban centres

In Q4 2024, household consumption of vehicles measured in the national accounts was approximately 4% lower than at the end of 2019. Purchases, of course, fell sharply during the health crisis and although they recovered between late 2022 and late 2023, they have stagnated or even declined slightly since then. INSEE's monthly consumer confidence survey ("CAMME" survey) asks households about their intentions to buy a car in the course of the year. The share of households planning to buy a car within the next 12 months is generally correlated with vehicle consumption measured in the national accounts. Purchasing intentions peaked in early 2024 but have since slipped back. The survey is able to break down this change by household category: the decline in purchasing intentions in 2024 was more pronounced for the youngest households (traditionally more cyclical) and those living in an urban centre. However, it affects households relatively uniformly according to standard of living, whereas past fluctuations were mainly due to wealthy households.

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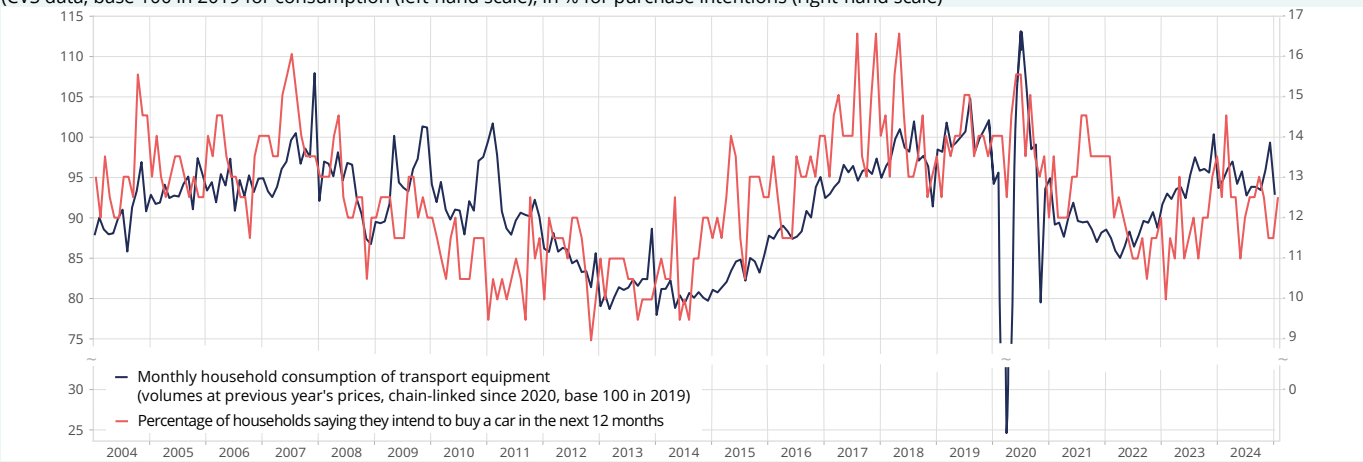
Car purchase intentions reported in the monthly consumer confidence survey are correlated with actual consumption of vehicles measured by the national accounts

The monthly consumer confidence survey of households ("CAMME" survey) carried out by INSEE collects responses from nearly 2,000 households on their opinion of the economic environment, their personal financial situation and their purchasing intentions. This survey includes, in particular, a question on intentions to buy a car within the next 12 months (►**Box** on "CAMME" survey). Despite the conceptual differences between the two measurements (►**Box** on the consumption of transport equipment), change in the share of households intending to buy a car is generally well correlated with actual vehicle consumption as measured by the national accounts (►**Figure 1**).

Thus, between 2007 and 2013, vehicle purchase intentions declared in the consumer confidence survey and vehicle consumption measured by the national accounts both experienced a downward trend. Then, in the second half of the 2010s, both purchasing intentions and consumption increased fairly steadily: household vehicle consumption increased by about 26% between the beginning of 2014 and the end of 2019, while the share of households intending to buy a car in the next 12 months increased by 3 points. Over this period, the dynamics of the survey responses seemed overall to anticipate those of measured consumption, within a time lag of approximately six months. For example, purchasing intentions increased by 2 points during H2 2014, whereas there was no real jump in consumption until spring 2015. This time lag is consistent with the question put to households in the survey, where their stated intentions correspond to the next twelve months.

►1. Share of households intending to buy a car and household consumption of transport equipment
(CVS data; base 100 in 2019 for consumption (left-hand scale), in % for purchase intentions (right-hand scale)



Last point: February 2025 for purchase intentions (CAMME survey), January 2024 for consumption of transport equipment (national accounts).
How to read it: in January 2004, the share of households expressing their intention to buy a car in the next twelve months was 13%. Consumption of transport equipment was about 12% below its 2019 average.
Scope: for the share of households intending to buy a car: households living in Metropolitan France in ordinary housing; for household consumption of transport equipment: all of France.
Source: INSEE, monthly household business survey and household consumption of goods (monthly results).

During the health crisis, from early 2020 until mid-2022, both purchasing intentions and consumption showed a downward trend overall. However, at the height of the crisis in early 2020, purchasing intentions nevertheless fluctuated less sharply than consumption: while the latter was automatically hampered during the months of lockdown, this was not the case for purchasing intentions, expressed over a 12-month time frame. Purchasing intentions then surged in the summer of 2021, once most of the restrictions linked to the health crisis had been lifted, but this increase did not transfer within the usual time frame to a rise in the consumption of cars. The severe supply chain constraints facing the automotive sector during this period are one explanation: the share of companies in the automotive industry reporting supply chain constraints rose from 3% in December 2020 to almost 76% in January 2021, then remained at a high level until April 2023 (►**Figure 2**). Thus, the conversion of household purchasing intentions into actual consumption may have been slowed during this period, due to the difficulties they encountered in obtaining new vehicles.

Conversely, in mid-2022, consumption of transport equipment began to pick up again while purchasing intentions, which had generally deteriorated once the euphoria of summer 2021 was over, did not recover until the autumn. This difference may be the counterpart to the mismatch observed in 2021 between intentions and consumption: as supply chain constraints started to ease in summer 2022, manufacturers were able to deliver orders at this time that corresponded to purchasing intentions from 2021.

Over the period from Q3 2022 to Q1 2024, the purchasing intentions and consumption series both picked up, but have been relatively gloomy since the start of 2024. Thus, on average, in January and February 2025, 12% of households reported their intention to buy a car (in seasonally adjusted data), a share that is about 2 points down compared to Q1 2024.

For the past year, car purchasing intentions have fallen more sharply for the youngest households

Using the responses of households who say in the CAMME survey that they intend to buy a vehicle, the dynamics of vehicle purchase can be broken down by household category.[1] Structurally, the share of households who say they intend to buy a car is greater for the youngest group (where the reference person is under 35) than for the other age categories: over the whole period between 2014 and 2024, the share of households planning to purchase a car within 12 months was 18% each month on average for the youngest, compared to 8% for those over 64 and 13% for the population as a whole. The purchasing intentions of the youngest households also fluctuate more from month to month[2] even though they follow average trends.

Before the Covid crisis, from Q1 2014 to Q4 2019, intentions to buy a car increased for all age categories but more sharply for the youngest households: the share of young people intending to buy a car increased by 8 percentage points, compared to an increase of 3 points for the population as a whole (►**Figure 3**).

1 In order to be analysed consistently with changes in purchasing intentions for the whole population (presented here with seasonal adjustments), purchasing intentions broken down into household category have been seasonally adjusted (►**Box 2**).
2 On average over the period studied, each month the CAMME survey records the responses of 225 households whose reference person is under 35. These responses are reweighted by the weight of this age class in the reference population (20%) to ensure that they are representative.

►2. Companies experiencing supply chain difficulties in the automotive industry
(in % of companies concerned; SA data)

Last point: February 2025.
How to read it: in January 2004, the share of companies reporting supply chain difficulties was 26.5%.
Source: monthly business survey for industry, INSEE.

Thus, although the share of households with a reference person under 35 is the smallest share in the reference population (a little under 20%, compared to around 50% for the 35-64-year-olds and 30% for those over 64), their contribution to the increase in purchasing intentions over the period is the greatest: young people contributed +1.5 points to the 3-point increase observed for the population as a whole between 2014 and 2019, compared to a contribution of +0.7 points for the 35-64-year-olds and +1 point for those over 64 (►**Figure 4**).

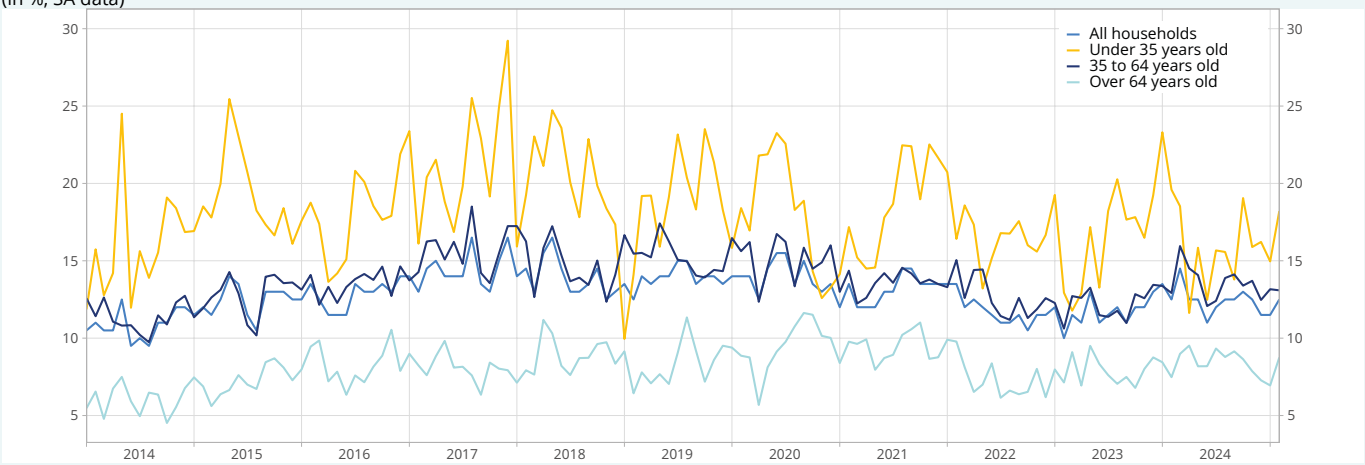
During the health crisis, between Q4 2019 and Q3 2022, intentions to buy a car declined in similar proportions for all age categories.

In 2024, the purchasing intentions of the youngest households declined more significantly than those of the population as a whole: -3 points between Q1 and Q4 2024 for the youngest, compared to -1 point for the population as a whole. Their contribution to the drop in purchasing intentions over the year is therefore relatively similar to that of 35-64-year-olds, even though the proportion of the youngest households in the reference population is smaller. At the beginning of 2025, on average over January and February, purchasing intentions were broadly stable compared to Q4 2024 for all age categories, despite a marked rebound in February for the youngest.

The car purchasing intentions of households living in urban centres declined sharply in 2024 but remained steady for other households

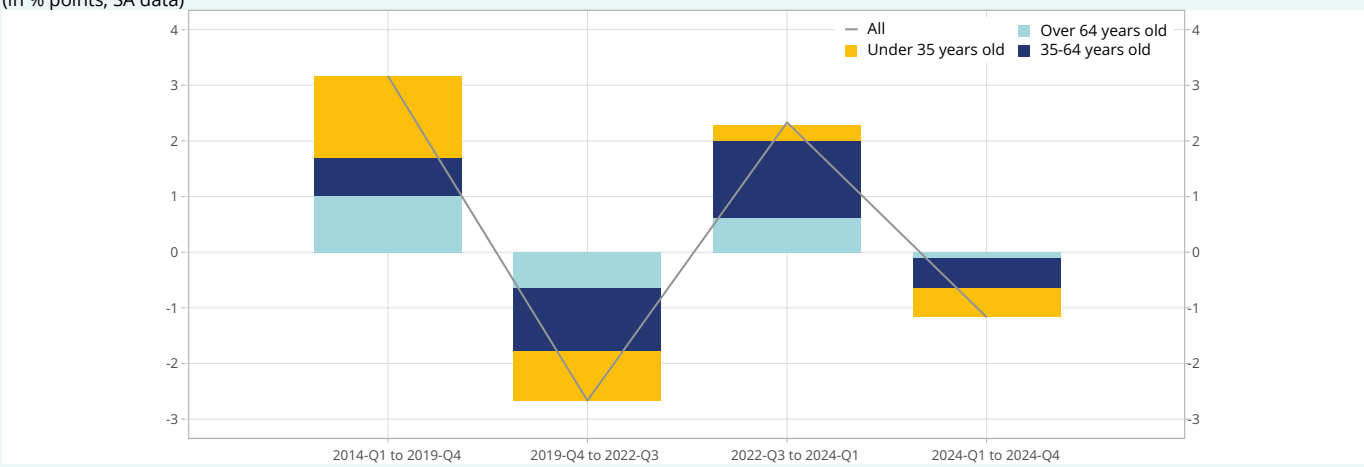
From 2018, by matching data from the CAMME survey with INSEE's "Fidéli" database (►**Box 2**), surveyed households can be categorised by area of residence, based on the

►3. Share of households intending to buy a car, by age category
(in %, SA data)



Last point: February 2025.
How to read it: in January 2024, the share of households whose reference person is under 35 years old expressing their intention to buy a car within the next twelve months was 11.9%.
Scope: households living in Metropolitan France in ordinary housing.
Source : monthly consumer confidence survey (CAMME), INSEE.

►4. Change in car purchase intentions and contributions to the change by age category
(in % points, SA data)



Last point: change between Q1 and Q4 of 2024.
How to read it: between Q1 2014 et Q4 2019, the share of households intending to buy a car increased by 3 points. The under-35s contributed +1.5 points to this increase.
Scope: households living in Metropolitan France in ordinary housing.
Source : monthly consumer confidence survey (CAMME), INSEE.

municipality density grid (which allocates each municipality to a type of area, notably rural or urban). According to the density level of their municipality of residence, households can be divided into three categories, of relatively similar size: households in rural municipalities (about 9 out of 10 municipalities, representing a third of the population), those in medium-density municipalities (just under 30% of the population) and households in large urban centres (about 800 municipalities in France, representing almost 40% of the population). This last category includes the major conurbations where public transport is highly developed, as well as smaller towns where the population in the area remains nevertheless particularly dense. The level of car purchasing intentions is not structurally different between these three groups over the period studied: it is close to 13% per month on average for the three populations.

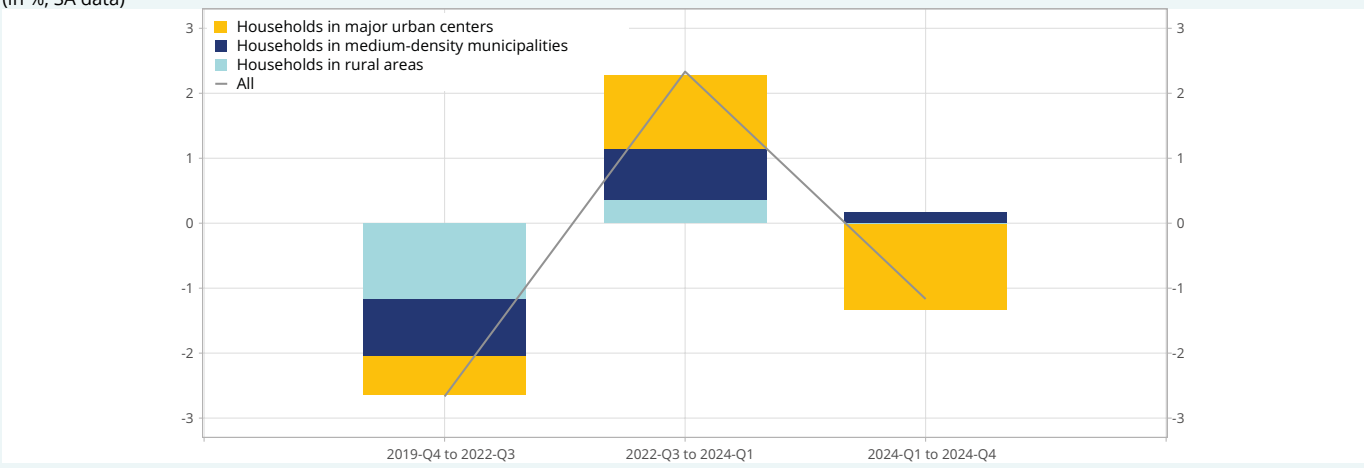
However, different dynamics can be seen depending on the period. During the health crisis, purchasing intentions decreased most among households in rural areas (-4 points between Q4 2019 and Q3 2022): while they represent a third of the population, they contributed almost half of the total decline (-3 points for the whole population, ►**Figure 5**). During the health crisis, purchasing intentions of households in densely populated municipalities, on the other hand, declined less than average (-1 point between Q4 2019 and Q3 2022). After this period and until the beginning of 2024, purchasing intentions picked up a little less markedly for rural households and more strongly for urban households, who then accounted for about half of the increase. During 2024, however, the deterioration in purchasing intentions was much more pronounced for households in the large urban centres: -3 points between Q1 and Q4 2024, compared to -1 point on average for the population as a whole. Purchasing intentions of rural households remained stable, while those of households in medium-density municipalities tended to be higher (+1 point). Thus in 2024, households in urban centres are the only ones contributing to the decline in purchasing intentions.

During 2024, intentions to buy a car were generally down, regardless of households' standard of living category

Over the period 2014 to 2024, the wealthiest households were relatively consistently more likely to say they intended to buy a car in the next 12 months: on average, 16% of households in the fourth standard of living quartile expressed this intention each month, compared to 11% among households in the first quartile (least well-off households). In the past, fluctuations have tended to be due to the two most affluent quartiles: variations in their purchasing intentions account for most of the increase during the period 2014-2019, the decline during the health crisis and the peak at the beginning of 2024.

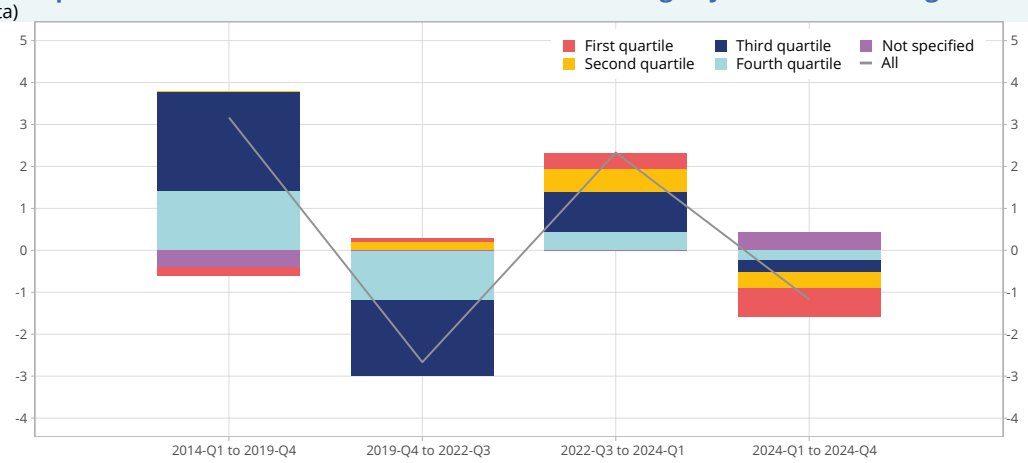
However, the decline in purchasing intentions observed during 2024 is, unusually, common to all households, irrespective of their standard of living category (►**Figure 6**). ●

►5. Change in car purchase intentions and contributions to the change by area of residence
(in %, SA data)



Last point: change between Q1 and Q4 of 2024.
How to read it: between Q4 2019 and Q3 2022, the share of households intending to buy a car decreased by almost 3 points. Households in rural areas contributed -1.2 points to this decline.
Scope: households living in Metropolitan France in ordinary housing.
Source : monthly consumer confidence survey (CAMME) and Fidéli base, INSEE.

►6. Change in car purchase intentions and contributions to the change by standard of living
(in % points, SA data)



Last point: change between Q1 and Q4 of 2024.
Note: information on standard of living is not available for a proportion of the sample, around 8% per month.
How to read it: between Q1 2014 and Q4 2019, the share of households intending to buy a car increased by around 3 points. The wealthiest households, in the fourth quartile of the standard of living scale, contributed +1.4 points to this increase.
Scope: households living in Metropolitan France in ordinary housing.
Source: monthly consumer confidence survey (CAMME).

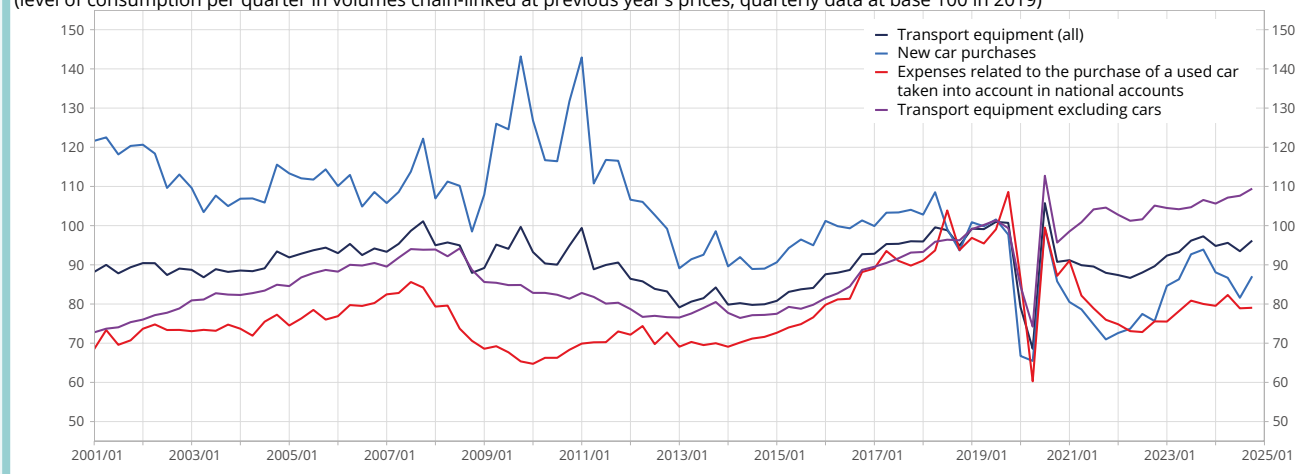
Box 1: Consumption of transport equipment in the national accounts

In national accounting, the consumption of transport equipment concerns a broader spectrum of products than just cars, the product specifically covered by the question in the CAMME survey. In 2023, just over half of consumption of "transport equipment" corresponded to spending not directly related to the purchase of a car: various automotive equipment, but also motorcycles, camper vans, bicycles, etc. While these other types of purchase are relatively well correlated with spending linked directly to the purchase of a car (►**Figure A**), the dynamics of each series may diverge a little from quarter to quarter.

In addition, only purchases of new cars (including leased cars) are systematically recorded as household consumption in the national accounts. Regarding used vehicles, they are only recorded when the sale is made by a business. When a car is bought by one household from another via a professional (dealer), only the margin made by the dealer is recorded in the national accounts.

Finally, national accountants incorporate a "quality effect" into their measurements, so that an increase in the "volume" of consumption can be taken into account if the quality of the vehicles purchased, as measured by the taxable horsepower of the vehicles, improves. Over the years, for a given number of registrations, the volume of new cars consumed has increased. Thus in 2024, while registrations of private vehicles for individuals are almost 20 points below their 2019 level, consumption of new cars is only down 15 points.

►A. Household consumption of transport equipment, by component
(level of consumption per quarter in volumes chain-linked at previous year's prices, quarterly data at base 100 in 2019)



Last point: Q4 2024.
How to read it: in Q1 2001, consumption of transport equipment was about 12% below its 2019 average.
Source: INSEE.

Box 2: Data processing method used in the CAMME survey

The monthly consumer confidence survey of households ("CAMME" survey) carried out by INSEE is harmonised at European level. Balances of opinion on the different topics, calculated by subtracting the share of "negative responses" from the share of "positive responses", are available from 2004 in the version harmonised at European level. However, the distribution of responses by household category is only possible from 2013 onwards (2018 for a breakdown by area of residence, see below).

Intentions to buy a car

The question asked to determine households' car purchase intentions is the following: "Are you planning to buy a car over the next twelve months?". Four response modes are offered: "Yes, definitely", "Yes, possibly", "No, probably not", "No, definitely not". The corresponding balance of opinion is calculated as the difference between the share of households saying "Yes, definitely" and "Yes, possibly" and the share of households saying "No, probably not", "No, definitely not". In this Focus we present the share of households intending to buy a car as the sum of those saying "Yes, definitely" and "Yes, possibly".

Categorisation by standard of living and area of residence

Households are also asked about the amount of their income, with the following question: "What is the total average monthly income of your household? Take all types of income into account: wages, retirement pensions, unemployment benefits, family allowances, etc. Give the amount before taxes are taken off at source". They are also asked about the composition of their household. Thus, combined with the information on household composition, this question is used to calculate a standard of living for each household, i.e. income per consumption unit.

This household standard of living may deviate from the definition of standard of living usually used by INSEE. On the one hand, the amount that households declare is not supposed to be net of income tax deducted at source, which differs from the definition of "disposable income" usually used by INSEE to calculate standards of living. On the other hand, the standard of living presented here is based solely on respondents' survey declarations, which may therefore not be fully aligned with the tax classification of income sources.

To classify households on the standard of living scale, quartile values are then calculated by calendar year, weighting households with weights specific to the survey.

Regarding the type of area of residence, information is based on the code for the municipality of residence, taken from INSEE's Fidéli database (Housing and individual demographic files). Data from the CAMME survey and the Fidéli database have been cross-matched since 2018.

Seasonal adjustment by household category

In order to align the monthly series of the share of households declaring that they intend to buy a car by household category with the aggregated series of seasonally adjusted balances of opinion, a seasonal adjustment is carried out for each household category: for each month, the difference between the seasonally adjusted balance and the gross balance at the aggregate level is added to the value of the gross balance for each household category considered.

Household consumption during the holiday season: between Black Friday and the winter sales, habits are changing

The end-of-year holiday period and winter sales cause households to spend more in December and January than at other times of the year. For several years now, these periods of "over-consumption" have been rivalled by Black Friday, an electronic-commerce-based shopping event imported from the United States, which is held on the fourth Friday in November. While the Christmas period remains crucial for book and jewellery sales, purchases of electronics and household appliances are increasingly shifting towards Black Friday. For clothing and textiles, the concentration of purchases during the winter sales is gradually fading.

Janine Eguienta

Consumption figures published by INSEE indicate a blurring of households' seasonal behaviour

The consumption data published by INSEE is seasonally and working-day adjusted (SA-WDA). This adjustment, obtained by applying an econometric procedure, aims to eliminate fluctuations which are insignificant from an economic analysis perspective due to the usual calendar effects such as winter sales and Christmas shopping. It helps to highlight underlying trends and exceptional developments, providing month-by-month information on sudden changes in economic phenomena, and disregarding the usual explainable calendar phenomena. Unlike the "year-on-year" series, in which a given month is compared with the same month in the previous year so as to eliminate seasonality, the SA-WDA series enables each month to be compared directly with the previous month. This gives it two advantages over the year-on-year method: firstly, the interpretation of one month depends only on the recent past and not on events that occurred up to one year ago; secondly, trend changes are detected immediately and new trends are correctly measured without delay.

However, analysing the raw data is beneficial in order to understand changes in seasonal phenomena such as the festive season.

The usual end-of-year over-consumption driven by Christmas, winter sales and Black Friday

The end-of-year holiday period is a unique time for household consumption, both in terms of volume and composition: family celebrations, traditional gifts and the Christmas holidays lead to more spending than at other times of the year. Consequently, in raw data, household spending on goods in volume terms was 16.9% higher in December 2024 than during the other months of the year. For certain products such as jewellery, books and electronics, this over-consumption is traditionally much higher in December.

For some years now, Black Friday has been changing household consumption patterns in the run-up to the festive season, even though it can be difficult to isolate in the trend value and price data (►Box). This commercial event, imported from the United States, takes place on

►1. Gross to SA-WDA ratio in December for various products
(in volume)

Position	2011-2019 average	2021-2023 average	2024
Total consumption of goods	**1.15**	**1.18**	**1.16**
Food	1.13	1.20	1.17
Clothing, textiles, leather and footwear	1.17	1.25	1.24
Electronics	1.57	1.36	1.33
Household appliances	1.21	1.17	1.18
Books	1.73	1.78	1.78
Watches - jewellery	1.93	1.77	1.64

Note: a gross to SA-WDA ratio greater than 1 in December reflects the usually high level of consumption during that month. This ratio is estimated for goods for which an end-of-year holiday effect has been identified. Other items on which spending is traditionally high in December but less directly linked to the end-of-year holidays, such as energy (heating), health (influenza epidemic) and transport, have been excluded from the analysis. The year 2020 was removed from the analysis because of its atypical monthly profile linked to the health crisis.
How to read it: for electronics, the gross /SA-WDA ratio was 1.33 in 2024. This means that gross consumption of electronics in December 2024 was 33% higher than that measured in the quarterly national accounts.
Source: INSEE.

the fourth Friday in November. Originally a product of e-commerce in electronics and household appliances, it has gradually spread to other products and now competes with other promotional periods such as the winter sales (►*Insee focus* n°170).

Not all goods and services are affected by this end-of-year seasonality in the same way. To study this phenomenon for different products, the volume of gross consumption is compared on a monthly basis with the seasonally and working-day adjusted (SA-WDA) volume; in a given month, a gross to SA-WDA ratio greater than 1 therefore means higher-than-average consumption.

Christmas gift purchases remained as high as ever

Christmas purchases remained high for certain products, such as books and watches and jewellery: in December 2024, spending on these items was respectively 78% and 64% higher than the average monthly consumption. (►**Figure 1**) The French also buy more electronics, clothing and food in December. Compared to the 2011-2019 period (►*Economic outlook*, March 2012), this over-consumption has increased slightly for book purchases in recent years and has been maintained for clothing-textiles. However, it has eased significantly for electronics, and more moderately for electrical goods, with the month of November and Black Friday (►**Figure 2**) playing a key role.

A Black Friday effect for electronics and household appliances only

Although most of the over-consumption of electronic products (computers, mobile phones, televisions, etc.) and household appliances (small and large electrical appliances) took place in December until the beginning of the 2010s, these items are now increasingly consumed in November. The November gross to SA-WDA ratio for these purchases has risen steadily since 2011, while the December ratio has dropped steadily since 2015 (►**Figure 2**). Since 2021, over-consumption of these products in November has even been slightly higher than in December, suggesting a change in household consumption habits triggered by Black Friday, although this Black Friday effect is limited to electronics and household appliances.

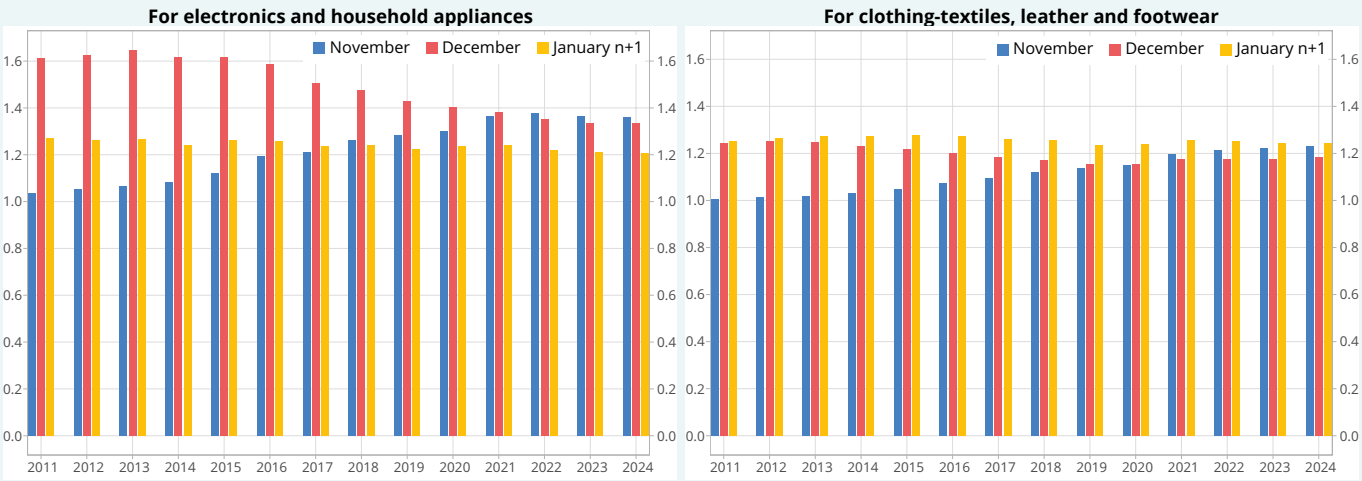
Winter sales for clothing-textiles are losing their appeal

For clothing-textiles, leather and footwear products, the effect of the winter sales in January still predominates over the effect of Christmas in December, but this gap has been narrowing since the mid-2010s (►**Figure 3**). Over-consumption compared with a normal month has dropped by a third from 60% in January 2015 to 36% in January 2025.

On the one hand, this fall can be explained by more diffuse buying behaviour over the winter, with more frequent purchases in December and even in November, and the proliferation of promotional periods outside the sales period. On the other hand, the decline in consumption during the sales period is accompanied by a more general decline in clothing and textile consumption since the health crisis (-8.3% in 2023 compared with 2019, in volume terms). ●

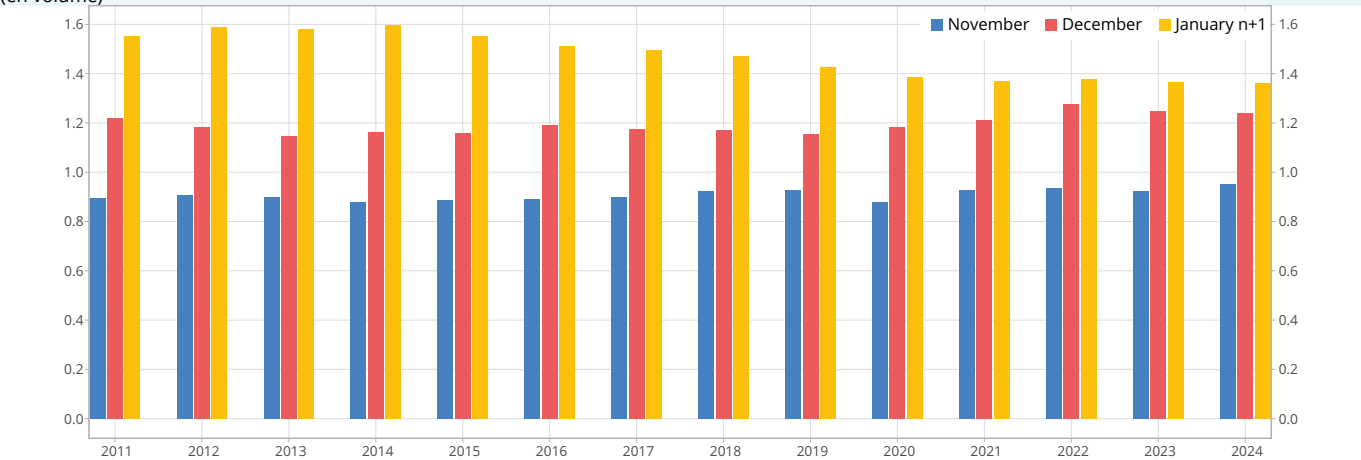
►2. Gross to SA-WDA ratio in November, December and January for electronics and household appliances

(in volume)



Note: the years refer to the winter season, not the calendar year. The months associated with 2011 were November 2011, December 2011 and January 2012.
How to read it: the gross to SA-WDA ratio in electronic products fell from 1.62 in December 2015 to 1.33 in December 2024.
Source: INSEE.

►3. Gross to SA-WDA ratio in November, December and January for clothing, textiles, leather and footwear
(en volume)



Note: the years refer to the winter season, not the calendar year. The months associated with 2011 were November 2011, December 2011 and January 2012.
How to read it: the gross to SA-WDA ratio in clothing, textiles, leather and footwear dropped from 1.60 in January 2015 to 1.36 in January 2025.
Source: INSEE.

Black Friday consumption measured in data

• In value terms, monthly consumption in the electronics sector is based on data from panellists, who record most of the sales at the time of dispatching rather than at the time of ordering. The date of Black Friday is therefore likely to influence the month in which the consumption of this event is recorded. In 2024, Black Friday was held on the last working day of November (Friday 29 November), which meant that many shipments were postponed until the following week and booked in December.

• In price terms, the measurement of markdowns linked to Black Friday depends on the timing of the collection of the consumer price index, which differs from the calendar month. Black Friday week regularly falls during the first collection week for the month of December. This calls for the greatest of caution when analysing the monthly prices of these products. However, seasonal movements in prices remain much more limited than those in volumes, to the extent that any calendar shifts in price measurement have little effect on the calendar effects on volumes presented above. ●

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Emorine M., Logeais C. (2019), "Holiday Season, Sales, "Black Friday": a Marked Impact on Retail Sales", *Insee Focus* n°170, INSEE, November 2019.

Chevalier C.M. (2022), "Once again, households were less enthusiastic about the winter sales than before the health crisis this year", *Economic outlook*, INSEE, March 2022. ●

Entreprises' earnings

In Q4 2024, the margin rate of non-financial corporations (NFC) edged down slightly, by 0.2 points compared to the previous quarter, settling at 32.2% of their value added (►**Figure 1**). This decline partly offsets the growth profile in H2 2024, as a result of the Olympic and Paralympic Games in the summer. The revenue of the Organising Committee of the Olympic and Paralympic Games, considered as an NFC in national accounting, generated accounting gains in productivity in the summer, before an automatic downturn in the autumn. Once again, the real labour cost increased in a context of disinflation, hampering company margins (►**Figure 2**). Nevertheless, this effect is offset by the continuing improvement in the terms of trade, due to the fall in the price of imported crude oil and the rise in the price of electricity for export. Thus at the end of 2024, the margin rate of NFCs was more than one point above its pre-health crisis average (30.9% in 2019), but this increase comes mainly from the energy and transport services branches (►**Focus** on fluctuations in corporate margin rates). In the manufacturing industry and market services excluding transport, it is scarcely higher than its 2019 level.

All in all, across the whole of 2024, corporate margin rates stood at 32.1% of value added, down 0.8 points compared to its average in 2023. In 2024, consumer prices increased more strongly than corporate value added due to the reintroduction of taxes on energy, whereas the increase in the real cost of labour was greater than gains in productivity: employer contributions increased faster than payroll, as the wage scale decompressed with disinflation, leading to a deflation of the reductions in social security contributions. At sectoral level, the margin rate in manufacturing declined in 2024, due to a sluggish value added price and a decline in output by volume, whereas it picked up in market services as they gradually passed on earlier wage increases to their selling prices (►**Focus** on the resistance of the margin rate when faced with the rise in import prices, in *Economic outlook*, July 2024).

In addition, corporate financing costs continued to increase as a result of the earlier rise in interest rates (►**Focus** on the transmission of base interest rate cuts to corporate lending rates). Thus corporate savings (which take into account corporate tax and financial earnings) stood at 19.4% of their value added in 2024, more than one point less than the average observed between 2015 and 2019 (►**Figure 3**).

In H1 2025, the margin rate of NFCs is expected to fall (-0.4 points in Q1 then -0.2 points in Q2), reaching 31.6% of value added in the spring. Despite the drop in the price of oil, the ratio of value added prices to consumer prices is expected to decline over the half-year, due to the drop in freight prices, which is affecting the margins of French maritime transport

►1. Decomposition of margin rate of non-financial corporations (NFC)

(margin rate in %, variation and contributions in points)

	2023				2024				2025		2023	2024	2025 ovgh
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate	**31.8**	**33.2**	**33.1**	**33.4**	**32.2**	**31.4**	**32.4**	**32.2**	**31.8**	**31.6**	**32.9**	**32.1**	**31.6**
Variation in margin rate	**0.8**	**1.4**	**-0.2**	**0.3**	**-1.1**	**-0.9**	**1.0**	**-0.2**	**-0.4**	**-0.2**	**1.9**	**-0.8**	**-0.4**
Productivity (+)	-0.1	1.0	0.1	0.5	-0.2	-0.1	0.4	-0.2	0.2	0.3	0.9	0.5	0.4
Real per capita labour cost* (-)	0.1	0.0	0.2	0.0	-0.4	-0.2	-0.3	-0.3	-0.3	-0.4	0.4	-0.7	-1.0
Of which real wages per head(-)	*0.2*	*0.1*	*0.3*	*-0.1*	*-0.2*	*-0.2*	*0.0*	*-0.3*	*-0.2*	*-0.1*	*0.4*	*-0.3*	*-0.5*
Of which Employer's contribution rate(-)	*-0.1*	*-0.1*	*-0.1*	*0.1*	*-0.2*	*-0.1*	*-0.2*	*-0.1*	*-0.1*	*-0.3*	*0.0*	*-0.4*	*-0.5*
VA price/consumer price ratio* (+)	0.5	0.0	-0.4	0.0	-0.7	-0.5	0.7	0.4	-0.2	-0.1	0.3	-0.8	0.2
Other items	0.4	0.5	0.0	-0.2	0.2	0.0	0.2	0.0	-0.1	0.0	0.2	0.2	0.0

Forecast.

***** in the sense of the consumption price index (CPI).

Note: the margin rate (*MR*) measures the share of value added that remunerates the capital.
This variation can be broken down additionally into:
- changes in productivity (*Y/L*), where *Y* is value added and *L* is employment, and in the ratio of the price of value added to consumer prices, or terms of trade *(Pva/IPC*), which have a positive effect;
- changes in the real cost of labour (*W/IPC,* where *W* represents the cost of labour per capita), which have a negative effect on the margin rate;
- other factors: these are mainly taxes on production net of subsidies.

This breakdown can be synthesised in the equation:

$$TM = \frac{GOS}{VA} \approx 1 - \frac{WL}{Y\,P_{VA}} + other\ factors = 1 - \frac{L}{Y}\,\frac{W}{IPC}\,\frac{IPC}{P_{VA}} + other\ factors$$

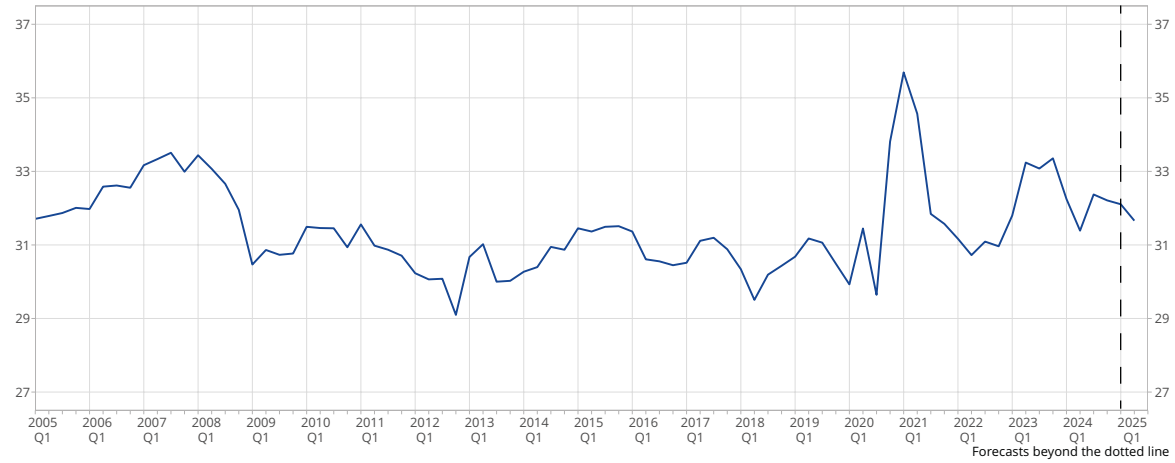
How to read it: in Q4 2024, the productivity contributed -0.2 point to the change in the NFC margin rate (-0,2 points).
Source: INSEE.

companies, and the expected drop in the selling price of electricity. The export price of electricity should certainly continue to benefit from the increase in wholesale prices on the European markets, but its selling price on the domestic market looks set to collapse in the wake of the decline in regulated tariffs from February; this drop would also be more marked than that in household consumer prices, given the increase in excise duty (►**Sheet Consumer prices**). Furthermore, the real cost of labour is expected to increase over the half-year, due, on the one hand, to real wage gains and, on the other hand, to the increase in the average employer contribution rate in the spring, linked to the decline in general reductions in social security contributions (►**Focus** on the effects of fiscal consolidation 2025 on growth). This increase in the real cost of labour is expected to be partially offset, over the half-year, by productivity gains: employment looks set to decline, while activity should hold up. Finally, taxes net of subsidies on production are expected to make virtually no contribution to the change in margin rate. Ultimately, the 2025 mid-year overhang for the margin rate of NFCs is expected to fall by 0.4 points, to 31.6% of their value added.

The savings ratio is expected to fall again, to 19.0% of value added carried over by mid-2025, in the wake of the margin rate. The different measures adopted in the finance laws that relate to companies are likely to affect their financial situation by 0.9 points of value added over the whole of 2025, however, most of these effects, especially those relating to corporate tax, are likely to be recorded in the accounts for H2 (►**Focus** on the effects of fiscal consolidation 2025 on growth). The decline in investment is expected to be a little less pronounced than the drop in savings, thus the self-financing ratio should continue to edge down and settle at around 86% carried over by mid-2025, its lowest since 2008.

►2. Margin rate of non-financial corporations (NFC)

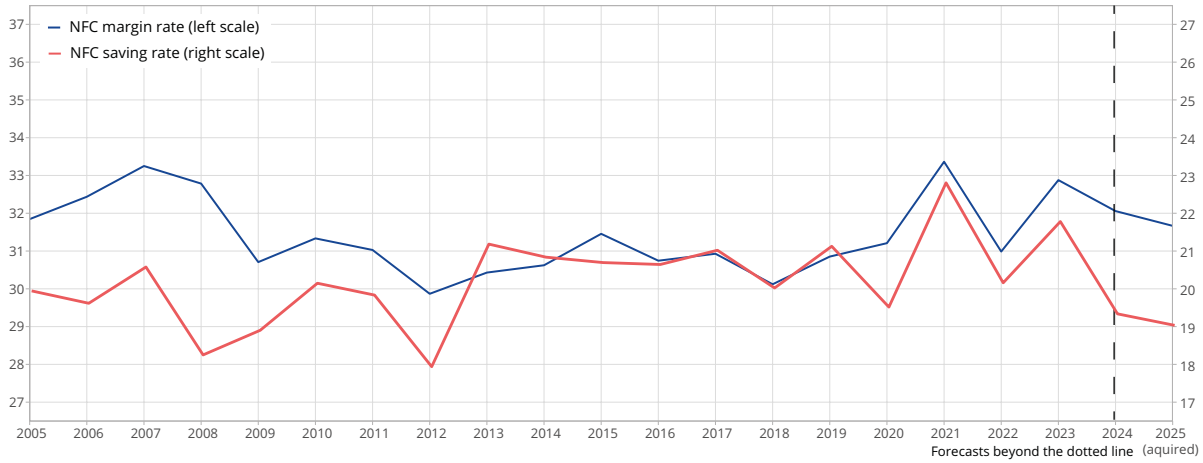
(in % of value added)



How to read it: in Q4 2024, the margin rate for NFCs fell by 0.2 points, to 32.2% of their value added.
Source: INSEE.

►3. Quarterly margin rate of non-financial corporations (NFC)

(in % of value added)



How to read it: in 2024, the NFC margin rate will be 32.1% and the savings rate 19.4% of value added.
Source: INSEE.

Since the health crisis, fluctuations in corporate margin rates have been due mainly to the energy and transport services branches

On average over 2024, the margin rate of non-financial corporations was a little more than one point above its pre-health crisis level, although this masked some significant disparities between branches of activity. This rise is due mainly to the energy and transport services branches, while the margin rate of other market branches (excluding financial and real estate services) was very close to its 2019 level. These two branches have also contributed very significantly to quarterly fluctuations in margin rate since the health crisis, due to the volatility of the price of electricity and, to a lesser extent, the cost of sea freight. Indeed, in these two branches, variations in these two market prices are quickly passed on to export prices, ultimately affecting value added prices and therefore the margins of companies in these two branches. By mid-2025, the margin rate for these two branches is expected to decline, contributing -0.4 points to change in the margin rate for all companies. On the one hand, the fall in freight prices since autumn 2024 is likely to be passed on to the value added price of transport services in H1 2025. On the other hand, although electricity prices on the European market were still high at the beginning of 2025, thus boosting export prices in the energy branch and hence their margin rate, the value added price of this branch is, conversely, significantly affected by the drop in the regulated sales tariff in February 2025.

Gaston Vermersch

In 2024, the corporate margin rate was higher than its pre-health crisis level, but only due to the energy and transport services branches

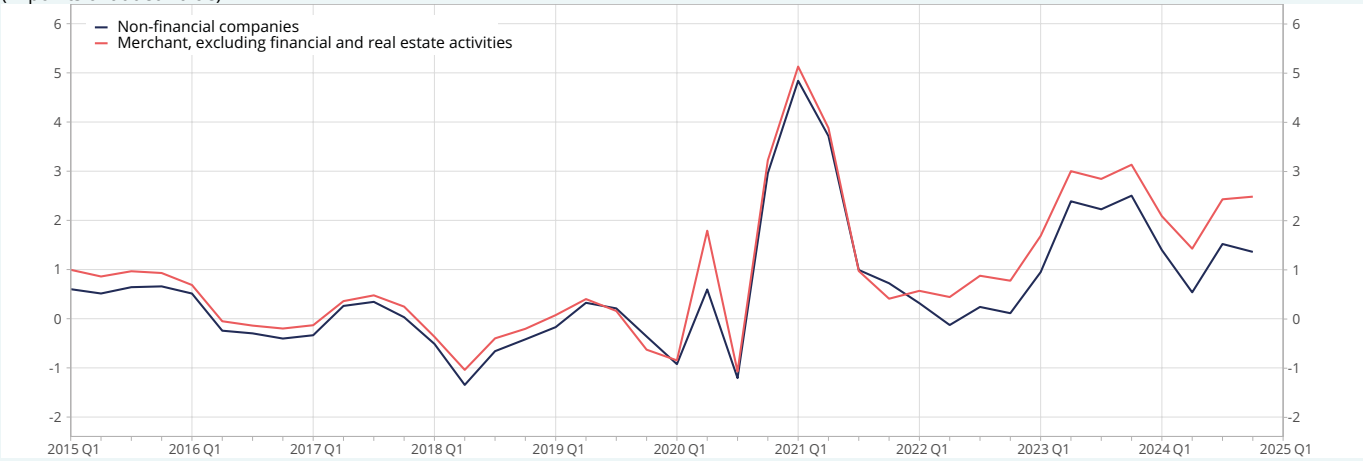
In 2024, the margin rate of non-financial corporations (NFCs), although down over the year as a whole, was still +1.2 points higher than its pre-health crisis level (►**Sheet** Entreprises' earnings). However, this rise in the overall margin rate of NFCs masks some disparities between branches of activity. In order to break down the contributions of the different branches to change in margin rate, a corporate margin rate is reconstructed using branch accounts: the branches selected correspond to market branches, excluding financial and real estate activity.[1]

The difference between the sectoral margin rate of the NFCs and the margin rate reconstructed from the branch accounts was constant but small before the health crisis. It has increased slightly since 2022, but the quarter by quarter change remains very similar (►**Figure 1**).

Using this accounting approach, the contribution of each branch to change in the overall margin rate can be isolated and, in particular, a margin rate can be calculated that excludes the energy ("Energy, water, waste") and transport services branches. Thus, while the margin rate for all market branches excluding real estate and financial activities increased by 2.1 points on average in 2024 compared to 2019, it in fact remained virtually

1 The value added of the financial services branch is generated primarily by the institutional sector of financial corporations, whereas the real estate services branch (real estate agencies, social landlords) reflects mainly the production of a housing service by owner households. In addition, the non-market services branch (public administration, education, health, and medical and social care) is also not included among those branches likely to correspond to the non-financial corporation sector, as its value added is mainly generated by general government. However, this is an approximation. Part of the value added of real estate services and non-market services is generated by non-financial corporations. Conversely, not all of the value added in the market sector excluding financial and real estate activities is generated only by non-financial corporations. In particular, a change in the share of value added generated by sole proprietors is likely to affect the margin rate of these branches of activity (►**Laurent T. and Quévat B., 2022**).

►1. Change in the margin rate of non-financial corporations and market branches excluding financial and real estate activities, compared to 2019
(in points of added value)



Last point: Q4 2024.
How to read: in Q4 2024, the margin rate of NFCs increased by +1.4 points of value added, compared to the 2019 average.
Source: INSEE.

stable (+0.2 points) once these two branches are excluded (►Figure 2). Almost all of the increase in the corporate margin rate between 2019 and 2024 can therefore be attributed to these two branches.

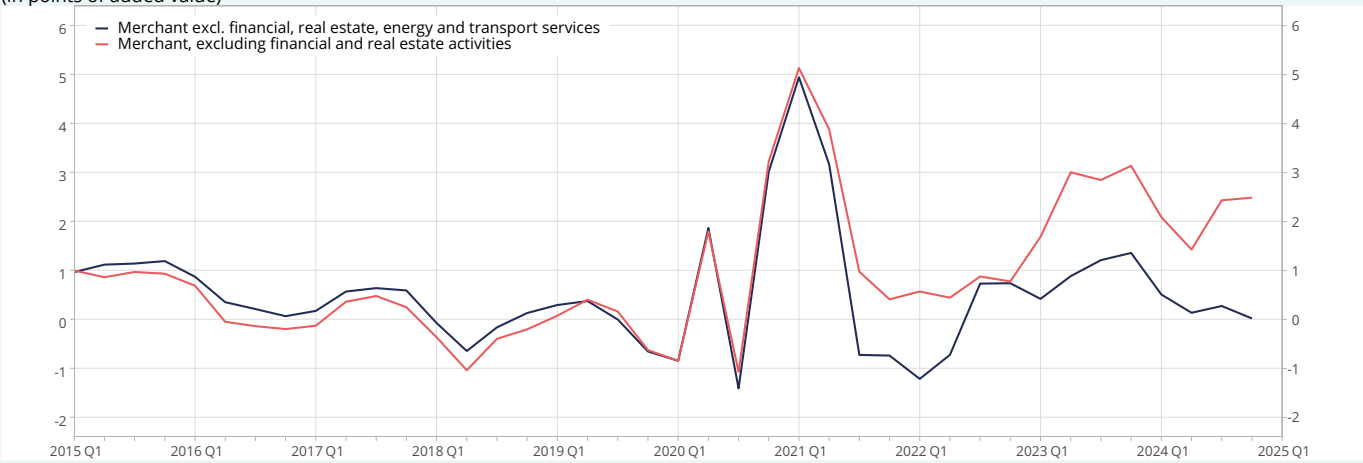
In fact, the margin rate increased sharply in the energy and transport services branches (►Figure 3). As the pandemic was coming to an end in 2021, bottlenecks appeared in supply chains (►INSEE, 2022), resulting in a sharp rise in the price of sea freight. As there are some major international transport companies among French resident units, this increase helped to raise the margin rate of all companies.

In a situation of strong geopolitical tensions in 2022, energy commodity prices surged. Rising energy prices increased the cost of intermediate consumptions for energy-intensive companies, thus affecting their value added, but at the same time increased the price of the value added of the energy branch (►Vermersch G., 2024). This surge in prices in 2022 nevertheless occurred in a national context of declining nuclear power production due to maintenance and inspection operations, but amplified by stress corrosion phenomena (►Activity sheet box in Economic Outlook published in July 2024). Prices fell but remained high in 2023 and 2024 as domestic production picked up: thus the margin rate of companies in the energy branch was significantly higher in 2024 (79.9%) than in 2019 (67.6%).

The energy and transport services branches account for most of the quarterly fluctuations in margin rate for all companies since 2022

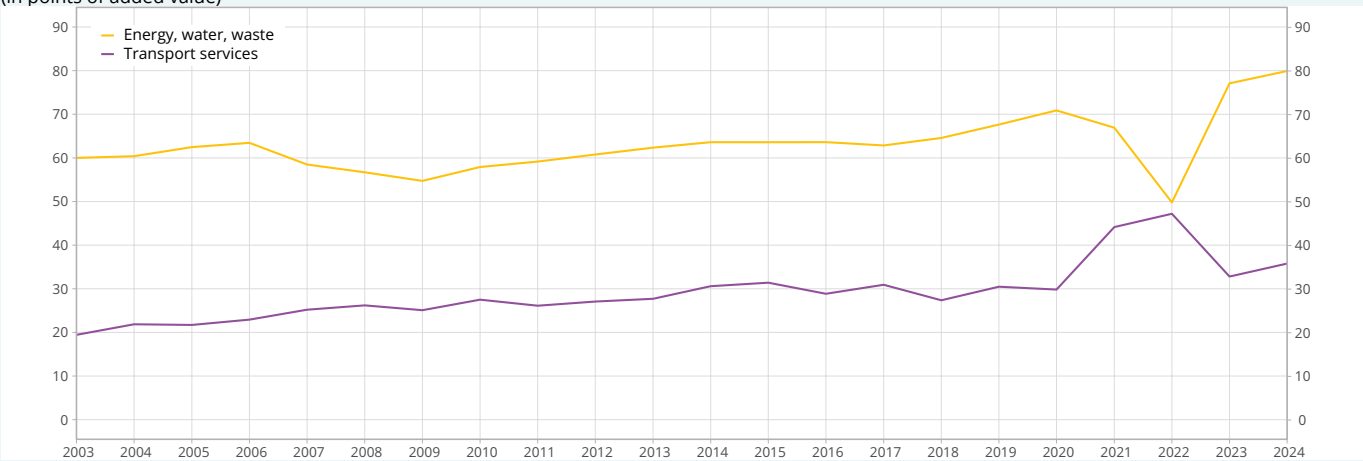
In addition to the margin rate level for all companies, the energy and transport services branches account for most of its quarterly variations since the health crisis. Thus, in 2021, the transport services margins contributed more than in the past to change in the overall margin rate, before falling in H2 2022 and finally rebounding in 2024, at a time of higher freight prices caused by attacks on commercial shipping in the Bab el-Mandeb Strait.

►2. Change in the margin rate of market branches excluding financial and real estate activities, with or without its energy and transport services component, compared to 2019
(in points of added value)



Last point: Q4 2024.
How to read it: in Q4 2024, the margin rate of market branches, excluding financial and real estate activities, and excluding the energy and transport services branches, was stable.
Source: INSEE.

►3. Annual margin rate of energy and transport services branches
(in points of added value)



How to read it: in 2024, the margin rate of the energy branch was 79.9%.
Source: INSEE.

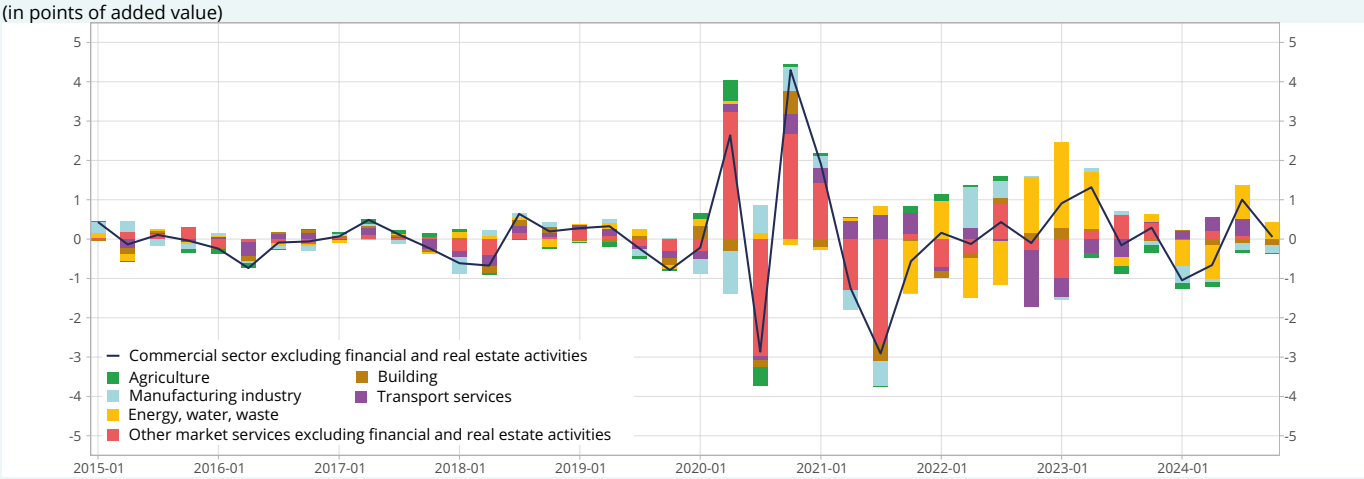
The margin rate for the energy branch fell back sharply in 2022, due to the decline in nuclear power generation in France after the closure of a large number of reactors, but it then rebounded automatically in 2023, and benefitted from the rise in electricity prices in summer 2024. Thus, in Q3 2024, the margin rate of non-financial corporations increased by 1.0 point, driven mainly by contributions from the energy branch (+0.8 points) and transport services (+0.4 points) (►**Figure 4**).

Finally, since 2022, the volatility of the margin rate (►**Methodology box**) has been three times higher than that observed over the period 2015-2019. Energy has contributed 61% of the volatility of the overall margin rate since 2022 compared to 3% previously, and transport services 18% since 2022 compared to 11% before the health crisis (►**Figure 5**). Conversely, market services excluding transport, real estate and finance now contribute only 10% of the overall variance, much less than their weight in value added.

The growing importance of the energy branch in margin rate volatility over the recent period should be considered in light of the powerful rise in renewable capacity in Europe over the same period. Price volatility on the European wholesale electricity market is explained by the pricing of the kilowatt/hour at the marginal cost of the last power plant called upon to meet instantaneous consumption. This marginal cost is determined by the variable operating cost to produce an additional kilowatt/hour (►**RCE, 2024**). Renewable energies (mainly wind and solar) are called upon first on the grid and, depending on weather conditions, they are sometimes sufficient to meet demand, at almost zero cost. The upward trend in renewable capacity installed in Europe, whose production is unpredictable, is therefore a factor of volatility for the wholesale price of electricity. In addition, when demand is high or weather conditions are unfavourable, fossil fuel power plants (gas, coal, fuel oil) are called up to the grid: it is then the marginal cost of production by this type of unit that determines the price on the wholesale electricity market in Europe. The high volatility of the gas market since 2022 (►**Sheet Energy and commodities**) and of the price of the emissions allowance are therefore transmitted to the wholesale electricity market.

►4. Sectoral contributions to quarterly change in the margin rate of market branches excluding financial and real estate activities

(in points of added value)



Last point: Q4 2024.
How to read it: in Q4 2024, the margin rate of market branches, excluding real estate and financial activities, increased by 0.1 points of value added. The energy branch contributed +0.4 points.
Source: INSEE.

►5. Sectoral contributions to the volatility of the margin rate of market branches excluding financial and real estate activities, before and after the 2022 energy crisis

Branch / Période	Average weight in value added		Total variance / Contributions to variance (%)	
	2015-2019	From 2022	2015-2019	From 2022
Weight / total variance	**100%**	**100%**	**0.32**	**0.97**
Agriculture	*3%*	*3%*	*0%*	*0%*
Manufacturing industry	*19%*	*17%*	*6%*	*8%*
Energy, water, waste	***4%***	***5%***	***3%***	***61%***
Construction	*9%*	*9%*	*3%*	*2%*
Transport services	***7%***	***8%***	***11%***	***18%***
Other market services excluding financial and real estate activities	*58%*	*58%*	*78%*	*10%*

Source: INSEE.

By mid-2025, the margin rate of the energy and transport services branches is expected to decline, due to the downturn in the selling price of electricity and the fall in freight prices

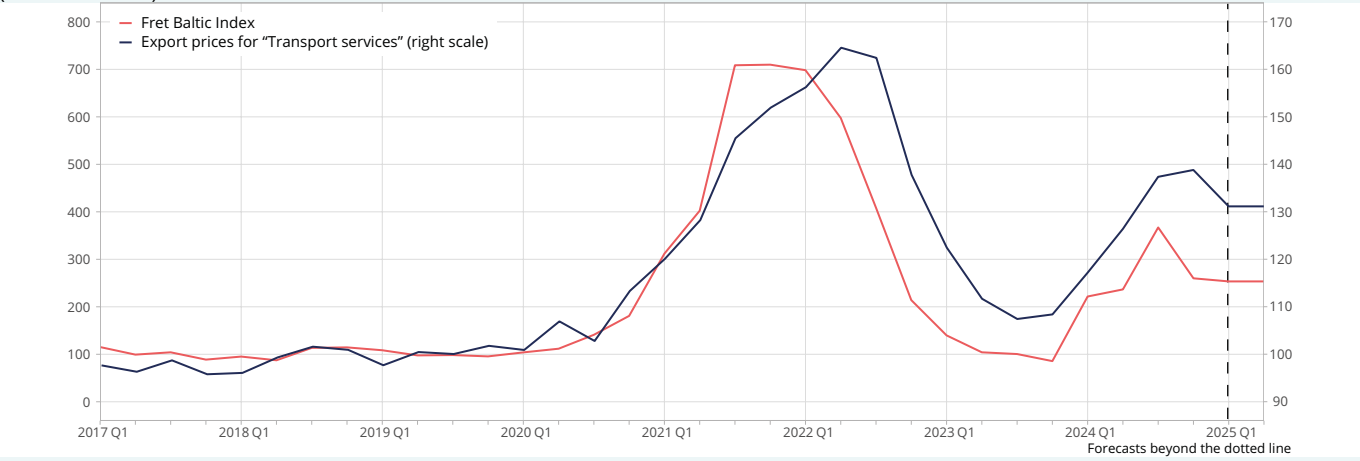
To predict the effect of the volatility of sea freight and electricity market prices on the value added price of the energy and transport services branches, it is possible to simply model the export price of each of these two branches using these two market prices (►**Box methodology**). This export price forecast is then used to calculate the value added price of each branch in the forecast and thus trace the contribution of freight and electricity prices to the overall margin rate.

In the transport services branch, the export price is adjusted with a time lag of one quarter to a variation in the sea freight rate (►**Figure 6**), for an elasticity of 0.2: a 10% increase in the sea freight rate results in a 1.7% increase in the export price for transport services in the following quarter, all other things being equal. With this assumption, given the decline in the sea freight rate since autumn 2024, the export price in the transport services branch is expected to edge down 6% by mid-2025, which would contribute a 0.1-point drop in the overall margin rate in H1 2025.

In the energy branch, the export price adjusts in the space of a quarter to a change in the wholesale electricity market price (►**Figure 7**), for an ultimate elasticity of 0.4: a 10% increase in the price of electricity results in an increase in the export price, all other things being equal, of +4.2% one quarter later, including 2.7% from the coincident quarter. With this assumption, given the change in the wholesale electricity market price since summer 2024, the export price in the energy branch is expected to increase by a little under 20% between Q4 2024 and Q2 2025. However, exports in this branch represent only a small fraction of its output (less than 10%) and the producer price for the domestic market is likely to fall from February 2025, following the regulated sales tariff. Thus the increase in the export price would certainly boost the value added price in the energy branch, but this effect is expected to be very much offset by the decline in the consumer price for households (►**Sheet Consumer prices**). Ultimately, the value added price of this branch is likely to fall by around 6% in H1 2025, affecting the overall margin rate by -0.3 points in H1 2025.

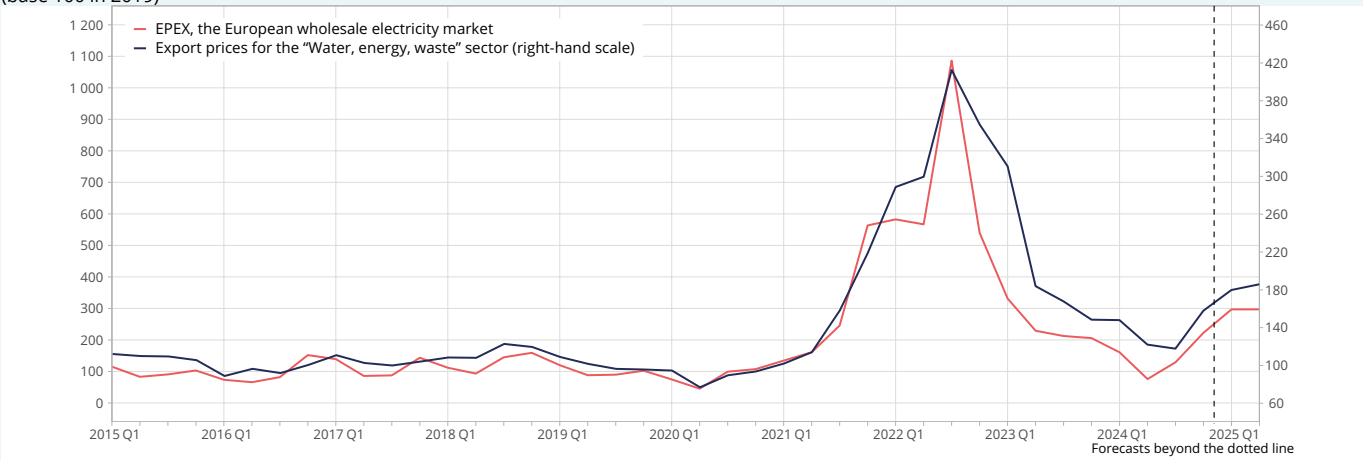
Thus, in H1 2025, the downturn in sea freight prices and the decline in the regulated electricity sales tariff, are likely to account for -0.4 points, all other things being equal, of the change in corporate margin rate. ●

►6. Export price of transport services and price of sea freight
(base 100 in 2019)



Last point: Q2 2025 (forecast from Q1 2025).
How to read it: in Q4 2024, the FBX sea freight price increased by 160.0% and the export price in the transport services branch increased by 38.8% compared to their 2019 averages.
Source: Freight Baltic Index, INSEE.

►7. Export price of the energy branch and spot price of electricity on the European wholesale market
(base 100 in 2019)



Last point: Q2 2025 (forecast from Q1 2025).
How to read it: in Q4 2024, the European electricity price EPEX increased by 122.8% and the export price in the energy branch increased by 57.1% compared to their 2019 averages.
Source: EPEX, INSEE.

Méthodology

Definition of volatility

In this Focus study, the volatility of corporate margin rate is defined as the variance in the margin rate of the market branches, excluding financial and real estate activities. It is calculated over two periods, before the health crisis (between 2015 and 2019) and from 2022 until the end of 2024. Calculation of the relative contribution of branch *i* to the overall volatility of the margin rate at period *t* is simplified, by ignoring the cross-covariance terms between the margin rates of the different branches:

$$Contribution_{Volatilité\ i} = \left(\frac{VA\ i\ ,t}{VA\ glob,\ t}\right)^2 \times Variance\left(\frac{EBE\ \ i\ ,t}{VA\ i,\ t}\right) = (\frac{VA\ i\ ,t}{VA\ glob,\ t})^2 \times Variance(Taux\ de\ marge\ i,t\ )$$

With:

VA i,t: average value added of branch *i* during period *t* by value;
VA glob, t: Average value added during period *t* of market branches excluding financial and real estate activities by value;
EBE i,t: Gross operating surplus of branch *i* during period *t*.

Due to the simplified assumption adopted, the sum of the contributions calculated in this way does not correspond exactly to the observed variance: a homothetic transformation was therefore applied to the different contributions in order to respect this equality.

Modelling export price

Change in the export price of the energy branch is modelled by calibrating it to change in the price according to EPEX, the European wholesale electricity market. The export price is modelled relative to the instantaneous and the one-quarter-lagged change in EPEX. After one quarter, the estimated elasticity is 0.4 over the period Q2 2005 to Q4 2023, including 0.27 from the coincident quarter, with an explanatory power of 57%.

Equation 1:

$$\Delta(\ P_{x\_energie,t}) = \underset{(0,01)}{0,00} + \underset{(0,03)}{0,27} \times \Delta(\ EPEX)_t^{***} + \underset{(0,03)}{0,11} \times \Delta(\ EPEX)_{t-1}^{***} + \epsilon_t$$

R^2 = 0,57; Test of Durbin-Watson = 2,17; estimation period: 2005-Q2 - 2023-Q4
****: p-value <= 0,01*

with $P_{x\_energie,t}$: export price of the "Energy, water, waste" branch in period *t*.

Change in the export price of the transport services branch is obtained by calibrating it to the one-quarter-lagged change in the Baltic Dry Index, a composite index giving sea freight prices worldwide. The estimated elasticity is 0.17 over the period Q4 2016 to Q4 2023, with an explanatory power of 54%.

Equation 2 :

$$\Delta\left(P_{x\_transport,t}\right) = \underset{(0,01)}{0,00} + \underset{(0,03)}{0,17} \times \Delta\left(Baltic\ Dry\ Index\right)_{t-1}^{***} + \epsilon_t$$

R^2 = 0,54; Test of Durbin-Watson = 2,67; estimation period: 2016-Q4 - 2023-Q4
****: p-value <= 0,01*

with $P_{x\_transport,t}$: export price of the "Transport services" branch in period *t.*

Calculating the contribution of the EPEX price and the freight price to the overall margin rate

The sensitivity of the corporate margin rate to a (relative) variation in the export price of branch *i* is obtained formally as follows:

$$\frac{\mathrm{dTM}}{dpx_i/px_i} = \frac{\mathrm{d}}{dpx_i/px_i}\left(\frac{EBE}{VA}\right)$$

with :
TM, *EBE* et *VA* the margin rate, gross operating surplus and value added for all companies, respectively;
px_i the price of exports of branch *i.*

However,

$$\frac{\mathrm{dEBE}}{dpx_i/px_i} = \frac{\mathrm{dVA}}{dpx_i/px_i} = \frac{\mathrm{d}X_i}{dpx_i/px_i} = X_i$$

With X_i the export value of branch *i.*

Therefore

$$\frac{\mathrm{dTM}}{dpx_i/px_i} = X_i.\left(\frac{1}{VA} - \frac{EBE}{VA^2}\right) = \frac{X_i}{VA}.(1 - TM) = \frac{VA_i}{VA}.\frac{X_i}{VA_i}.(1 - TM)$$

With VA_i the value added of branch *i.*

Thus, the sensitivity of the corporate margin rate to a (relative) variation in the export price of branch *i* can be written as the product of three factors:

- share of the value added of branch *i* in the overall value added;
- share of exports (by value) of branch *i* in its value added;
- initial level of the margin rate. ●

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Corporate investment

Investment by non-financial enterprises (NFEs) had almost stabilised in Q4 2024 (-0.2% after -1.1% in Q3; ►Figure 1). Investment in manufactured products was no longer in decline (+0.1% after -4.8% in Q3 2024), due to the rebound in purchases of transport equipment (+2.8% after -9.8%), while the purchase of capital goods (-1.2% after -2.5%) and "other industrial products" (-1.0% after -1.9%) continued to fall, hampered by the uncertain situation and the effects of the earlier tightening of financing conditions. Investment in construction slipped down (-1.1% after +0.6% in Q3), and has now recorded a decline in seven of the last eight quarters. Finally, investment spending on services increased hardly at all (+0.2% after +1.1%), whether in services to businesses (+0.2% after +0.9%) or information-communication (+0.1% after +1.1%). All in all, across the whole of 2024, investment by NFEs declined (-1.6% after +3.1% in 2023). Investment in manufactured products fell (-5.6% in 2024 after +3.6% in 2023), while the decline in investment in construction worsened (-2.4% after -0.5%). Investment in services is promising, notably with spending on information-communication services, but it nevertheless slowed significantly (+2.8% after +5.4%).

Investment over the next quarters looks set to remain sluggish, although with some significant disparities between different types of investment (►Figure 2). In industry, demand expectations are below their historic average and order intentions for the wholesale trade of industrial equipment have hovered for about a year around their lowest level since 2015, apart from the health crisis (►Figure 3). In construction, the decline in investment goes beyond the mere effects of past monetary tightening: construction starts to build offices have been in sharp decline since the beginning of 2022, with no obvious sign of a change, and have reached their lowest level in ten years (►Figure 4), reflecting structural changes in the organisation of work (development of teleworking, boom in self-employment, etc.). Meanwhile, construction starts for commercial space seem to have stabilised close to their historic low, the level reached during the health crisis. Lastly, the balance of opinion on investment expected by businesses in the services sector saw a rebound

►1. Investment by non-financial enterprise (NFEs)
(quarterly and annual changes, in %, seasonally and working day adjusted)

	Quaterly changes										Annual changes		
	2023				2024				2025				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	2023	2024	2025 ovgh
Manufactured product (33%)	0.1	1.1	0.9	-1.7	-1.8	-1.4	-4.8	0.1	0.5	-1.5	3.6	-5.6	-3.3
Construction (26%)	-0.3	-0.5	-0.4	-0.7	-1.4	-0.3	0.6	-1.1	-0.5	-0.5	-0.5	-2.4	-1.5
Services excl. construction (42%)	0.4	1.5	0.6	0.2	0.3	1.4	1.1	0.2	0.5	0.5	5.4	2.8	1.9
All products (100%)	**0.1**	**0.8**	**0.4**	**-0.7**	**-0.9**	**0.0**	**-1.1**	**-0.2**	**0.2**	**-0.4**	**3.1**	**-1.6**	**-0.8**

Forecast.
Source: INSEE.

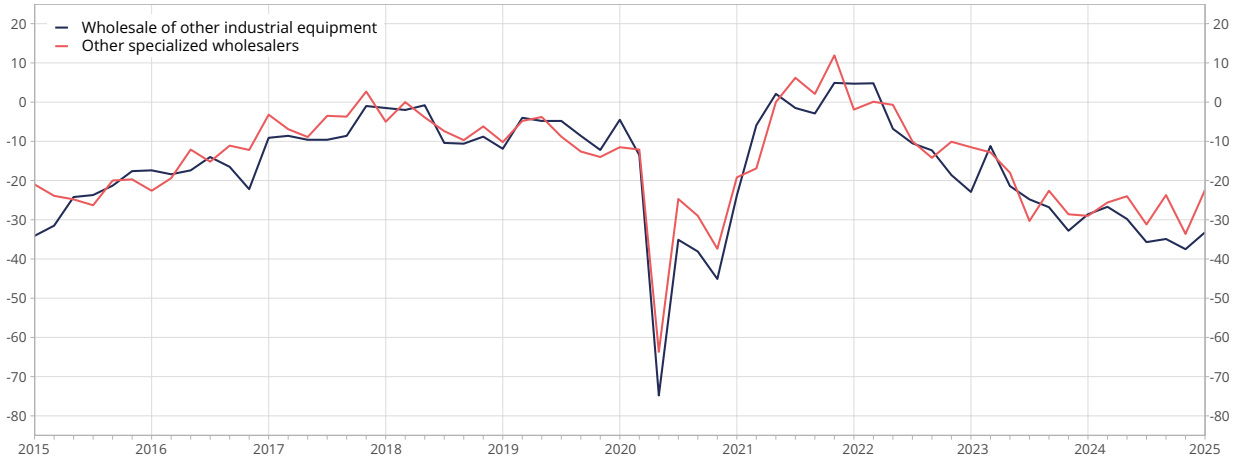
►2. Investment of non-financial enterprises by product
(quarterly changes in %, contributions in pourcentage points)

How to readit: in Q4 2024, investment in construction contributed -0.3 points to change in total investment (-0.2%).
Source: industry business surveys, INSEE.

in January 2025 (►**Figure 5**), although it has remained below its long-term average since October 2023. The continuing decline in the ECB's deposit facility rate, which fell from 4.00% to 2.50% between June 2024 and March 2025, is only partially transmitted to corporate financing conditions. These do not yet support investment decisions (►**Focus** on the transmission of base interest rate cuts to corporate lending rates and ►**Figure 6**). Finally, measures taken within the framework of the 2025 finance law are hampering businesses' financial situation and hence their self-financing capacity (►**Focus** on the effects of 2025 fiscal consolidation on growth).

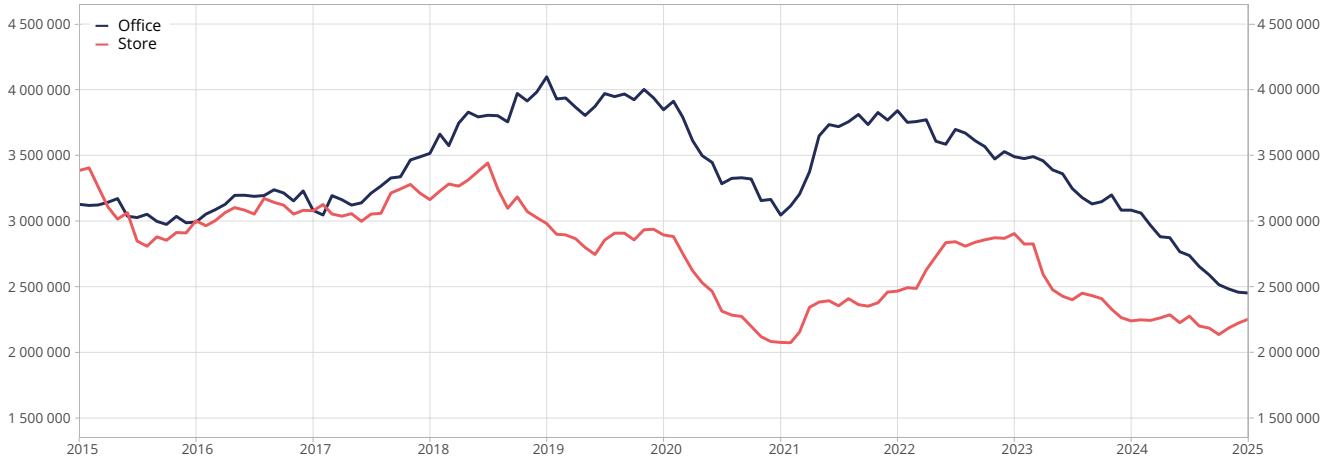
Given this situation, investment by NFEs is expected to continue to edge down slightly on average over H1 2025 (+0.2% in Q1 then -0.4% in Q2). Investment in manufactured products looks set to decline generally, but automobile purchases should bring a little support in H1, with advance purchases before the tightening of the ecological penalty comes into effect on 1st March: investment in manufactured products is expected to improve by +0.5% in Q1, before falling back in Q2 (-1.5%). Investment in services should certainly continue to increase (+0.5% per quarter), but at a considerably slower pace than its trend growth over the last three years (+1.3% per quarter on average). In construction, the decline looks set to continue (-0.5% per quarter), reflecting the small volume of building starts. The mid-year growth overhang in total NFE investment is expected to be negative (-0.8%). ●

►3. Order intentions for the wholesale trade of other industrial equipment and other specialist wholesalers
(balance of opinion, SA, in points)



Last point: January 2025.
How to read it: in January 2025, the balance of opinion for order intentions for wholesale trade of other industrial equipment stood at -35.3 points.
Source: INSEE, bimonthly survey of wholesaling.

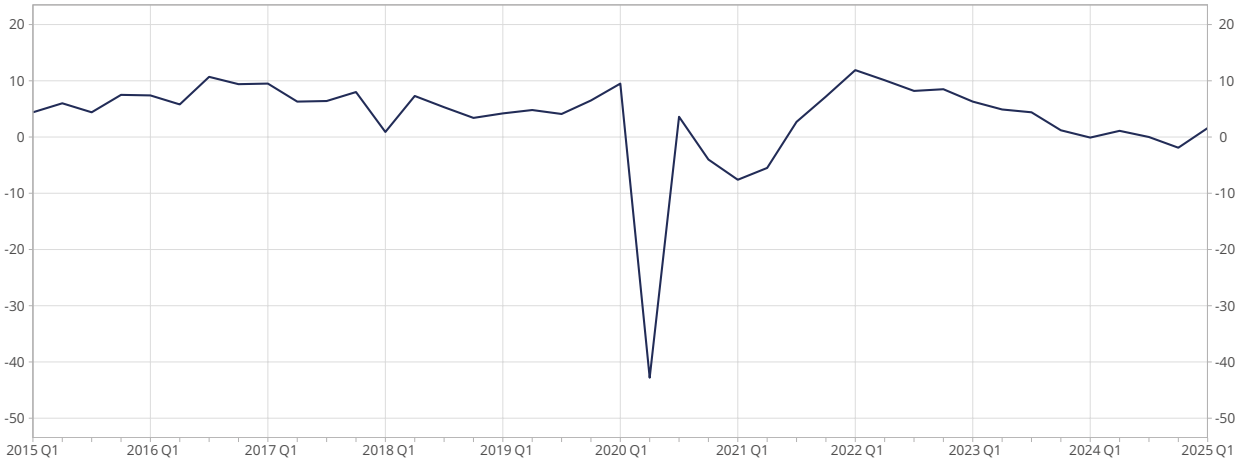
►4. Construction starts for offices and commercial premises
(number of square metres, cumulative sliding year-on-year, SA-WDA)



Last point: January 2025.
How to read it: in January 2025, the volume of office construction starts in the last 12 months (February 2024 to January 2025) stood at 2.45 million square metres.
Source: INSEE.

►5. Planned investment in services and industry

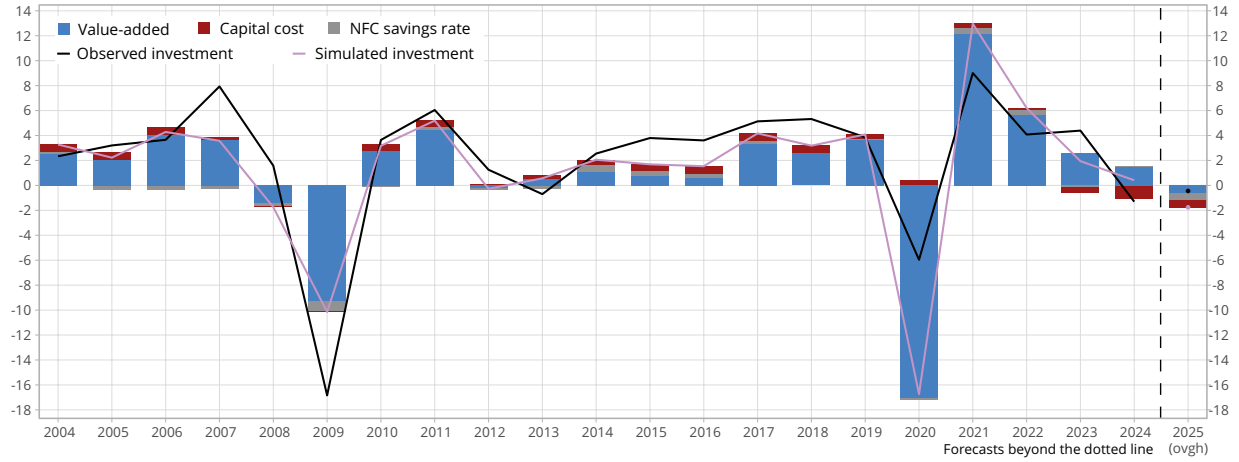
(balance of opinion, SA, in points)



Last point: January 2025.
How to read it: in January 2025, the balance of opinion on investment forecast by companies in the industry sector stands at 1.6 points.
Source: INSEE, quaterly services surveys.

►6. Modeling NFC investment excluding construction

(annual change in %, contributions in percentage points)



Note: the modelling is that presented in the June 2015, *Economic outlook*: ►**Hauseux and al.** "Real estate prices appear to have no direct effect on investment in productive assets".
How to read it: in 2019, NFC investment excluding construction increased by 3.9%. The model simulated an increase of 4.1%, including a 3.6 points contribution from value added, 0.4 points from the cost of capital and 0.1 points from the savings rate.
Source: INSEE.

Since mid-2024, the transmission of base interest rate cuts to French corporate lending rates has been hampered by the reduction in the ECB's balance sheet, political uncertainty and bond yield movements in the United States

In June 2024, the ECB introduced a cut in its base interest rates, which control short-term interbank refinancing costs. According to the model presented in this Focus, banks are quick to pass on fluctuations in monetary policy to private agents, and a cut in base interest rates of 100 basis points results in a drop of around 50 basis points in lending rates to French companies over a two-year timeframe, of which 40 basis points are in the first year. However, rates on new corporate loans are falling less sharply than would be expected given the current monetary easing. There are several factors to account for this lower transmission, some of which are common to all Eurozone countries. First, the effect of the reduction in base interest rates is partly offset by the reduction in the balance sheet held by the ECB, which is composed of longer-term securities: thus, while short-term rates react strongly to monetary easing, medium- and long-term rates are more inert. In addition, fluctuations in the US bond market are partly transmitted to European agent rates, independently of the monetary policy conducted by the ECB; this factor has tended to be on a downward trend for the last year, although this has changed since the end of 2024 due to uncertainty over the direction of fiscal policy on the other side of the Atlantic. Lastly, more specific to France, the risk premium on French sovereign yields, defined as the spread between French and German sovereign yields, has increased since summer 2024 in a context of political uncertainty, which has also slowed the transmission of monetary policy to French corporate lending rates.

By mid-2025, factors limiting the transmission of the cut in base interest rates are expected to be only partially lifted. The French-German spread seems to have stabilised and the ECB's base interest rates should continue to go down, which is expected to contribute to a decline in French private rates. However, the contraction in the ECB's balance sheet is likely to have the opposite effect on long- and medium-term rates. Finally, US rates could continue to slow the decline in sovereign and private yields in Europe if the concerns raised by the implementation of the new administration's fiscal and trade policies were to materialise. Similarly, the increase in German sovereign yields after the announcement of an increase in defence spending at the beginning of March was transmitted to the entire European bond market and could also slow the decline in rates for private agents. Ultimately, these factors mitigate the diffusion of monetary support for investment via the credit channel.

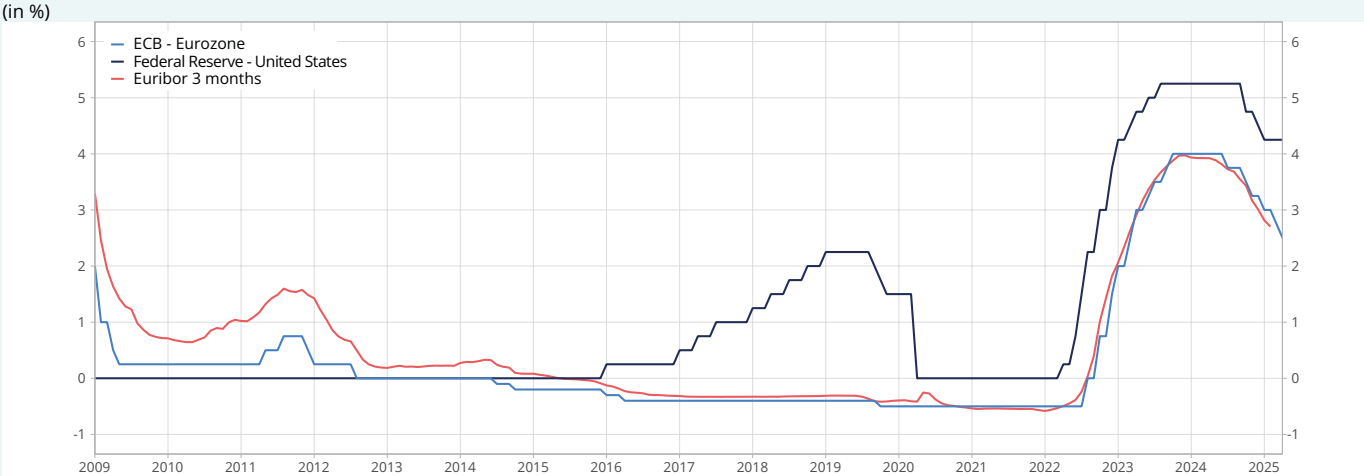
Raphaële Adjerad, Gaston Vermersch

Central banks on both sides of the Atlantic have committed to lowering their base interest rates in 2024

In 2024, in a period of disinflation, the European Central Bank (ECB) and the United States Federal Reserve initiated cycles of cuts in their base interest rates (►**Figure 1**). The ECB started this movement in June by lowering the deposit facility rate from 4.00% to 3.75%, followed by further reductions in September, October, December, February and March 2025 to reach 2.50%. The three-month Euribor

►1. Base interest rates of the central banks

(in %)



Last point: March 2025 for the ECB and Federal Reserve rates and January 2025 for Euribor.
How to read it: the rate considered for the ECB's monetary policy is currently the deposit facility rate and for the Federal Reserve, the floor for the Effective Federal Funds Rate.
Source: BCE, Federal Reserve.

followed the adjustments made to the ECB's deposit facility rate (►Bank of Spain, 2023).[1] Meanwhile, the Federal Reserve began to reduce its rate in September, with a sharp cut of 50 basis points, reducing the floor for the Effective Federal Funds Rate from 5.25% to 4.75%, before making two further cuts in November and December, closing the year at 4.25%.

This decline resulted in a modest decrease in sovereign yields and medium-term European private rates, especially in France

Since mid-2023, government bond rates in the Eurozone countries have also been falling slightly. However, from the summer of 2024, the spread between French bonds (OAT) and German bonds (Bund) widened significantly: thus the three-year rates[2] in France and Germany stood at 2.6% and 2.2% respectively in January 2025, i.e. a spread of 41 basis points, whereas this spread was only 23 basis points in May 2024. The main reason for this divergence is that of political uncertainties in France, notably the dissolution of the National Assembly and the tensions surrounding the adoption of the 2025 budget. Similarly, while France's three-year rate was 11 basis points below that of Spain in May, it is now the Spanish sovereign yield that is slightly lower than the French rate (by 6 basis points in January).

Regarding the private sector, since the beginning of 2024, interest rates on new loans granted to non-financial corporations (NFCs) in the Eurozone have fallen less quickly than base rates (►Figure 2). In France specifically, the decrease in rates on new loans is slightly less pronounced than that in the Eurozone as a whole: since Q2 2024, the average monthly decrease in basis points in France has remained systematically lower than that recorded in the Eurozone (12 basis points on average in Q4 compared to 14 in the Eurozone, 6 basis points in Q3 compared to 10 in the Eurozone, 3 basis points in Q2 compared to 4 in the Eurozone).

This modest decline in French corporate lending rates contrasts with the more substantial reductions in the ECB's base rates over the same period. Analysis of the transmission channels of the central bank's cuts to government bond rates then to private companies reveals the factors that account for this divergence, some of which are common to all Eurozone countries and others are specific to France.

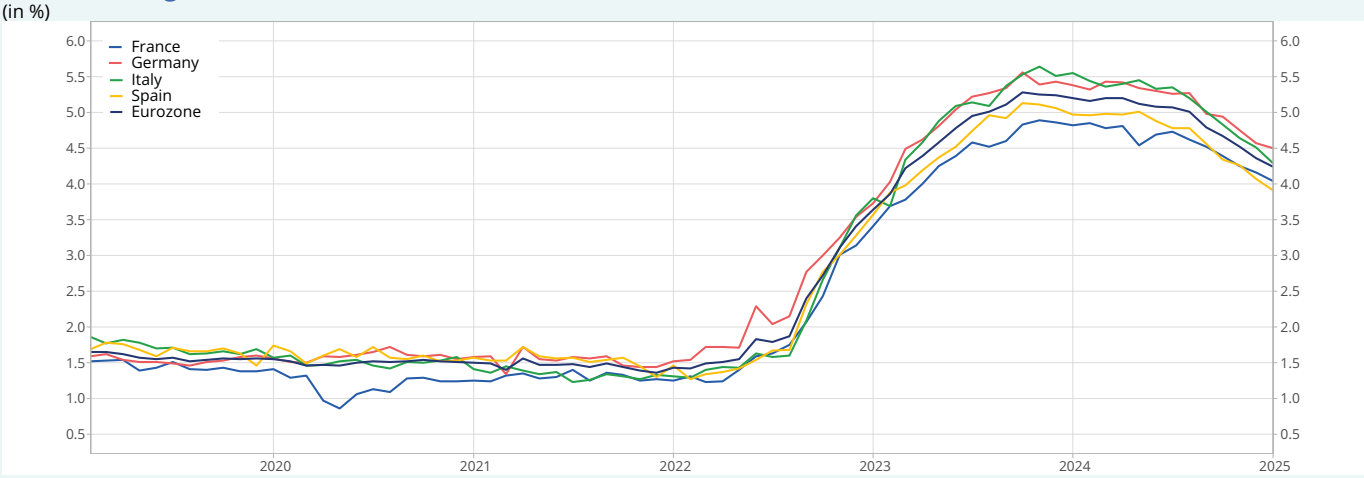
The transmission of monetary policy shocks to private rates is not immediate and also depends on maturity and risk

The central banks set their base rates which determine the very short-term interbank rates. Several factors influence transmission of these rates. First, the banks do not adjust their rates immediately. There is therefore a transmission lag: based on past changes, it can be seen that monetary policy shocks are effectively transmitted to private rates within a relatively short time frame, of around 12 months (►Jude and Levieuge, 2024).

Furthermore, lending rates to private agents are often contracted over the medium or long term, like the maturity of corporate debt in France, which is three years on average (►Gueuder and Ray, 2022). Therefore, monetary policy is not transmitted to private agents in full. The rates granted to companies can be analysed as the sum of three components: anticipation of future short-term interest rates, a possible term premium, and risk premiums (►Barthélémy, 2024). Anticipation of short-term interest

1 Since the early 2010s, interbank rates in the Eurozone have followed the ECB's deposit facility rate due to excess liquidity. Previously, they tended to follow the main refinancing operations rate closely.
2 In this Focus, the maturity used for sovereign yields and rates applied to companies is three years, as this is the average maturity of corporate debt (see below).

►2. Borrowing rate for NFCs in the Eurozone (2019-2024)
(in %)



Last point: January 2025.
How to read it: the borrowing rate for new loans to non-financial corporations (NFCs) in France in January 2025 was 4.0%.
Source: European Central Bank.

rates depends mainly on inflation expectations, which central banks can influence through their monetary policy, either by changing their base interest rate or by changing the balance sheet of assets held by the central bank. The term premium corresponds to remuneration for the illiquidity incurred by the lender by lending at a fixed rate. Finally, risk premiums include a macroeconomic risk premium that depends on the international economic environment, on a potential sovereign risk specific to each country and on a default risk specific to each economic agent, estimated by the lending bank and billed to it.

The contraction of the ECB's balance sheet results in a "steepening" of the yield curve

In a traditional economic and financial environment, interest rates increase according to the maturity of the loan: we then say that the yield curve is rising. This was the case in France, for example, in 2012 for the curve of the OAT rate (►**Figure 3**).

With the implementation of the ECB's unconventional monetary policies from the mid-2010s, this curve then flattened until 2019 (while continuing to grow), due to the increase in the ECB's balance sheet, in particular the acquisition of medium- and long-term sovereign securities. This was indeed one of the ECB's stated objectives: faced with increased risk of deflation and with base rates close to zero, unconventional policies aimed at stimulating demand by lowering long-term rates.

The situation changed after the health crisis in a context of rising inflation. The ECB quickly responded by raising its base rate in 2022, and short-term rates increased, more so than long-term rates, which depend on long-term inflation expectations and are less sensitive to changes in the ECB's base rate, especially if monetary policy is perfectly anticipated by the markets: thus, the yield curve was in the shape of an "L" at the end of 2023.

In 2024, the opposite phenomenon occurred: the ECB began to lower its base interest rate in the midst of disinflation, leading to a decline in short-term treasury bonds, which are more sensitive than long-term bonds to a change in the base rate. This steepening of the yield curve was amplified by the policy of tightening the balance sheet of the ECB's assets in 2024, which pushed the sovereign yields of all the Eurozone countries upwards in the long term. Thus, at the end of 2024, the yield curve took on a "U" shape: short-term rates fall compared to 2023, but still remained above the medium-term rate (3 to 7 years), while long-term rates continued to rise due to the restriction of the balance sheet of assets held by the ECB. Finally, three-year rates declined less than the ECB's base rates, just as previously they had increased less.

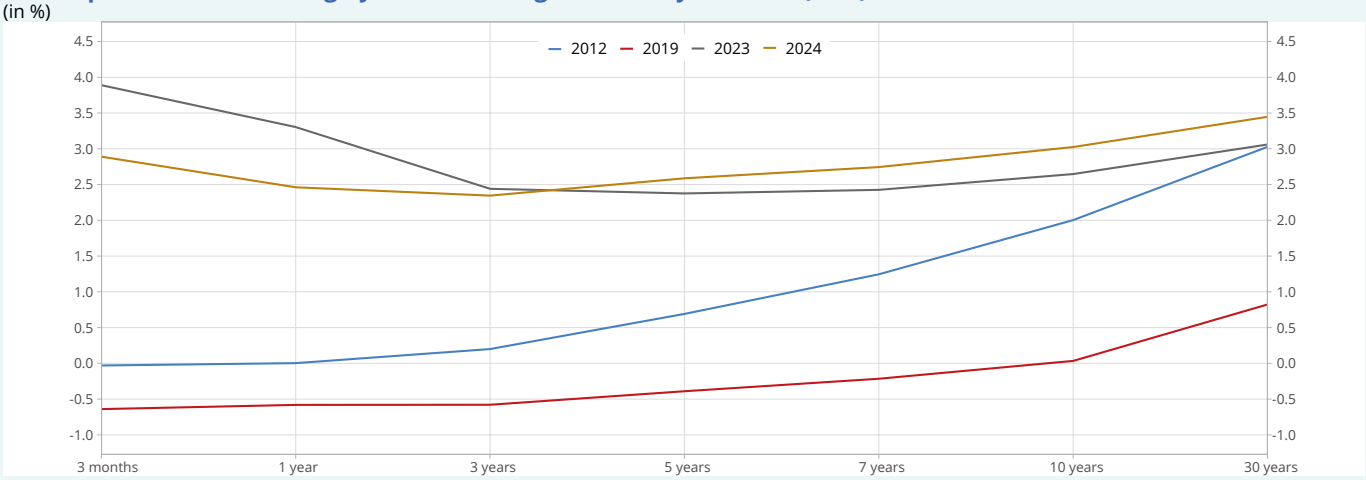
US rates also have an impact on European rates

While sovereign yields and private rates in the Eurozone are affected by the ECB's monetary policy decisions, they are also sensitive, to a lesser extent, to the global bond environment, and in particular to rates in the United States. For example, at the end of 2023, 29% of French public debt was held by non-residents outside the Eurozone, according to the Banque de France. The economic literature shows that a shock to US sovereign yields (►**Brandt and al., 2021**) or the international financial environment (►**Girotti and al., 2022**) simultaneously affects asset and bond prices in the Eurozone, independently of the ECB's monetary policy reaction.

While the decline in bond yields was relatively similar on both sides of the Atlantic between the end of 2023 and the end of 2024, the results of the US presidential election contributed to a rise in US rates, contaminating the European market. Indeed, while the outlook for future ECB rate cuts is firmly rooted in a context of declining inflation and a marked slowdown in activity on the Old Continent, expectations are fluctuating much

►3. Slope of French sovereign yields according to maturity of bonds (OAT)

(in %)



How to read it: in December, the rate for 3-month fixed-rate treasury bonds was 2.89%.
Source: Banque de France, Agence France Trésor.

more across the Atlantic, where activity continues to be vigorous and where inflation is struggling to decline. Added to this are the trade and fiscal policies set out by the new administration which are fuelling fears of renewed inflation in the United States, and this is pushing up US rates and therefore indirectly limiting the decline in European rates, and French rates in particular.

The smaller drop in borrowing rates for companies in France in 2024 is due to the contraction of the ECB's balance sheet and a higher risk premium

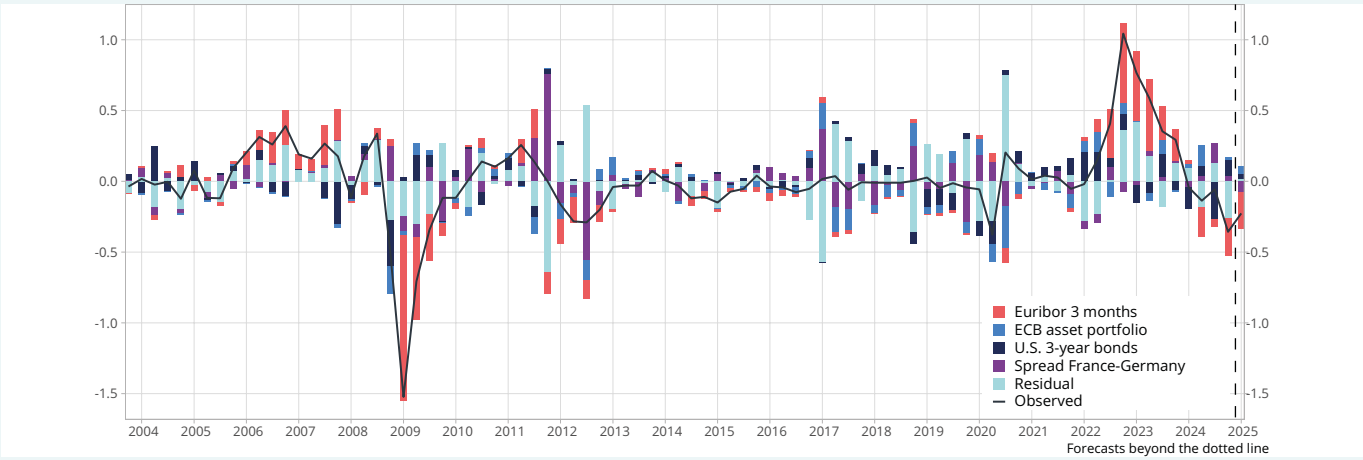
The modest drop in the borrowing rate for NFCs in France can be subject to econometric modelling, in order to distinguish within this movement what is, on the one hand, due to factors common to all the Eurozone countries, notably the ECB's monetary policy, or to the international economic and financial environment, and on the other hand, what is more specific to the national context (►**Box methodolgy**).

In order to study the different stages of the transmission of the ECB's monetary policy, it is necessary to select a risk-free rate that reflects only inflation expectations and term premiums. In practice, this "pure" risk-free rate does not exist, but in the literature sovereign yields are selected. For the Eurozone, the weakest sovereign yield and for which the market has the greatest depth –and therefore does not suffer from problems of liquidity– is the German bond (Bund). First, the rate of three-year German bonds is modelled in the form of an error-correction model, as a function of the three-month interbank rate (Euribor), the balance sheet of assets held by the ECB, and the US sovereign yield with the same maturity. Next, the rate of French bonds (OAT) can be broken down for accounting purposes as the sum of the German sovereign yield (similar to the risk-free rate in the Eurozone) and a risk premium, commonly called a "spread", which is assumed to be representative of the French macroeconomic risk premium, due to the uncertainty specific to France. Finally, the rate on new loans granted to French NFCs is modelled by an error-correction model based on the rate of French bonds. Thus, by linking these different steps, it is possible to account for the contribution to changes in the rates at which French NFCs are financed by the spread between France and Germany on the one hand, and factors common to the different Eurozone countries on the other, such as the Euribor rate, the ECB's balance sheet or the US sovereign yields.

According to the model used, the effect of an increase of 100 basis points on the three-month interbank rate, sensitive to changes in the ECB's base rate, is 50 basis points at term on the rate of new loans to French NFCs, with 40 basis points applied from the first year. Conversely, an increase in the Eurozone's asset balance sheet, equivalent to 1 point of Eurozone GDP, ultimately leads to a decrease of 0.6 basis points in the rate of loans to French NFCs over a two-year period.

Between Q4 2023 and Q4 2024, rates on new loans to French NFCs fell by 0.6 points. The easing of monetary policy during 2024 contributed to this drop in the rates paid by the NFCs. The decline in the European interbank rate, made possible in particular by the fall in the base rate, would appear to have contributed -0.5 points. Nevertheless, this effect is partly offset by the continued reduction in the ECB's asset balance sheet, which made a positive contribution of +0.2 points. The fall in the US rates contributed -0.2 points to the decline in rates for French NFCs; this factor was reversed, however, during the last quarter of the year and helped to slow the downward movement (contribution of +0.1 points, ►**Figure 4**).

►4. Contributions to the quarterly change in the rate on new loans paid by NFCs in France
(in percentage points)



Last point: Q1 2025.
How to read it: in Q4 2024, the rates paid by NFCs on newly contracted loans fell by 0.4 percentage points. The drop in interbank rates contributed -0.3 points to this change, according to the model used.
Source: Banque Centrale Européenne, Agence France Trésor, Bundesbank, S&P, INSEE modelling and calculations.

Regarding the political uncertainty in France, reflected by the sovereign yield spread between France and Germany, it increased in the summer and, all other things being equal, appears to have raised the rate of loans to French NFCs by +0.2 points over one year at the end of 2024. Finally, factors not explained by the model are expected to contribute to bringing down the rate of NFC loans by -0.2 points over the period: the tightening of financing conditions was stronger in 2023 than suggested by the model and the easing, in contrast, was slightly faster (►Figure 4).

By mid-2025, NFC lending rates are expected to fall slightly less than at the end of 2024. The ECB is likely to continue to lower its base interest rates, which should contribute to a decline in private rates, but it will also cause its balance sheet to contract, which would in turn have an adverse effect on long- and medium-term rates. Furthermore, US rates could continue to slow the decline in sovereign yields and private rates in Europe if concerns raised over the implementation of the new administration's fiscal and trade policies are confirmed. Finally, the rise in the German sovereign yields following the announcement of an increase in defence spending in early March has been passed on to the entire European bond market. A sustainable rise in German sovereign yields could, once again, slow the decline in rates for private agents. ●

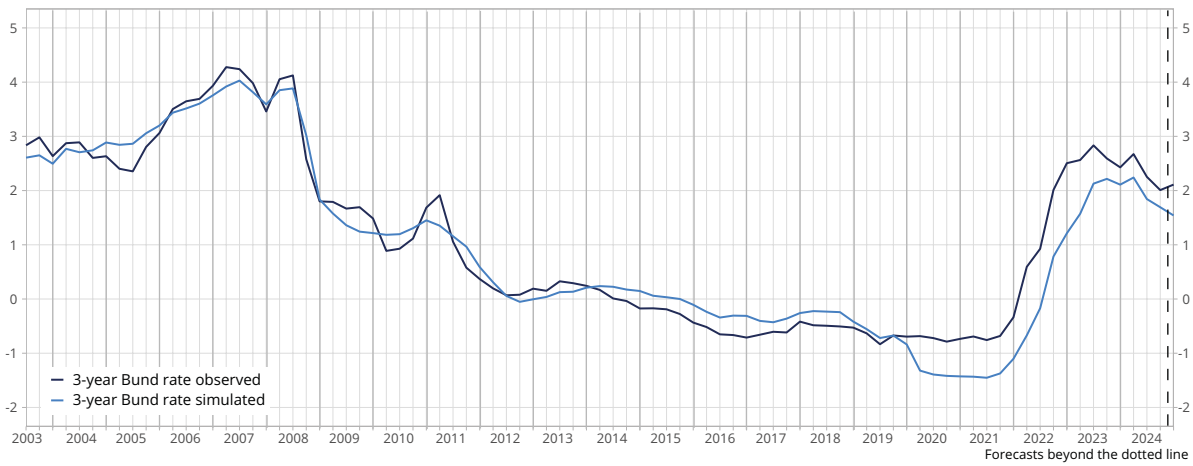
Méthodology: Two-stage model of the interest rate on new loans contracted by non-financial corporations in France

In order to differentiate the contributions of monetary policy and the international economic and financial environment to change in the rate on new loans paid by French non-financial corporations (NFCs), a two-stage model is proposed, notably using error correction models.

Firstly, the three-year German sovereign yield (Bund) is modelled, similar to the risk-free rate in the Eurozone (►Figure 5). In the long term, the three-year Bund depends on the three-month interbank rate (effect of a change in the ECB's base interest rate, Euribor), the US sovereign yield (with the same maturity, US Bond), the size of the ECB's balance sheet (effect on the medium- and long-term sovereign yields, Bilan BCE) and an indicator from the 2010s onwards. In the short term, the variation in the Bund depends on the same determinants. The model indicates that an increase in the balance sheet of assets held by the ECB equivalent to 1 point of Eurozone GDP is associated with, all other things being equal, a long-term decrease of 0.72 basis points in the three-year German Bund. This elasticity is lower than that estimated by the ECB in recent studies (►Akkaya and al., 2024).

►5. Three-year German Bund rate observed and simulated from the model (stage 1)

(in %)



Last point: Q1 2025.
Note: the observed rate in Q1 2025 is carried over from January.
How to read it: in Q4 2024, the observed German Bund was 2.01%, the rate simulated by the model is 1.69%.
Source : Bundesbank, INSEE modelling.

Stage 1:

$$\Delta(Bund_t) = \underset{(0,02)}{0,00} + \underset{(0,08)}{0,54} \times \Delta(Euribor)_t^{***} + \underset{(0,08)}{0,37} \times \Delta(Bond\ US)_t^{***} - \underset{(0,39)}{0,57} \times \Delta(Bilan\ BCE)_t$$

$$- \underset{(0,07)}{0,35}^{***} \times [Bund_{t-1} - (\underset{(0,04)}{0,60} \times Euribor_{t-1}^{***} + \underset{(0,03)}{0,11} \times Bond\ US_{t-1}^{***} - \underset{(0,13)}{0,72} \times \text{Bilan BCE}_{t-1}^{***} - \underset{(0,15)}{0,68} \times \mathbb{1}_{t>=2011}^{***})] + \epsilon_t$$

R^2 = 0,69; estimation period: 2003-Q1: 2020-Q4

****: p-value <= 0,01*

Next, the three-year French sovereign yield is reconstituted in accounting terms: the OAT rate can indeed be written as the sum of the German sovereign yield (similar to the risk-free European rate) and a risk premium (or spread).

Accounting equation: $OAT_t = Bund_t + (OAT_t - Bund_t) = Bundt + spread_t$

Secondly, we model the determinants of the interest rate on loans paid by NFCs based on the three-year OAT rate (►**Figure 6**), assuming that the OAT incorporates the macroeconomic risk premium specific to France. In the long term, loans to private agents are thus assumed to depend on France's sovereign yield over three years, which corresponds to the average maturity of loans to NFCs (►**Gueuder and Ray, 2022**). To account for an increase in risk premiums specific to companies during the 2010s, a dummy is added after 2011 in the long-term relationship. In the short term, the variation in the NFC rate depends on the immediate lag of this variable and of the variation in the French sovereign yield.

Stage 2: Error correction model of rate paid by NFCs for new loans

$$\Delta(Taux\ SNF_t) = \underset{(0,02)}{0,00} + \underset{(0,06)}{0,44} \times \Delta(Taux\ SNF)_{t-1}^{***} + \underset{(0,05)}{0,35} \times \Delta(OAT)_t^{***}$$

$$- \underset{(0,05)}{0,34}^{***} \times [Taux\ SNF_{t-1} - (\underset{(0,05)}{0,85} \times OAT_{t-1}^{***} + \underset{(0,15)}{0,46}\ \mathbb{1}_{t>=2011}^{***})] + \epsilon_t$$

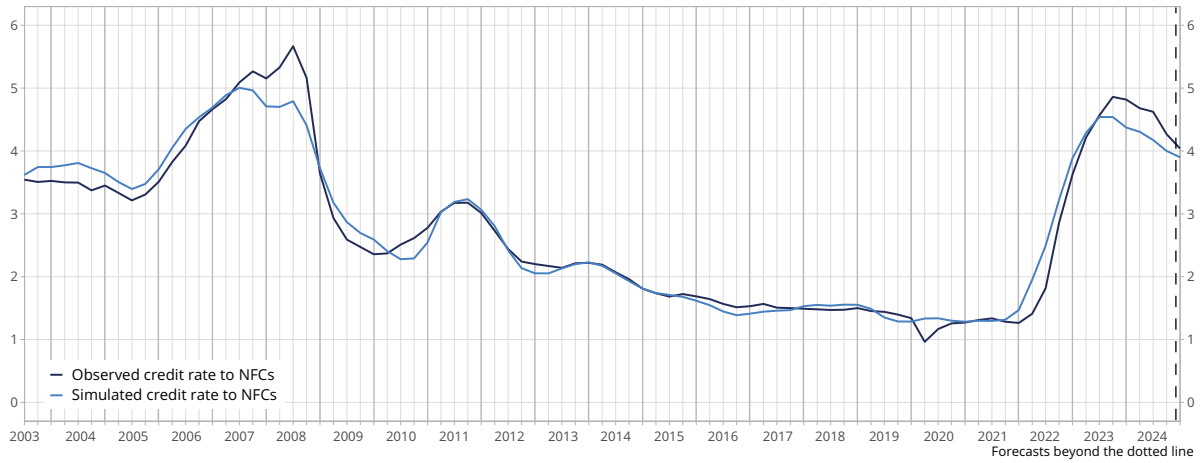
R^2 = 0,76; estimation period: 2003-Q1 : 2020-Q4

****: p-value <= 0,01*

By combining these three equations, the three-year NFC loan rate can thus be written as the sum of a contribution from the European interbank rates, the US rates, the ECB's balance sheet (all three are factors common to all Eurozone countries), the spread and a residual component (corresponding to the errors of the two econometric models and the contribution of the dummies in these same models). ●

►6. Rate of new loans to NFCs observed and simulated from the model (stage 2)

(in %)



Last point: Q1 2025.
Note: the observed rate in Q1 2025 is carried over from January.
How to read it: in Q4 2024, the observed rate of new loans to NFCs was 4.27%, the rate simulated by the model is 4.00%.
Source: BCE and INSEE modelling.

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International economic outlook

International synthesis

In Q4 2024, activity in the Eurozone was sluggish (+0.2% after +0.4% in Q3), marking a loss of momentum in the recovery outlined at the start of the year. Over the whole of 2024, activity in the Eurozone grew by 0.8%, after 0.5% in 2023. However, this slight acceleration masks some significant disparities between countries. Germany recorded a second consecutive year of recession. In the United Kingdom too, activity stagnated at the end of the year: +0.1% in the autumn, bringing annual growth to +0.9%. Conversely, growth did not weaken in the United States (+0.6% at the end of the year and +2.8% over the whole year), driven by solid domestic demand. In China, the slowdown was confirmed in 2024 despite a resurgence at the end of the year: annual growth of 5% is the lowest recorded since the 1990s, excluding the period of the health crisis.

In the advanced economies, the inflationary period is over, but two groups of countries are emerging: in the United States, the United Kingdom, Spain and Germany, the wage push is maintaining core inflation at above 3%. Conversely, it is much more moderate in France and Italy, where wages have not yet recovered from the losses suffered during the inflationary episode.

As a result of the growth gap between the two sides of the Atlantic, monetary policies are starting to diverge in 2025. The Federal Reserve lowered its rates again in December 2024, but then seemed to call a halt. The ECB, on the other hand, introduced further easing in late January 2025 then early March and is expected to continue through until June. This monetary easing is transmitted to the financing costs of non-financial corporations in France, but to a lesser extent than the base interest rates (**►Focus** on the transmission of base interest rate cuts to corporate lending rates). It is thwarted by the recent rise in German (and Eurozone) sovereign yields, in a context where an increase in defence spending can be expected.

This monetary easing is bolstering a tentative recovery in residential investment but is spreading more slowly for companies, with contrasting national dynamics. In Germany, investment fell by 2.6% over the year: this poor performance concerns both construction and equipment investment. There is also an evident decline in France (-1.5% after +0.7%) concerning both businesses (-1.6% after +3.1%) and households (-6.0% after -8.2%). In Italy, it remained at a standstill in 2024 (0.0% after +9.2%), reflecting the end of the boom in construction investment (+1.0% after +16.0%) supported by government aid until 2023. Within the Eurozone, Spain is the exception: investment there increased by 2.3% in 2024 (after +2.1% until 2023). In the United Kingdom, total investment remained solid over the year (+1.3%) but shows signs of slowing: it fell by 0.9% in the autumn, hampered by non-residential investment (-3.2%), while the residential sector began to recover. A similar trend could be seen in the United States: investment was vigorous throughout the year (+3.7%), but its non-residential component came to a standstill at the end of the year, with aeronautical deliveries having been penalised by strikes in the autumn, and meanwhile residential real estate is getting a reboot.

In Q4 2024, private consumption in the United States increased by 1.0%, bringing its annual growth to +2.8%. It was supported by gains in purchasing power, driven both by strong job creations and dynamic nominal wages, in a context of disinflation, but also a slight trend towards dissaving. In the Eurozone, however, purchasing power bounced back significantly (+2.2% after +1.2%) but consumption did not follow suit (+1.0% after +0.6%), and thus the savings ratio increased (**►Focus** on the savings ratio in Eurozone, *Economic outlook,* december 2024). The United Kingdom experienced a situation similar to that of the continent: the significant gains in purchasing power over the year (+3.6%) are far from being used in spending (consumption grew by +0.7% in 2024) and the savings ratio rose.

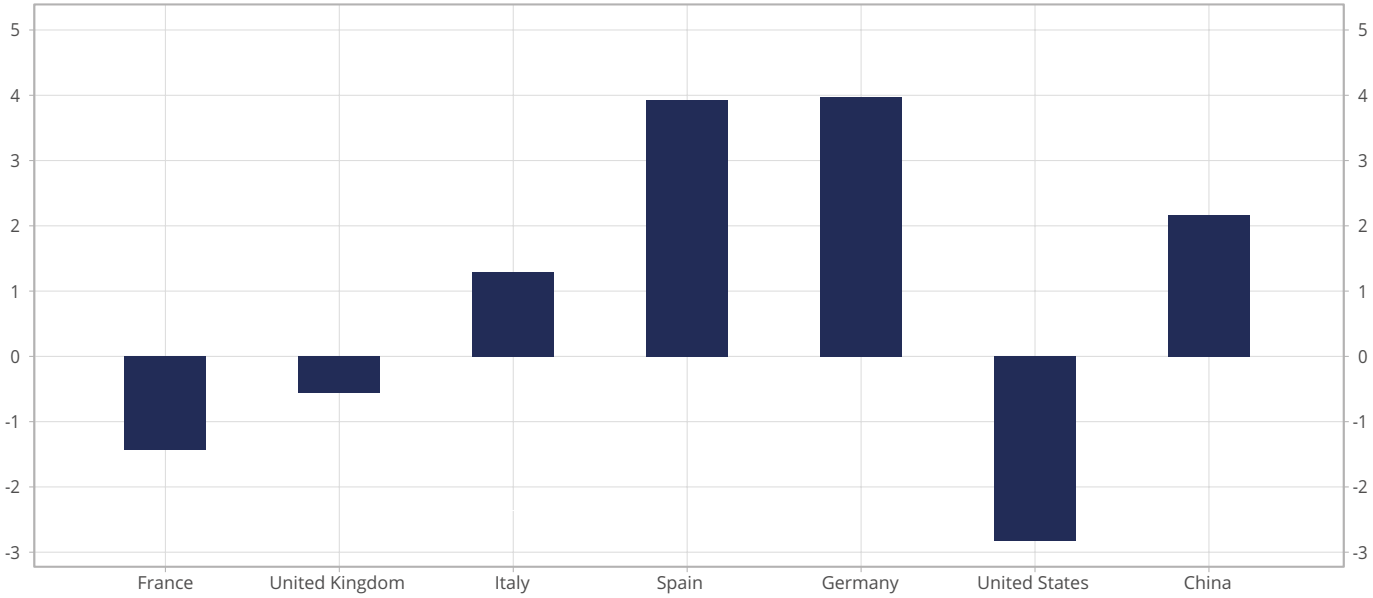
World trade in goods and services slowed slightly in Q4 (+0.4%) but accelerated over the year as a whole (+2.4% in 2024 after +0.8% in 2023): according to CPB data especially, trade in goods rebounded significantly (+1.8% after -1.2% in 2023). In the United States, exports stabilised at the end of the year, affected in particular by the downturn in aeronautics. Over the whole of 2024, the contribution of foreign trade to growth remained negative, reflecting the cyclical shift in favour of the US economy. Historically, the United States has a structurally negative trade balance with the rest of the world, as have France and the United Kingdom (**►Figure 1**), while Italy, Germany and China, conversely, have recorded surpluses due to their industrial capacity and Spain through tourism (**►Focus** on the spanish economic dynamism, *Economic outlook,* december 2024). However, the mechanism stalled in Germany in 2024, where foreign trade hampered growth, with a decline in exports (-1.0%). In Italy, trade sustained activity, but only as a result of a stronger contraction in imports than in exports. Chinese exports improved significantly in 2024 (+12% over the year, +4% in Q4), with falling prices allowing for major gains in market share, and manufacturers establishing themselves in emerging markets such as electric vehicles (**►Focus** on imports of electric vehicles).

International economic outlook

For Q1 2025, despite the uncertainty surrounding the new US administration's decisions, advance indicators available up to February (customs data and PMI surveys on export orders) are favourable and suggest that world trade will remain at a similar pace to that of 2024, at around +0.7% per quarter (►**Figure 5**). However, the tariff increases decided by the United States and the probable retaliation from its trading partners are likely to disrupt this momentum. The scale and pace of this negative effect are particularly uncertain: on the basis of existing simulations, this *Economic outlook* assumes a long-term impact of around -4 points on world trade, including -0.1 points from Q1 2025 and an additional -0.4 points in Q2 (►**Box** on US customs tariffs). World trade is thus expected to slow significantly thereafter (+0.6% in Q1 then +0.3% in Q2).

►1. Balance of trade in goods and services in 2023

(in % of GDP in value)



How to read it: the balance of trade in goods and services in the United States represented -2.8% of GDP in 2023.
Source: World Bank.

►2. Summary of the international scenario

(levels, quarterly and annual variations - for the last three columns - in %)

	2023				2024				2025		2023	2024	2025 (ovgh)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Euro-dollar exchange rate	1.07	1.09	1.09	1.08	1.09	1.08	1.10	1.07	1.05	1.07	1.08	1.08	1.06
Barrel of Brent (in dollars)	81.2	78.1	86.6	84.0	82.9	84.7	80.0	74.6	75.0	70.0	82.5	80.5	72.5
Barrel of Brent (in euros)	75.6	71.7	79.5	78.1	76.3	78.6	72.9	69.8	71.6	65.4	76.2	74.4	68.0
World trade (variations)	-0.6	0.5	0.1	0.4	0.3	1.6	0.5	0.4	0.6	0.3	0.8	2.4	1.7
Imports by advanced economies	-0.5	-0.6	-0.6	0.3	0.3	1.5	0.8	0.1	0.5	0.1	-0.9	1.6	1.5
Imports by emerging economies	-0.8	3.2	2.1	0.8	0.4	2.2	-0.4	1.2	0.7	0.6	5.2	4.5	2.4
World demand for French products (variations)	-0.5	0.1	-0.9	0.0	0.4	1.4	0.3	0.5	0.5	0.3	-0.4	1.3	1.6

Forecast.

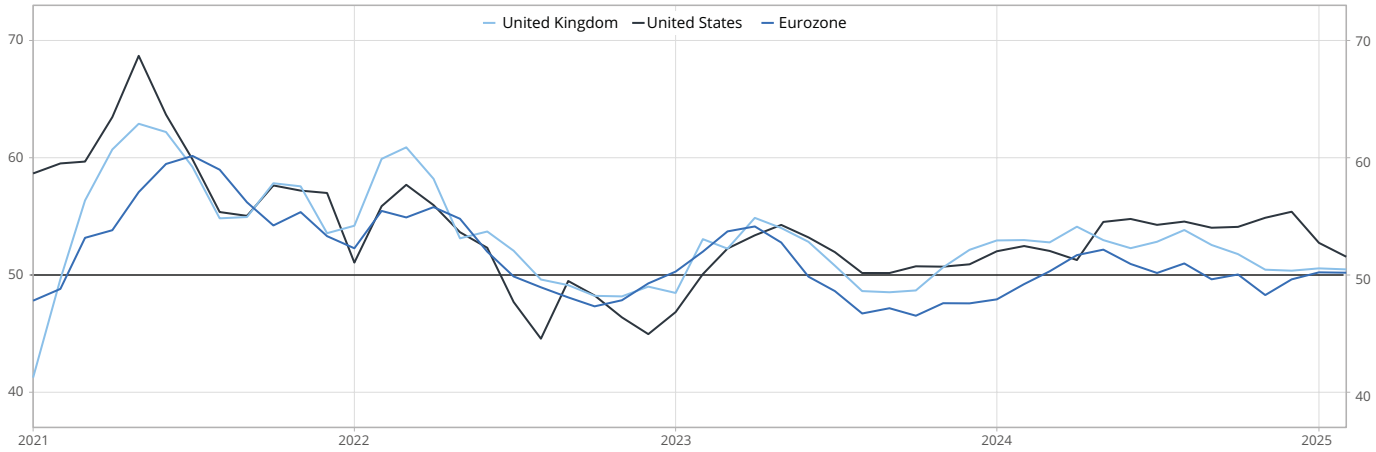
Source : Commodity Research Bureau, IHS Markit, Balanced trade statistics (OECD), CHELEM - International trade (CEPII), INSEE calculations.

In the United States, household confidence is sagging and businesses anticipate growing inflationary pressures due to the customs measures: thus, activity is expected to slow significantly to +0.4% then to +0.3% in the first two quarters. In the United Kingdom, growth is likely to remain sluggish, mired in high inflation fuelled by the increase in social security contributions. In the Eurozone, growth is expected to remain weak (+0.2% in Q1, then +0.1%): household and general government consumption should ensure that activity is able to hold out, but investment would remain depressed. The disparity between the major Eurozone economies is likely to remain pronounced, between the Spanish rocket and the German stagnation. In China, activity is expected to grow moderately in H1 (+1.0% per quarter), boosted by targeted recovery measures, but these are unlikely to be sufficient to initiate a more robust recovery. The major exporting countries (Germany, Italy, China) will probably also suffer greatly from the tightening of the US tariff situation. The 2025 mid-year growth overhang is expected to be +1.6% in the United States, +0.7% for the Eurozone and +0.5% for the United Kingdom.

In Europe, earlier wage gains are expected to enable private consumption to hold up: in Germany and Italy, it should increase slightly (+0.1% in Q1, +0.2% in Q2), while in Spain it should remain solid. In the United States, the resurgence of inflation and the collapse in household confidence are likely to hinder consumption, which is expected to show a marked slowdown (+0.2% per quarter). In most countries, residential investment is expected to stop its decline or continue to recover, except in Italy where the fiscal support that had sustained it so far has now run out. However, productive investment is likely to develop in different ways: it is expected to be fairly robust in the United States and dynamic in Spain, after a one-off setback at the beginning of the year, but it will not yet be able to bring the rest of Europe out of its lethargy.

►3. The business climate is weakening in the United States

(index in level)



Last point: February 2025.
How to read it: the composite PMI stood at 51.6 in the United States in February 2025, compared to 50.5 for the United Kingdom and 50.2 for the Eurozone.
Source: S&P.

►4. Past and forecast GDP growth in the main western economies

(quarterly and annual variations - for the last three columns - in %)

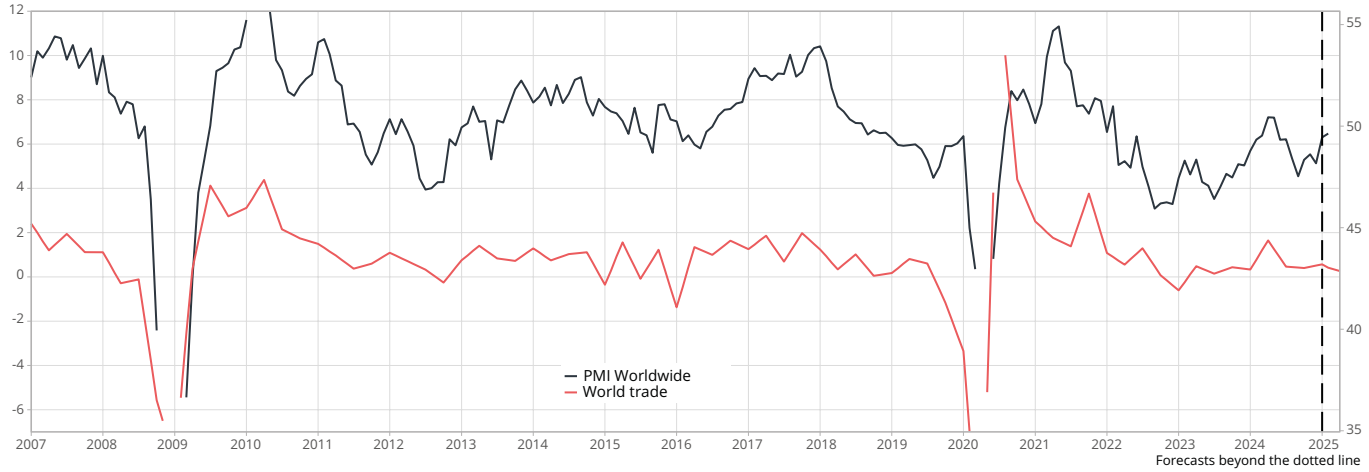
	2023				2024				2025		2023	2024	2025 (ovgh)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
France	-0.1	0.7	0.1	0.5	0.1	0.3	0.4	-0.1	0.1	0.2	1.1	1.1	0.4
Germany	0.1	-0.2	0.2	-0.4	0.2	-0.3	0.1	-0.2	0.1	0.0	-0.1	-0.2	-0.1
Italy	0.6	-0.3	0.0	0.2	0.3	0.1	0.0	0.1	0.1	0.0	0.8	0.5	0.2
Spain	0.7	0.2	0.7	0.7	1.0	0.8	0.8	0.8	0.7	0.6	2.7	3.2	2.3
United Kingdom	0.1	0.0	-0.1	-0.3	0.8	0.4	0.0	0.1	0.1	0.2	0.4	0.9	0.5
United-States	0.7	0.6	1.1	0.8	0.4	0.7	0.8	0.6	0.4	0.3	2.9	2.8	1.6
China	1.7	1.2	1.5	0.9	1.5	0.9	1.3	1.6	1.0	1.0	5.2	5.0	3.9
Eurozone	0.0	0.1	0.0	0.1	0.3	0.2	0.4	0.2	0.2	0.1	0.5	0.8	0.7

Forecast.

Source : INSEE, Destatis, Istat, INE, ONS, BEA, NBSC.

►5. Change in world trade and Global PMI New Export Orders

(global PMI: monthly level; world trade: quarterly change in %)



Last point: Q2 2025 (forecast from Q1 2025) for world trade, February 2025 for Global PMI.
Note: the extreme points have been removed for more clarity.
How to read it: world trade increased by 0.4% in Q4 2024 and the Global PMI New Export Orders index was 49.6 in February 2025.
Source: S&P, Balanced Trade Statistics (OECD), CHELEM - International Trade (CEPII), INSEE Forecast.

What impact will the new US tariffs have on world trade?

Raphaële Adjerad

Since his inauguration, President Donald Trump has introduced and announced a series of tariffs targeting certain products and countries. Starting on 4 February 2025, an additional 10% of duty was applied to imports from China, to be increased by a further 10% from 4 March. In addition, a 25% increase in tariffs on imports from Mexico and Canada was implemented on this same date, although some products, like automobile components, are temporarily exempt. On 6 March, this implementation was put back to 2 April for products compliant with the trade agreement between the United States, Mexico and Canada (USMCA). In addition, 25% tariffs came into force on steel and aluminium for all countries on 12 March. Finally, on 26 February, Donald Trump announced that the European Union would soon be affected by 25% tariffs on products entering the United States and confirmed during his speech to Congress the implementation of reciprocal tariffs with the rest of the world from 2 April.

Several studies have assessed the impact of a tariff increase by simulating different scenarios. Some *ex ante* studies, in particular those by **►CEPII (2024)**, the **►LSE (2024)**, the **►CPB (2024)** and the **►IW (2024)**, hypothesise a 60% increase in tariffs on imports from China and 10% on all other trading partners, which is consistent with the programme announced by Donald Trump in 2024.

Conversely, other studies favour a more targeted scenario, centred on the application of additional 10% tariffs on Chinese imports and 25% on imports from Mexico and Canada, in accordance with the US President's declarations in January 2025. These hypotheses are explored in more recent analyses by **►PIIE (2025)** and **Oxford Economics (2025)**. Studies by **►IFW (2025)** focus more specifically on the impact of the introduction of additional duties of 25% on European imports.

The scale of trade retaliation in the face of tariff increases remains uncertain. Some of the economic literature incorporates retaliatory measures into their scenarios (e.g.**►CEPII, (2024)**). In fact, in early February, China imposed tariffs in response to the US measures on a range of goods originating from the United States totalling $14 billion. These measures target, for example, the energy sectors, with taxes applied to gas, coal and oil.

These retaliatory measures come in a context where the United States maintains close trade relations with the countries primarily targeted at the moment, especially Canada, China and Mexico. In fact, these countries are the three main suppliers to the United States. More broadly, the United States runs a structural trade deficit with the rest of the world. This structural deficit reflects the United States' heavy dependence on imported goods to meet its domestic demand, while the country remains in surplus in trade in services.

The increase in tariffs is expected to lead to a contraction in US imports. Estimates from the economic literature (►**PIIE, 2025** ; ►**CEPII, 2024**) suggest a price elasticity of US imports to tariffs of close to 1 in the long term. In this context, the application of 25% customs duties on Mexico and Canada (which account for 30% of US imports, according to the World Bank) and 20% tariffs on China could ultimately result in a drop of around 10% in total US imports. Considering that the introduction of reciprocal flat-rate tariffs on the rest of its trading partners (notably the European Union) would cause an adjustment of imports from these countries on the same scale, total US imports could eventually contract by around 20%. Given the weight of the United States in world trade, the effect of this first-round of tariff increases alone, as set out by the new administration, could therefore ultimately cause a decline of around 2% in world trade.

The contraction of US imports could then hamper the growth of its main trading partners, which would then in turn lead to a decline in their imports. For example, according to estimates by ►**PIIE (2025)**, the Chinese GDP would drop by 0.15 points in 2025, and according to ►**LSE (2024)** that of the European Union would fall back by 0.1 points. Assuming an import elasticity of 2 for GDP due to the short-term over-adjustment of imports to domestic demand (►**Alhenc-Gelas (2014)**), this contraction would result in a downturn in imports by 0.3 points for China and 0.2 points for the European Union. As mentioned above, the increase in tariffs by the United States could result in retaliatory measures on the part of its trading partners, thus amplifying its impact on world trade. All in all, taking into account these dissemination and retaliation effects, the increase in customs duties by the United States would result in a loss of around 4 points in world trade. Within Europe, Germany and Italy are much more affected than France or Spain due to the weight of goods exported to the United States in their economy.

The speed at which these effects on world trade will manifest themselves varies greatly depending on the study. Estimates by ►**PIIE (2025)** suggest that the maximum impact of the shock would be reached in the short term, in 2025 and 2026. Conversely, studies by ►**IW (2024)** indicate a much more gradual dissemination of the shock, the scale of which could extend as far as 2028: the impact in 2025 would then be equal to about one eighth of the long-term effect.

For comparison, according to ►**Oxford Economics**, a 10% increase in customs duties on Chinese imports and a 25% increase on imports from Mexico and Canada would result in a 0.6 points contraction in global GDP in 2025. Given this scenario, the economic impact would extend until 2026, but with no lasting effect as it is assumed that tariffs on Mexico and Canada will be lifted by that date.

Finally, assuming an average dissemination speed from these different studies, the growth of world trade would be reduced by 0.1 points from Q1 2025 then by 0.4 points in Q2, compared to growth without the increase in tariffs imposed by the United States (estimated at +0.7% per quarter). Thus world trade is expected to increase at a slower pace than in 2024 in Q1 2025 (+0.6%) then slow down considerably (+0.3%).

These estimates are surrounded by numerous uncertainties. The first concerns the very nature of the measures that will ultimately be implemented. For example, the measures against Canada and Mexico were initially announced in early February 2025, but were then suspended for a month, before finally being implemented at the beginning of March, and then partially withdrawn again. However, even if the decisions ultimately taken fall short of the initial announcements, the uncertainty created could in itself have a negative effect on world trade. The terms of the implementation of tariffs on imports from other partners, and especially the European Union, are also highly uncertain. Finally, while there is a relative consensus on the price elasticity of US imports (around 1), the scale and speed of adjustment of trade flows to a tariff shock vary greatly depending on the models. ●

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Energy and commodities

After a rebound triggered by the American sanctions against Russia at the beginning of the year, the price of oil fell at the end of January, then again at the end of February. In 2025, the global market is expected to remain in surplus according to the International Energy Agency (IEA), due to increased supply from the United States, Brazil and OPEC. On the European gas market, tensions have reappeared particularly after the cessation of Russian gas deliveries via Ukraine at the end of December, but the price eased somewhat in February with the prospect of negotiations on the Ukrainian conflict. In addition, climate hazards continue to fuel the volatility of food commodity prices, and precious metal prices remain at record levels, boosted by an uncertain economic environment.

After reaching $73.80 in December 2024, its lowest level since August 2021, the price of a barrel of Brent rebounded to $79.30 in January 2025 (►**Figure 1**). This rebound was fuelled by the American sanctions against Russia. However, supplies are expected to be in surplus in 2025 (+0.5 million barrels per day according to the IEA), fuelled by robust production in the United States, Brazil and Canada as well as the gradual reintroduction of OPEC+ production cuts. In addition, the implementation of customs tariffs by the Trump administration, whether implemented or announced, is hampering the outlook for growth in world trade (►**Sheet International synthesis**), and exerting additional downward pressure. Thus the price fell to $75.40 in February and was at around $70 in March. Over the forecasting period (mid-2025), it is assumed that the price of oil will remain constant, at around $70 per barrel (or €65.40 assuming a euro-dollar exchange rate of 1.07 dollars for 1 euro).

Regarding gas prices, after €45.20/MWh in December 2024, the price on the European market (TTF) reached €48.30/MWh in January 2025 then €50.30/MWh in February (►**Figure 2**), its highest level since December 2022. The halt to Russian gas deliveries via Ukraine contributed to the increase in price, while European inventories at the beginning of March were at a relatively low level, similar to those of 2021 (►**Figure 3**), as a result of a cold start to the winter and increased demand for electricity generation, linked to weak wind power production. After peaking at €58/MWh on 10 February, the price has since edged down with the prospect of negotiations on the Ukrainian conflict. However, by mid-2025, the need to replenish gas inventories is likely to hamper the usual trend of easing prices in the spring and the price is expected to remain at a higher level than in 2024. Following gas prices, the price of electricity on the wholesale market (EPEX Spot) has recovered significantly, averaging more than €100/MWh since November 2024, compared to €30/MWh on average in Q2 2024.

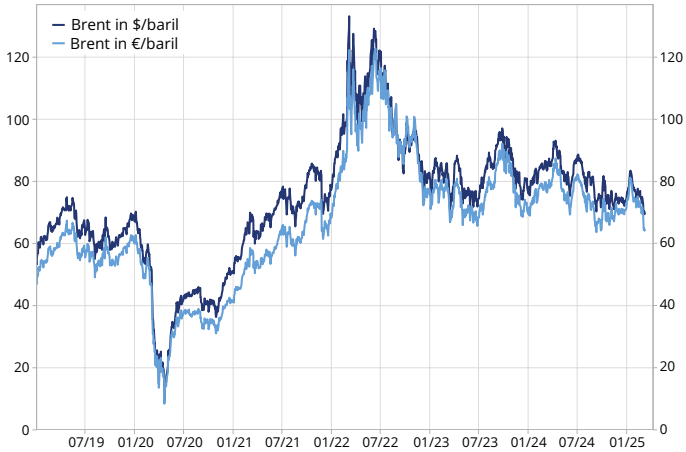
Sustained mainly by the increased use of fossil fuels in electricity production, the price of carbon dioxide (CO_2) on the European Union Trading Emissions System picked up at the beginning of 2025, standing slightly above €75 per tonne in January and February, after €67.20 in December 2024 (►**Figure 4**). The price of uranium has slipped back slowly since Q2 2024, although it is still more than twice its 2019 level, driven by prospects of strong growth in nuclear power.

While most industrial commodity prices remain sluggish (►**Figure 5**), in the context of modest world growth, lumber prices have rebounded, fuelled by below-normal Canadian production and the prospect of a trade war between the United States and Canada. Precious metal prices, meanwhile, remain at historic highs due to geopolitical and economic uncertainties, and in a context of monetary easing.

Finally, food commodity prices remain particularly volatile, mainly due to climate hazards. Cocoa prices jumped dramatically at the end of 2024, reaching levels five times those of 2019 (►**Figure 6**); world cocoa bean inventories are at their lowest and production in Côte d'Ivoire and Ghana remains below normal. The price of coffee has also soared since November, with the historic drought in Brazil in 2024 casting considerable doubt over the 2025 Arabica coffee crop. At the same time, amid rising global demand for sunflower oil, especially in Asia, concerns about Russian and Ukrainian production caused its price to rebound at the end of 2024. Olive oil prices fell sharply at the end of 2024, due to Spanish production increasing for the first time since the 2021-2022 campaign. Lastly, at the beginning of 2025, wheat prices were at similar levels to those before the invasion of Ukraine. ●

►1. Price of oil (Brent) in dollars and euros

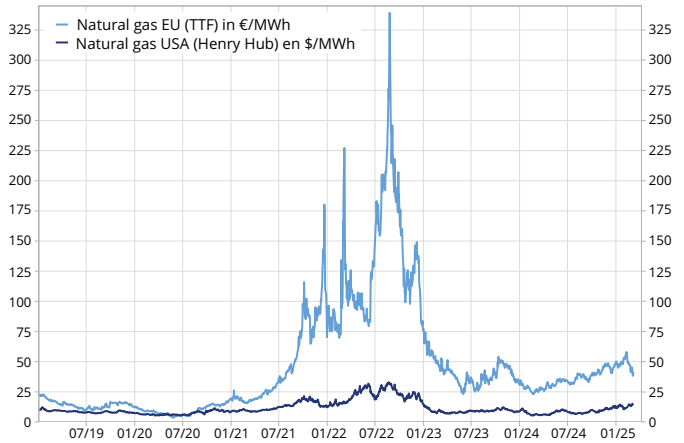
(daily values)



Last point: 10 March 2025.
How to read it: on 10 March 2025, the price of a barrel of Brent was 69.3 $.
Source : Commodity Research Bureau.

►2. Natural gas prices in Europe and the United States

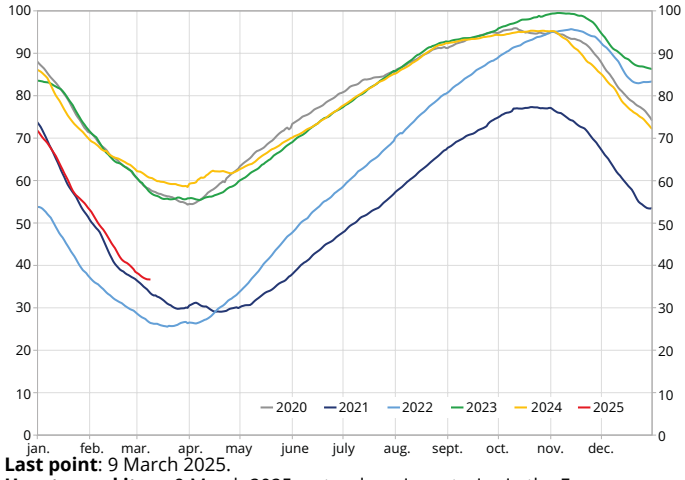
(daily values)



Last point: 10 March 2025.
How to read it: on 10 March 2025, the value of natural gas futures contracts at the next expiry date in the Netherlands (TTF) was €41.2 per megawatt-hour.
Source: ICE Futures Europe, New York Mercantile Exchange.

►3. Natural gas inventories in the European Union

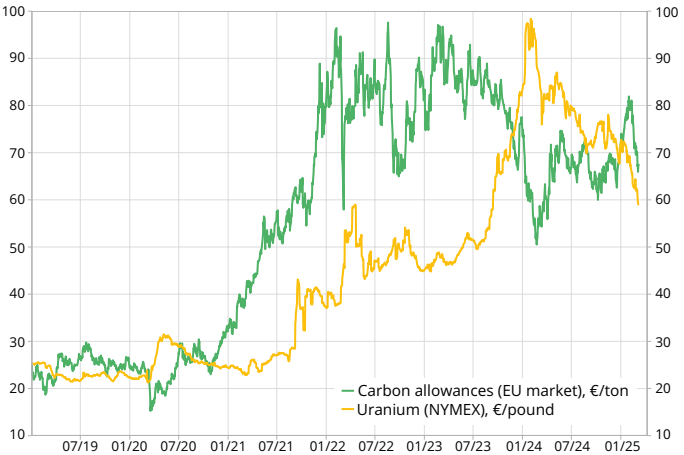
(daily values – capacity rate, in %)



Last point: 9 March 2025.
How to read it: on 9 March 2025, natural gas inventories in the European Union countries stood at 36.7% of total inventory capacity.
Source: Gas Infrastructure Europe – AGSI+.

►4. Price of a tonne of CO_2 on the European market and uranium prices

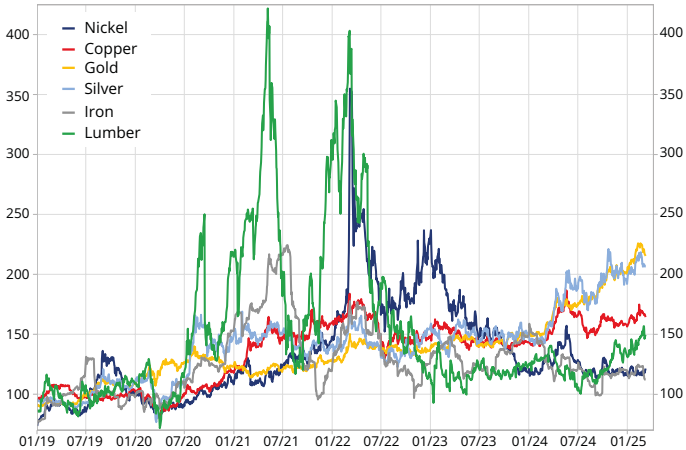
(daily values, in euros)



Last point: 10 March 2025.
How to read it: on 10 March 2025, the price of a tonne of CO_2 on the European Union Emissions Trading System was €67.6.
Source: ICE Futures Europe, New York Mercantile Exchange.

►5. Prices of nickel, copper, gold, steel and lumber

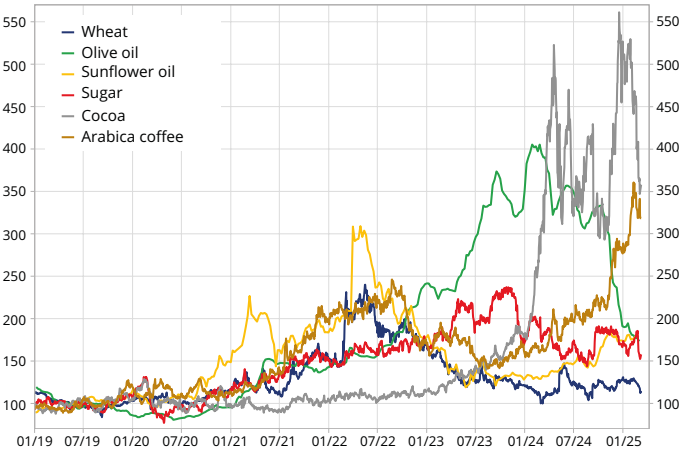
(mensual index – base 100=2019)



Last point: 10 March 2025.
Note: the indices measure price changes in euros.
How to read it: in 10 March 2025, the price of copper in euros was 64.3% above its 2019 average.
Source: London Metal Exchange, Chicago Mercantile Exchange, New York Mercantile Exchange.

►6. Prices of wheat, sunflower oil, olive oil, sugar, cocoa and coffee

(daily index - base 100=2019)



Last point: 10 March 2025.
Note: the indices measure price changes in euros.
How to read it: on 10 March 2025, the price of wheat in euros was 14.6% above its 2019 average.
Source: Euronext Paris, APK-Inform, Spanish Ministry of Agriculture, ICE Futures US, International Coffee Organization.

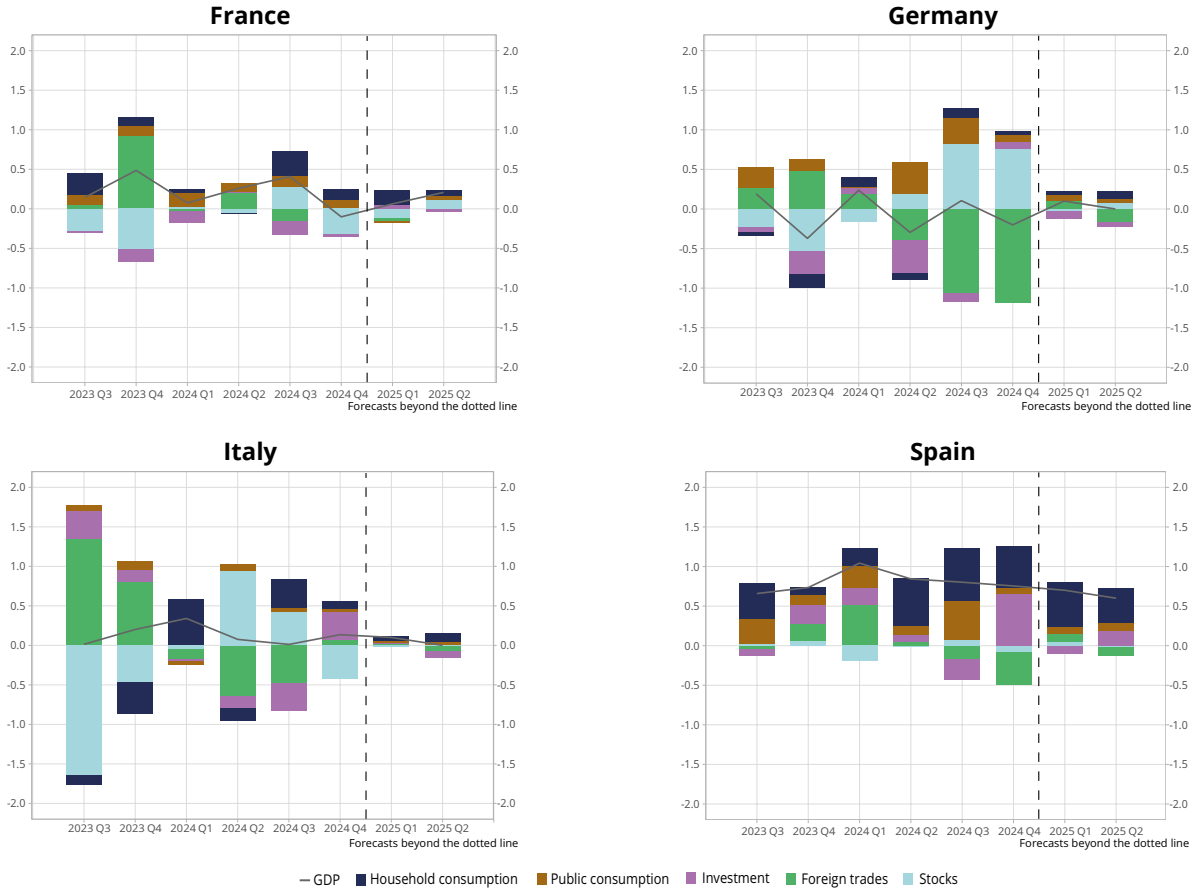
Eurozone

In Q4 2024, activity slowed in the Eurozone

In Q4 2024, growth weakened in the Eurozone (+0.2% after +0.4%). It remained very dynamic in Spain (+0.8%, as in Q2 and Q3, ►**Figure 1**) but stagnated in the other main economies: in France, activity was hindered in the aftermath of the Olympic and Paralympic Games (-0.1% after +0.4%), it edged down in Germany (-0.2% after +0.1%) and improved slightly in Italy (+0.1% after 0.0%). On average in 2024, growth in the Eurozone remained fairly mediocre (+0.8% after +0.5% in 2023). While the Spanish economy continued to perform well over the year as a whole (+3.2% after +2.7%), activity remained at a standstill in Germany (-0.2% after -0.1%) and slowed in Italy (+0.5% after +0.8% in 2023). The French economy, for its part, managed to maintain a relative dynamism (+1.1% after +1.1%).

This divergence in growth in 2024 is primarily a reflection of differences in the dynamics of domestic demand. In Spain, the continuing rise in employment and gains in purchasing power are driving an acceleration in consumption (+2.9% after +1.8% in 2023), and investment is buoyant (+2.3% after +21%), sustained mainly by the favourable effects of the European recovery plan. In Italy, the contribution of domestic demand to growth is decreasing sharply (+0.4 points in 2024 after +2.4 points) mainly due to the slowdown in investment (+0.0% after +9.2%), reflecting the end of the surge in investment in construction (+1.0% after +16.0%).

►1. Quarterly variations in GDP and contributions of demand items in the four main Eurozone economies
(quarterly variations in % and contributions in points)



Last point: Q2 2025.
How to read it: in France, Q1 2024, GDP grew by 0.1%, with public consumption contributing +0.2 points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

In France, the acceleration in public consumption (+2.0% after +0.8%) was able to offset the downturn in investment (-1.5% after +0.7%) and consumption improved moderately (+0.9% after +0.9%). In Germany, the surge in public consumption (+3.5% after -0.1%) was offset by the decline in investment (-2.6% after -0.7%), in a context of sluggish private consumption (+0.3% after -0.2%). However, while the contribution of foreign trade to growth was positive in 2024 in France, Spain and Italy, it was negative in Germany, reflecting the drop in exports and continuing losses of market share.

At the start of 2025, Spain should continue to prosper, while the German slump looks set to continue

Business tendency surveys in the Eurozone are struggling to recover. With the exception of Spain, which started the year on a positive note, the business climate is still firmly fixed close to its long-term average in Italy and France. It remains very poor in Germany (►**Figure 2**): the stalling of the German economy was confirmed once again in Q4 2024 and there are no signs of a clear recovery in the short term (►**Focus** on industrial production in the Eurozone).

Growth therefore looks set to remain robust in Spain in Q1 2025 (+0.7%), driven by private consumption, before slowing a little in the spring (+0.6%), as some supporting factors gradually diminish (►**Focus** on spanish economic dynamism, *Economic outlook*, December 2024). In France, activity is scarcely likely to increase much at all in Q1 (+0.1%) before growing moderately in Q2 (+0.2%). In Germany, it is expected to increase slightly in Q1 (+0.1%) before coming to a halt in Q2: investment is likely to gradually stop hampering growth, while household and general government consumption look set to support activity a little. The change in direction of fiscal policy announced recently is unlikely to have much effect before mid-2025 as spending on infrastructure and defence generally requires advance planning. Conversely, exports are expected to struggle to recover and are also likely to be penalised in the spring by the introduction of new US customs tariffs. In Italy, growth is expected to remain limited in Q1 (+0.1%) then zero in Q2, again hampered by the increase in the US tariffs and domestically by the reduction in construction investment support schemes.

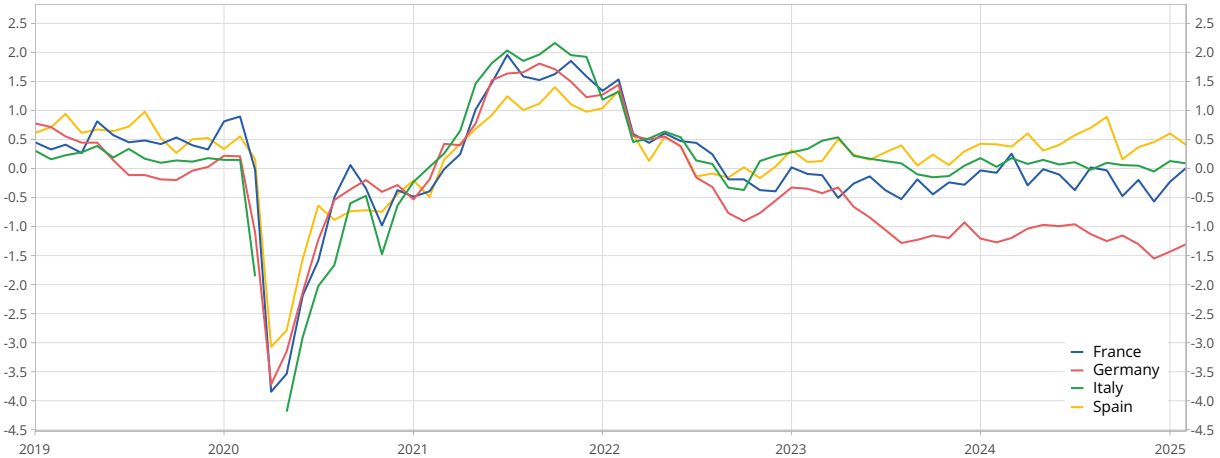
Overall, growth in the Eurozone is expected to remain constrained in H1 2025 (+0.2% in Q1 then +0.1% in Q2). Nevertheless, the mid-year growth overhang should reach +0.7% (after +0.8% growth in 2024). The cyclical divergence between the main Eurozone economies looks set to persist, with the mid-year growth overhang at +2.3% in Spain, compared to -0.1% in Germany. The Italian economy is expected to continue to slow, with a mid-year growth overhang of +0.2%, with France doing only slightly better, reaching a mid-year growth overhang of +0.4%.

After the rise in wages, inflation in the Eurozone is now driven by services

Inflation fell sharply in the Eurozone in 2024, standing at +2.4% as an annual average compared to +5.4% in 2023. This decline was confirmed in France, where inflation within the meaning of the HICP fell to +2.3% as an annual average in 2024 after +5.7% in 2023, also in Germany (+2.5% after +6.0%) and Italy (+1.1% after +5.9%). In Spain, where the easing of energy prices began in 2023, inflation fell less substantially, from +3.4% in 2023 to +2.9% in 2024.

►2. The business climate indicator remains in decline in Germany

(centered-reduced climate)

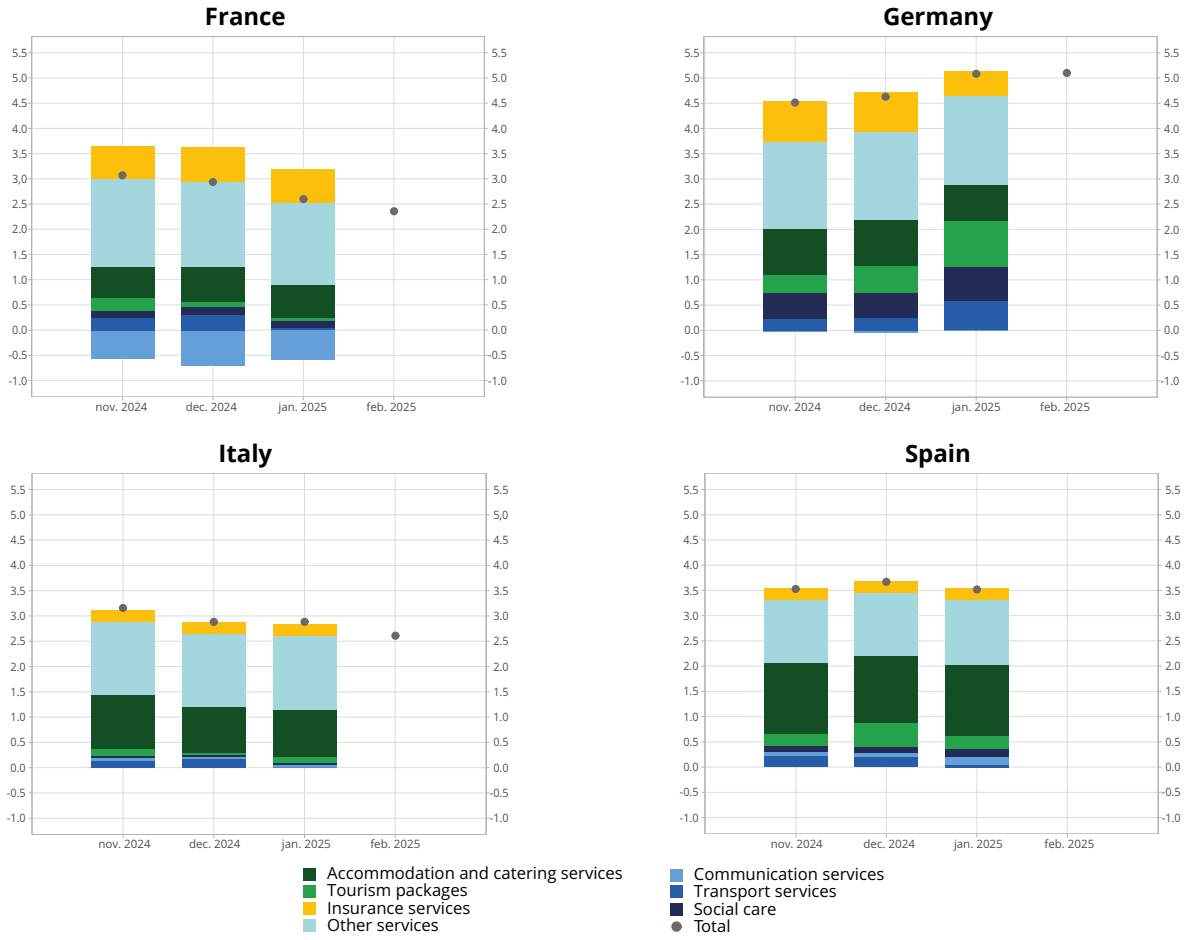


Last point: February 2025.
How to read it: in Spain, in February 2025, the general business climate was 0.4 standard deviations above its long-term mean level (average over the period January 2005 to February 2025).
Source: DG ECFIN survey, INSEE calculations.

In February 2025, inflation remained stable in Germany (+2.8%), Spain (+2.9%) and Italy (+1.7%), but fell sharply in France (+0.9% after +1.8% within the meaning of the HICP), due to the fall in electricity prices (►**Sheet Consumer prices**). In Germany and Spain, inflation was driven specifically by services, with prices rising year on year by +5.1% and +3.5% respectively in January, whereas their dynamism was more contained in France (+2.6% in January within the meaning of the HICP) and Italy (+2.9% in January). These variations mainly reveal differences in wage dynamics (wages are rising faster in Germany and Spain) but also disparities by product. Rising insurance prices contribute little in Italy and Spain, but they made a considerable contribution in Germany (+0.5 points), where car insurance prices are increasing significantly (►**Figure 3**), and in France (+0.7 points), due to the importance of health insurance (►**Sheet Consumer prices**). In Germany, transport services made a substantial contribution to inflation in services, due to the increase in the price of the *Deutschland-Ticket* (a monthly pass allowing unlimited travel on public transport), which rose from €49 to €58 in January. In addition, services related to social protection contribute relatively more significantly in Germany (contribution of +0.7 points year on year in January). The fall in prices of communication services is specific to France and contributed 0.6 points to the year-on-year decline in inflation in services in January. Finally, differences in wage dynamics can be seen mainly in accommodation and catering services, which account for a significant part of the dynamism of prices of services in the four countries, although more markedly in Germany and especially Spain, than in France and Italy.

Prices are expected to slow slightly by mid-2025: the pace will probably be faster in Germany and Spain than in France and Italy. However, after the 2024 catch-up, wages are set to decline more sharply, as they gradually incorporate disinflation. All in all, after some major gains in 2024, purchasing power is likely to slow considerably at the beginning of 2025 in the main Eurozone economies (►**Figure 4**). It should remain vigorous in Spain, however, boosted mainly by the 4.4% increase in the minimum wage in Q1 and by the rise in employment.

►3. Breakdown of inflation (within the meaning of the HICP) in services in the main Eurozone economies
(year-on-year change, in % and contributions in points)



Last point: February 2025 for France, Germany and Italy ; January 2025 for Spain.
How to read it: in Spain, in January 2025, inflation within the meaning of the HICP in services stood at +3.5% year on year, with accommodation and catering services contributing +1.4 points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

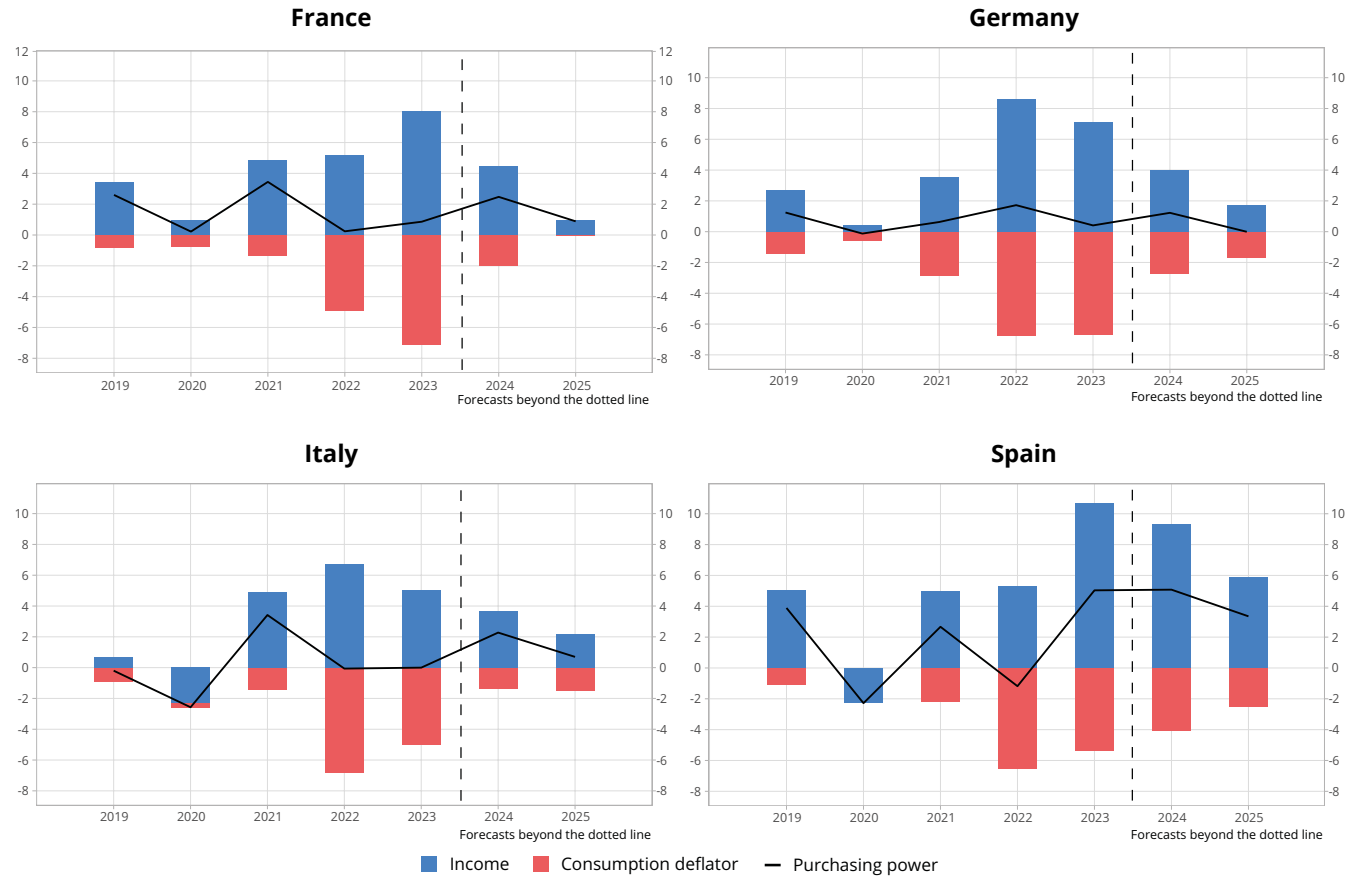
Consumption should enable European growth to resist

In the four main Eurozone economies, private consumption increased less than purchasing power in 2024 and the household savings ratio rose sharply everywhere (►**Focus** on European household savings, *Economic outlook*, December 2024). There are several factors that could favour a fall in the savings ratio in 2025. First, inflation is returning to normal and business tendency surveys show that European households have been late to perceive the decline in inflation (►**Figure 5**), which could account for the disappointing improvement in consumption in 2024. In addition, income is now driven more by wage income, which is more likely to be used for consumption than wealth income. However, many of the households surveyed still report that the time is right for saving, and thus the savings ratio is likely to remain significantly higher than in 2019.

Investment is still in decline

Despite successive cuts in the ECB's base interest rates since June 2024, financing conditions remain restrictive in the Eurozone and are expected to continue to slow investment. Thus the contribution of investment to growth is likely to be negative or zero over the forecasting period in France, Germany and Italy; although Italy is expected to continue to receive funding from the European recovery plan, this is unlikely to be enough to compensate for the withdrawal of support measures for investment in construction. Among the main Eurozone economies, Spain is again set to be the exception, mainly because public investment receives funding from the European recovery plan. Finally, the Eurozone will probably struggle to bridge the gap between the components of domestic demand: activity will probably be bolstered tentatively by private consumption, while investment is likely to slow it down (►**Figure 6**).

►4. In 2025, purchasing power will slow in Europe
(year-on-year change, in % and contributions in points)



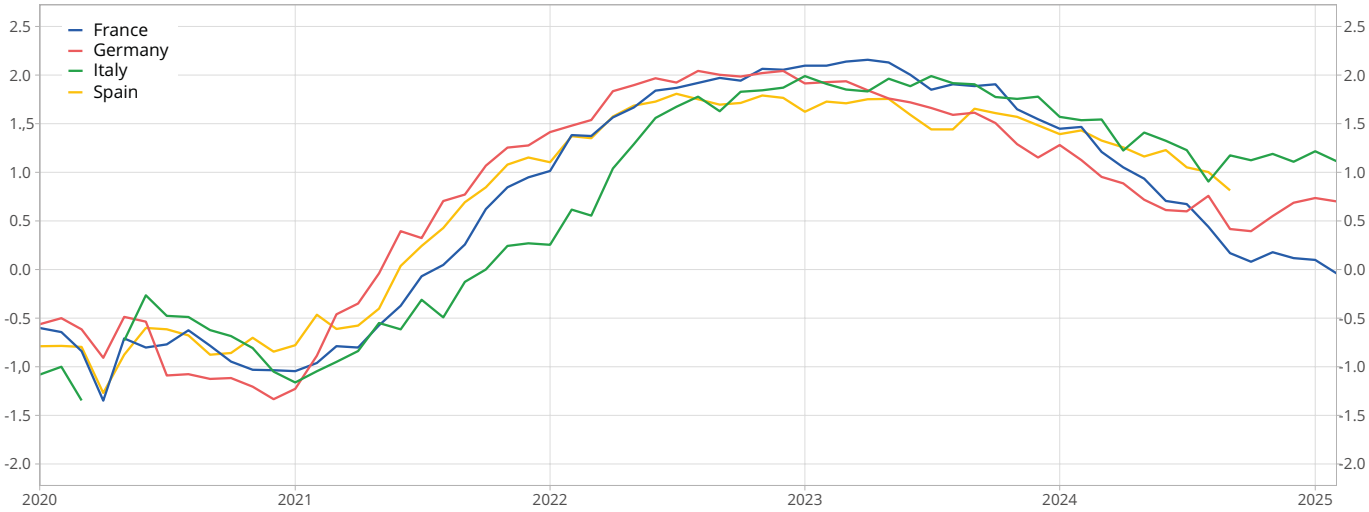
Last point: acquired mid-2025.
How to read it: in Germany, in 2023, the purchasing power increased by 0.4%. The increase in income contributed +7.1 points and the rise in prices -6.7 points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

In the spring, the implementation of new customs tariffs by the United States is likely to penalise Germany and Italy more than France and Spain

Looking ahead, exports from the European economies could be penalised from Q2 2025 onwards by the implementation of new US customs tariffs (►**Box, International synthesis**), although they may be affected in different ways. France and Spain had a slightly negative trade balance with the United States in 2024 (►**Figure 7**), due mainly to imports of hydrocarbons, and exports to the United States represent less than 2% of GDP. Italy and Germany, however, are much more exposed: exports to the United States represent 3.3% and 4.2% of GDP respectively and bilateral trade with the United States is largely in surplus (+2.0% in Italy and +1.8% in Germany). Thus, Germany and Italy are likely to suffer more with the introduction of these tariffs than France and Spain. In addition, European countries all continue to suffer from the cost of energy and their market shares are being eroded. Only Spain is expected to maintain its positions due to tourism. All in all, despite sluggish domestic demand, foreign trade is unlikely to be able to boost activity in the Eurozone in H1 2025. ●

►5. European households were late in perceiving disinflation

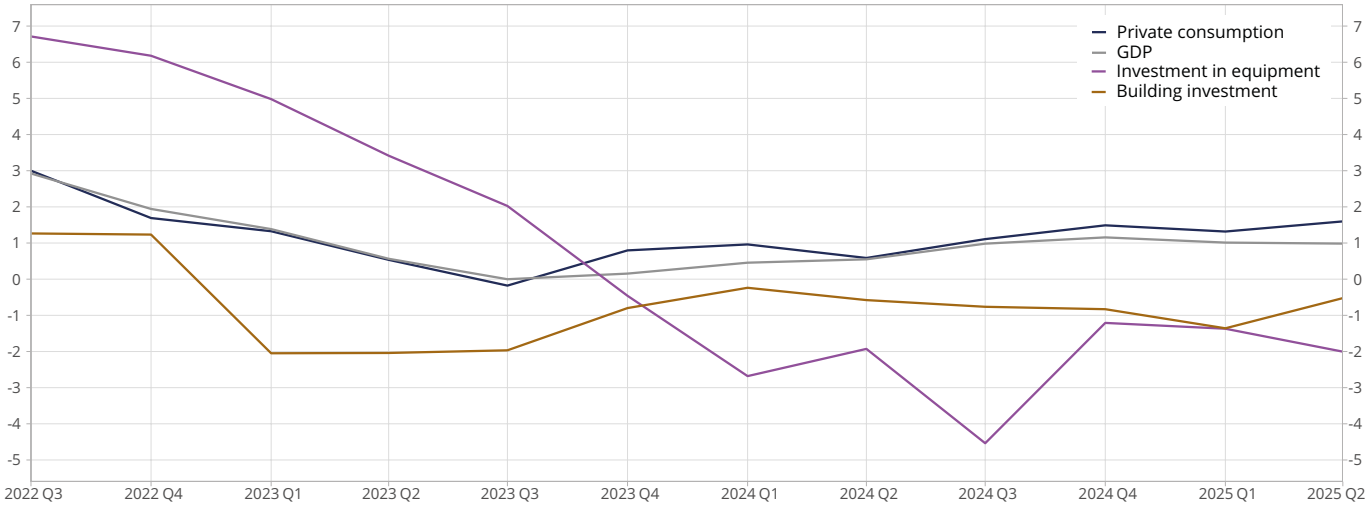
(centred-reduced balances of perceived inflation in the last 12 months)



Last point: February 2025 (September 2024 for Spain).
How to read it: in Italy, February 2025, the centred-reduced balance of price change perceived by households in the last 12 months was 1.1 standard deviations above its long-term average (average over the period January 2005 to February 2025).
Source: DG ECFIN surveys, INSEE calculations.

►6. In H1 2025, private consumption is expected to drive growth in the Eurozone, in the face of struggling investment

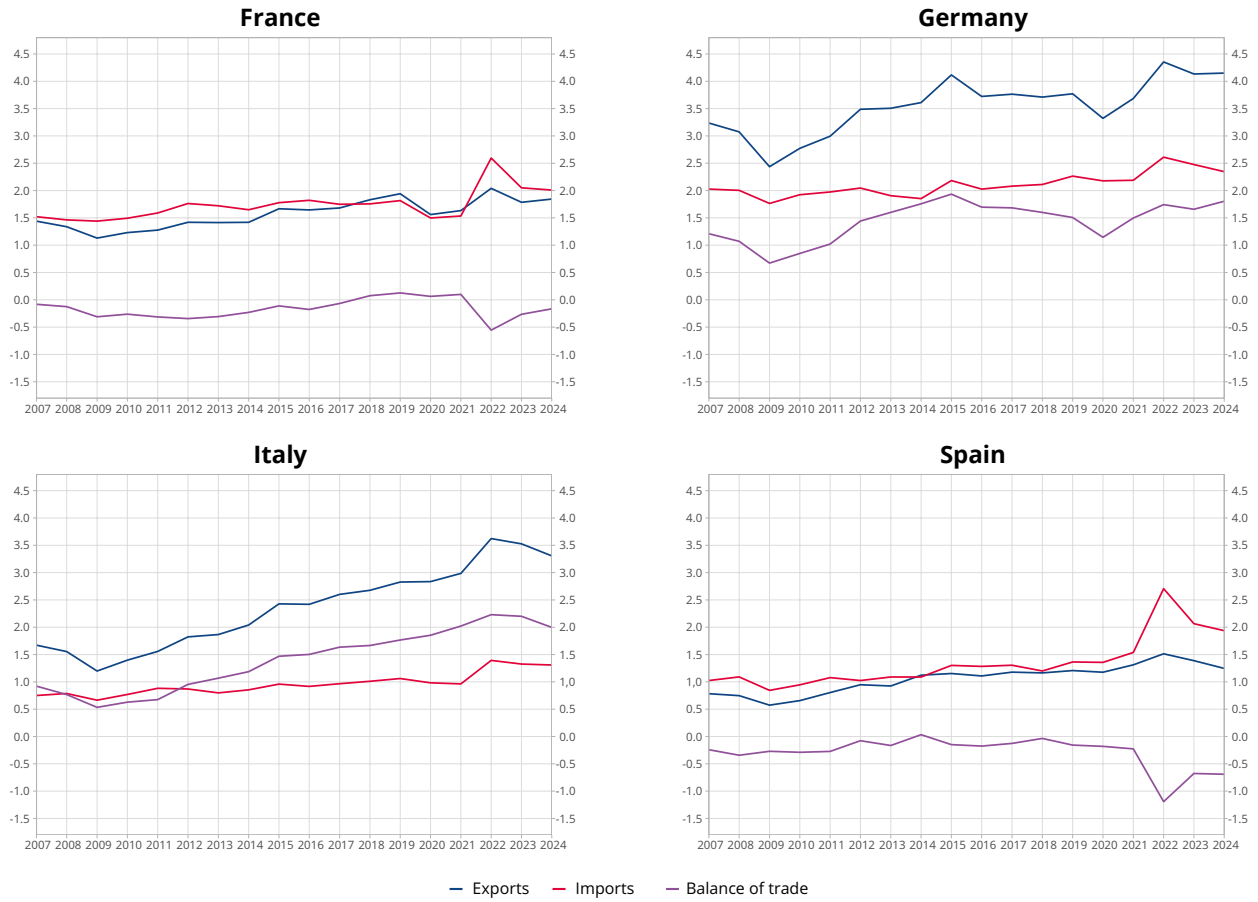
(year-on-year change, in %)



Last point: Q2 2025.
How to read it: in Q2 2025, in Eurozone, GDP is expected to increase by 1.0% year on year, while investment in equipment is expected to fall back by 2.0%.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

►7. Trade with the United States by the main Eurozone economies

(shares of exports and imports of goods (according to the concept used by customs) and trade balance in total value added, in %)



Last point: 2024.
How to read it: in France, in 2023, exports of goods to the United States represented 1.8% of the country's value added, and the trade balance with the US economy was -0.2% of French value added.
Source: Direction Générale des Douanes, INSEE, Bundesbank, Destatis, Istat, Bank of Spain, INE, INSEE calculations.

Why has industrial production held up in France and Spain for the past two years, while declining in Italy and Germany?

Since the beginning of 2023, the manufacturing industry production index has declined sharply in Germany and Italy, with its average in 2024 standing at 5.4 and 4.7 points respectively below its 2021 average. Conversely, production increased by 2.4% in France and 1.8% in Spain over the same period. There are several factors to account for this sharp divergence. First, longer-term dynamics show that the decline in German industry began before the health crisis and appears to be more structural than in Italy. Over the recent period, however, the sectoral composition of French and Spanish production has differed significantly from that of Germany and Italy, which are heavily positioned in products linked to the investment cycle, especially the manufacture of machinery and equipment. Finally, within certain sectors (pharmaceuticals, textiles, etc.), France and Spain have outperformed their neighbours, Spain more often than France.

Germany and Italy have been penalised both by weaker performances in their respective sectors, but also by the sectoral composition of their industries. In addition to the cyclical effects linked to rising energy prices, the German economy is suffering from weak demand for its goods, particularly in the automotive industry, due to growing competition from Chinese industry. The pessimism shown in the business survey results suggests that this decline could continue in the coming quarters. Thus the deindustrialisation process affecting Germany twenty years behind its neighbours is expected to continue in the short term: industrialists here remain much more pessimistic than in other European countries.

Enzo Iasoni et Alexandre Simcic

For two years, manufacturing production has been declining in Germany and Italy, but is holding up in Spain and France

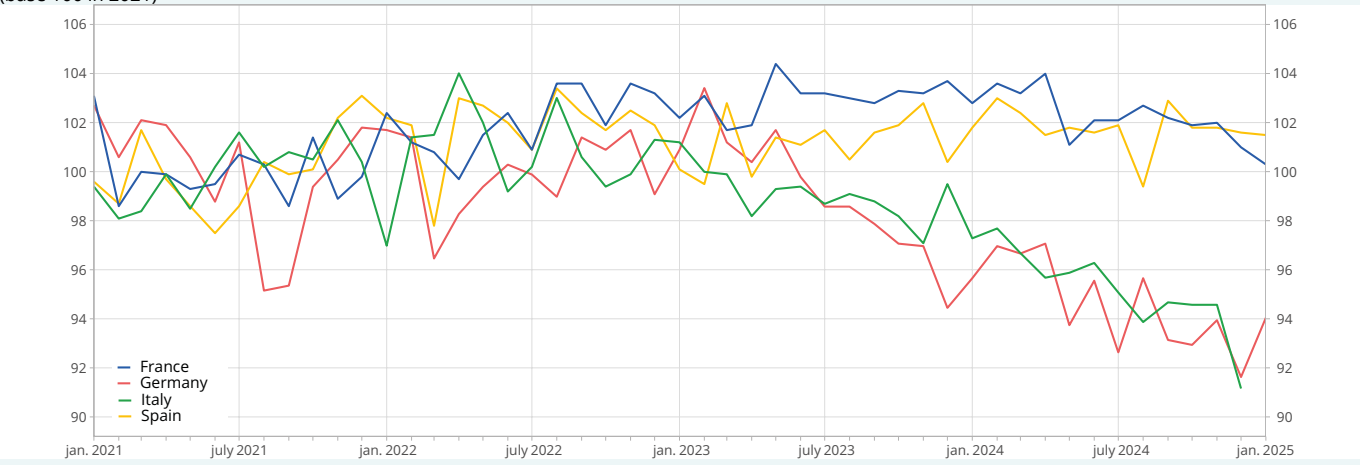
From 2021 to early 2023, manufacturing production evolved at a relatively similar pace in all four of the main Eurozone countries, in a context of continuing post-health crisis recovery. However, for the past two years it has stalled in Italy and Germany, while remaining more or less stable in Spain and France, despite the sharp rise in energy costs: ultimately, on average in 2024 compared to 2021, it fell by 5.4% in Germany and 4.7% in Italy, while over the same period it increased by 2.4% in France and 1.8% in Spain (►**Figure 1**).

Several explanations can be put forward to account for this difference: first of all, over the recent period, the sectoral composition of French and Spanish production differs considerably from that of Germany and Italy, which are very much positioned in the manufacture of machinery and equipment. Within some sectors, France and Spain have outperformed their neighbours. Finally, longer-term dynamics show that the decline in German industry began before the health crisis and it appears to be more structural than in Italy.

The decline in German industry began in 2018 while France largely deindustrialised from the 2000s

During the 2000s, the contribution of industry fell sharply in the main European countries, except in Germany: between 2000 and 2010, the share of industrial value added in total value added dropped from 20% to 16% in

►1. Industrial production index in the manufacturing industry
(base 100 in 2021)



Last point: January 2025 for France, Germany and Spain, December 2024 for Italy.
How to read it: in France, in January 2025, the industrial production index in the manufacturing industry was 0.3 points above its 2021 average.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

Italy, from 18% to 12% in Spain and from 16% to 11% in France (►Figure 2). Conversely, Germany managed to preserve a significant share of industry in its economy over the same period: apart from a short-lived drop during the financial crisis, the share of manufacturing in GDP remained between 22% and 23% over the period, with no marked decline.[1] The share of industry in the GDP of these different countries then remained relatively stable between 2010 and 2018, except in Italy, where the industrial machine regained some ground, although without returning to its pre-financial crisis level: the share of industry in the Italian GDP stood at almost 17% at the end of 2018.

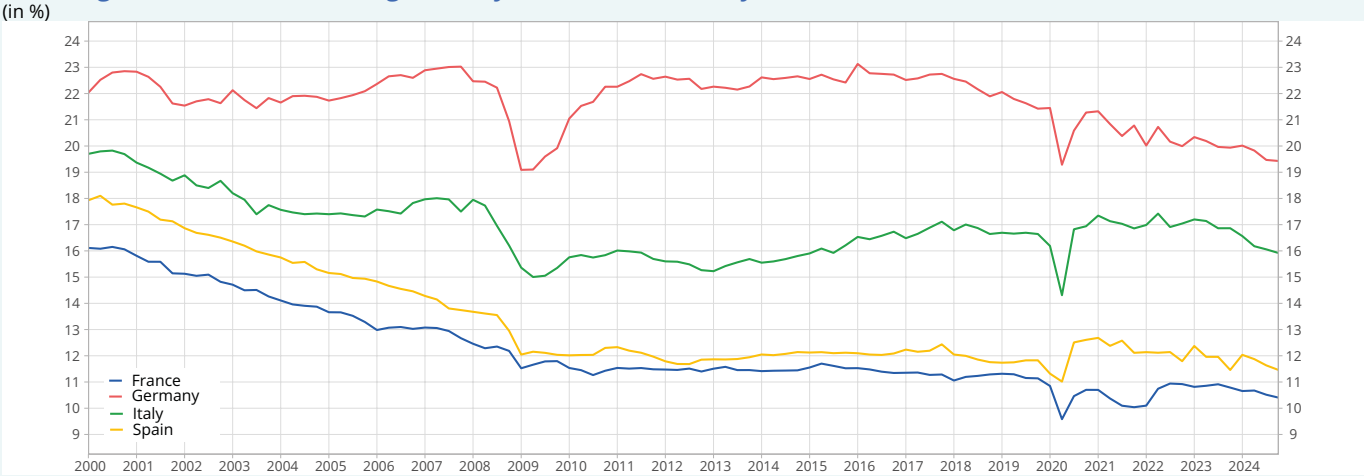
Since 2018, however, the share of industry in economic activity has fallen back in Germany: it was below 20% in Q4 2024, down about 2.7 points compared to its average over the period 2000-2018. In the other three main European economies, at the beginning of 2024 this share was at a similar level to that of 2018.

Finally, by rebasing the industrial production indices by volume in 2018 (►Figure 3), the German decline since 2018 is clear-cut and specific: industrial production fell by 13.3% on average in 2024 compared to its 2018 average, while the decline was less in Italy (-6.4%) and limited in France (-4%). In Spain, industrial production remained at the same level as six years earlier. The decline in Italian production is therefore very recent and in all probability linked to high exposure to European cyclical jolts, whereas in Germany there is in addition a more structural trend.

1 However, these differences between countries must be put into perspective against the national legal and statistical contexts on which the construction of these measurements is based, and which notably could account for up to half of the France-Germany gap (►INSEE 2024 [1]).

►2. Weight of the manufacturing industry in economic activity

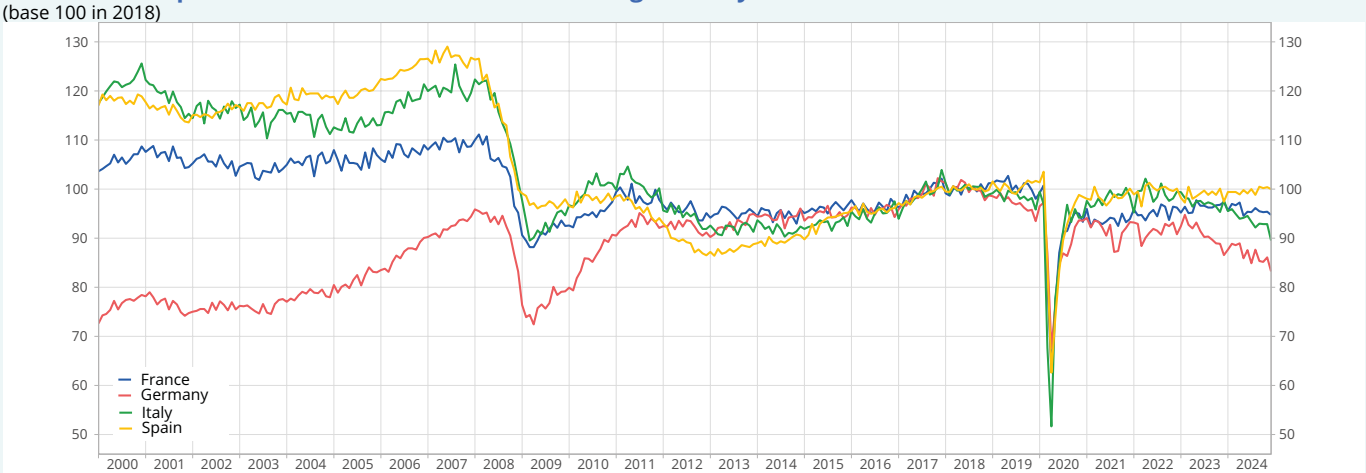
(in %)



Last point: Q4 2024.
How to read it: in France, in Q4 2024, gross value added in the manufacturing industry represented 10.4% of total gross value added.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

►3. Industrial production index in the manufacturing industry

(base 100 in 2018)



Last point: January 2025 for France, Germany and Spain, Q4 2024 for Italy.
How to read it: in France, in January 2025, the industrial production index in the manufacturing industry was 6 points below its 2018 average.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

Germany and Italy are strongly positioned in machinery and equipment, and are very sensitive to the investment cycle

The European economies do not all have the same industrial specialisations. Compared to its neighbours, Germany specialises more in the automotive sector, the manufacture of machinery and equipment, and electrical equipment. Italy specialises in textiles and the manufacture of machinery and equipment, a sector traditionally very sensitive to the investment cycle, whereas France specialises in "other transport equipment" (mainly aeronautics) and agrifood, and Spain in agrifood and to a lesser extent automobiles (►Figure 4). Energy-intensive industries represent about a third of industry in France, Germany and Italy, and slightly more in Spain.

The decline in production in the energy-intensive industries was greater in Germany and Italy, mainly due to exposure to Russian hydrocarbons

The shock of rising energy costs has hit all European countries. In the case of energy-intensive industries, which are of similar weight in industry in the four main countries, the deterioration in cost-competitiveness in the Eurozone as a whole, which resulted from the inflationary shock, partly accounts for the loss of export performances by European industries (►INSEE 2024 [2]). Thus, the industrial production index in the energy-intensive industries was on average in 2024 almost 15 points below its 2021 average in Germany, almost 12 points below in Italy and almost 7 points below in France, but only 5 points below in Spain (►Figure 5a). This particularly pronounced decline in Germany has to be set against the stronger rise in production prices in this industrial sector (►Figure 6). With the upswing in industrial activity coming out of the health crisis combined with supply chain problems, production prices in industries requiring a great deal of energy increased in approximately the same way in all four Eurozone countries until the beginning of 2022. However, although these prices began to decline from the end of 2022, their decline was less marked in Germany. This more pronounced increase could result from the country's greater exposure to hydrocarbons coming from Russia, and more dynamic wages. Thus, energy-intensive industries alone can explain a significant share of the decline in overall manufacturing production between 2021 and 2024 in Germany and Italy, amounting to almost 5 points in total, compared to 2.4 points in France and 2.1 in Spain (►Figure 7).

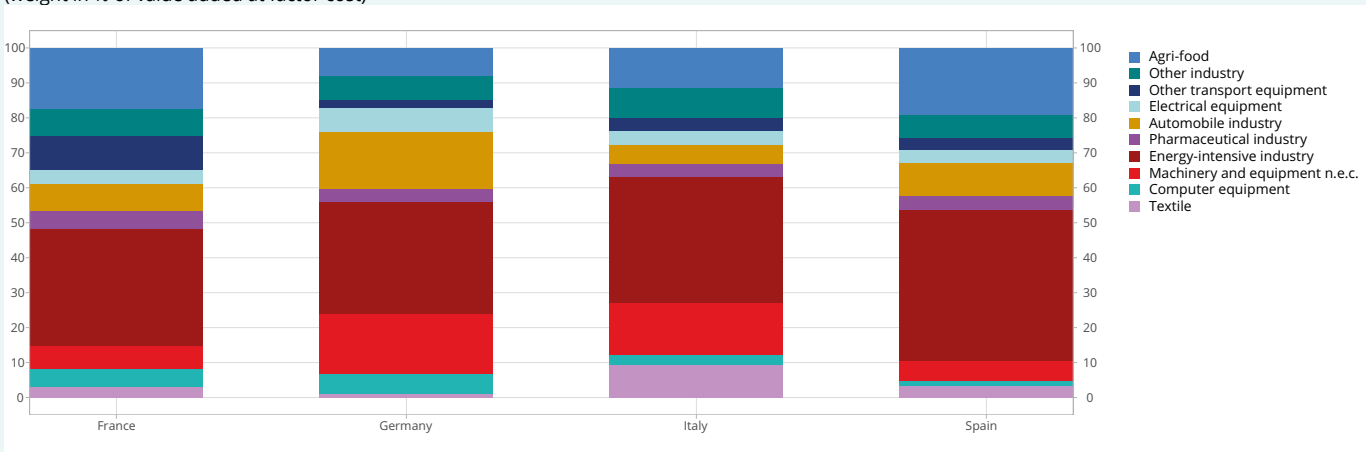
The downturn in the manufacture of machinery and equipment was fairly similar in Germany and France and weaker in Italy and Spain

The significant rise in interest rates caused a reversal in corporate investment from 2023 in the Eurozone, with market shares eroding, particularly in favour of China. The manufacture of machinery and equipment was thus in sharp decline in 2024 compared to 2021 in Germany (-8%) and France (-7%). Conversely, production in this sector remained more or less the same in Spain and Italy, even though the apparent stability in Italy masked a strong increase in 2022 followed by a decline approximately equivalent to that seen in France and Germany over the previous two years. (►Figure 5b).

Strong momentum in electrical and computer industries in Spain

As countries came out of the health crisis, the manufacture of computer, electronic and optical products in all four countries resumed its previous trend until the end of 2023

►4. Weight of industrial sectors in the manufacturing industry in 2019
(weight in % of value added at factor cost)



Note: energy-intensive industry includes industrial sectors that produce goods whose manufacturing is particularly intensive in energy consumption relative to their value added (mainly the wood and paper industry, chemicals, metallurgy and non-metallic materials, with refining conventionally added).
How to read it: in France, in 2019, the automotive industry represented 8% of industrial production measured in value added at factor cost.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

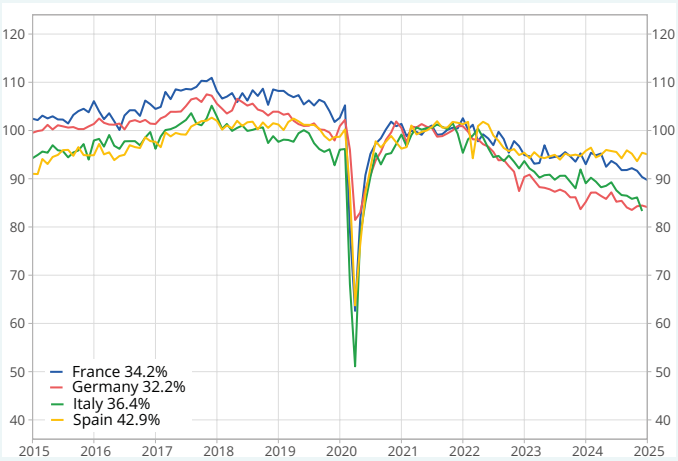
(►Figure 5c). Since then, the buoyancy of this sector has been different from one country to another: production remained relatively stable in France, edged down slightly in Italy and Germany, but surged in Spain. On average in 2024, the production of computer, electronic and optical products was 29 points above its 2021 average in Spain, compared to 14 points in France, 6 in Italy and 3 in Germany.

The production of electrical equipment is also particularly favourable to Spanish industry, and is relatively stable in France and Italy (►Figure 5d). However, it has been falling sharply in Germany since mid-2023, and in 2024 was on average 13 points below its 2021 average, compared to 2 points below in Italy, 2 points above in France and 6 points above in Spain.

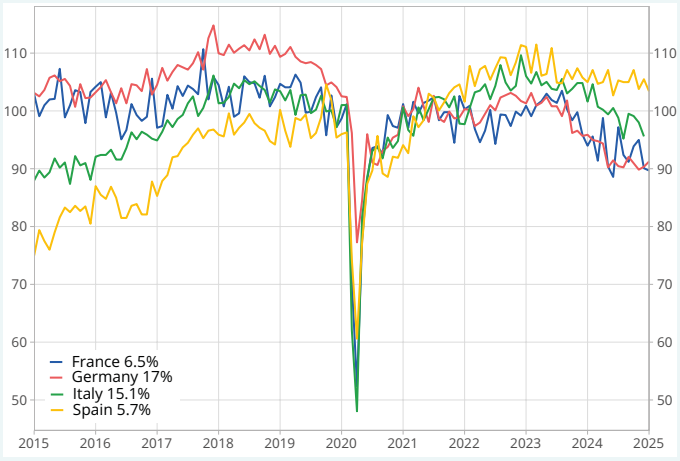
►5.Industrial production index...

(index base 100 in 2021 and average weight in 2018 of the sector in manufacturing production in % of value added at factor cost)

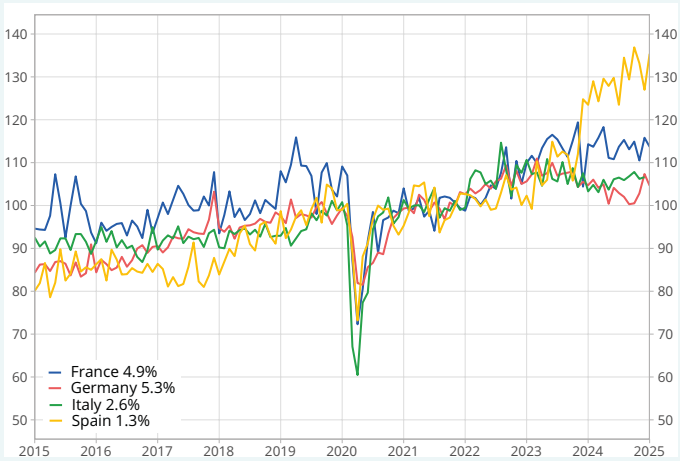
5a. ...in energy-intensive industries



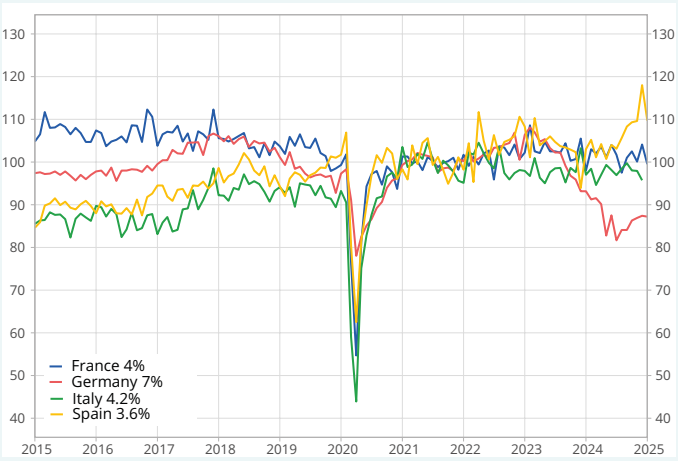
5b. ...in the manufacture of other machinery and equipment



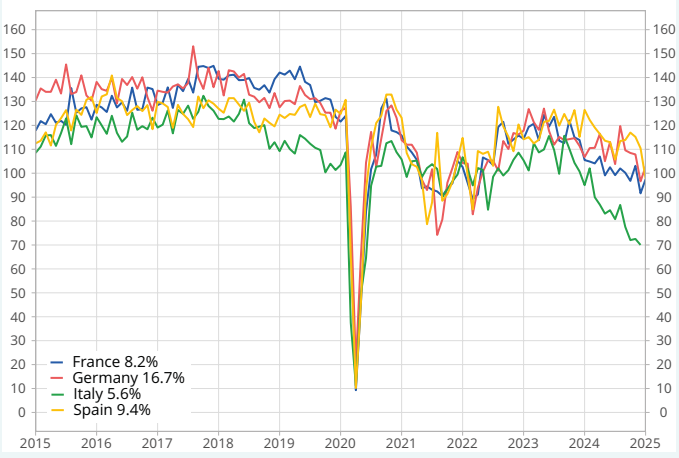
5c. ...in the manufacture of computer, electronic and optical products



5d. ...in the manufacture of electrical equipment



5e. ...in the automotive industry



Last point: January 2025 for France, Germany and Spain, December 2024 for Italy.
How to read it: in France, in Januarty 2025, the industrial production index in the automotive industry was 2.5 points below its 2021 average.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

Automobile manufacture is declining in Italy

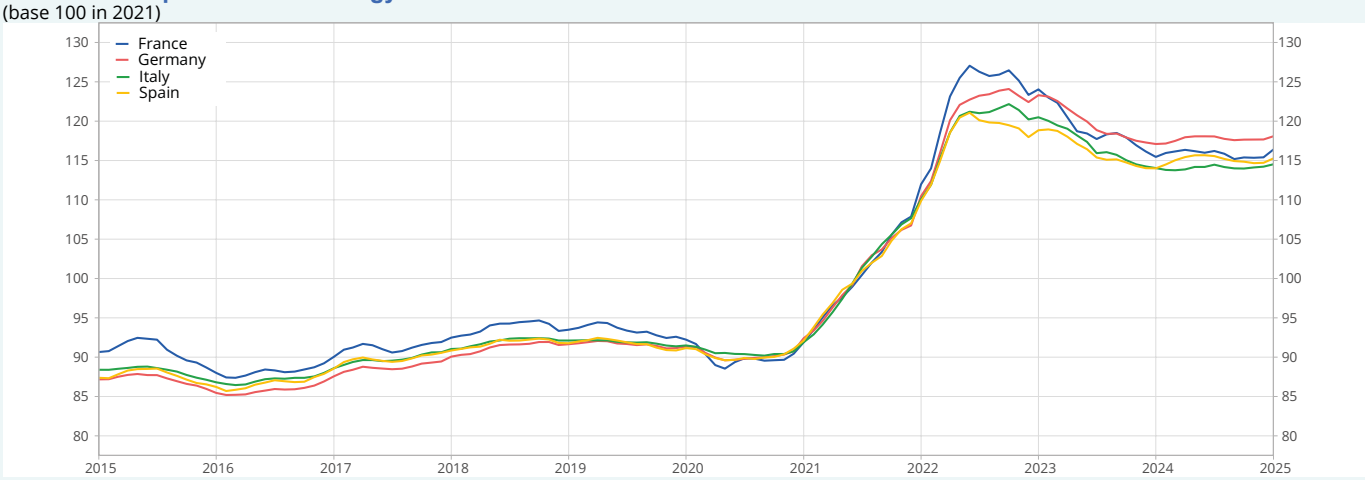
In the automotive sector, Europe has also lost market share since the health crisis due to the surge in the electric car market and increased competition, especially from China (►Insee 2024 [2], ►Focus on imports of electric vehicles). In addition, the sluggishness of the European market against the backdrop of the sector's ecological transition is hampering consumption and hence production: thus the production index in the automobile industry in 2024 was on average 9 points above its 2021 average in Germany, only 1 point above in France, and almost 17 points below in Italy (►Figure 5e). In Spain, however, the index rose by 16 points over the period, mainly due to a particularly pronounced decline between the pre-health crisis period and 2021 (-20 points on average in 2021 compared to the average in 2018); thus the automotive sector has boosted Spanish manufacturing production since 2021.

Compared to France, Germany and Italy were penalised both by the sectoral composition of their industry and by lower performance in most sectors

Thus, compared to France, Italy and Germany suffered on the one hand from their sectoral specialisation, with the sectors that are particularly sensitive to the investment cycle occupying a more important place in the industry of these two countries than in France. On the other hand, these two countries suffered from performances that

►6. Producer price index in energy-intensive industries

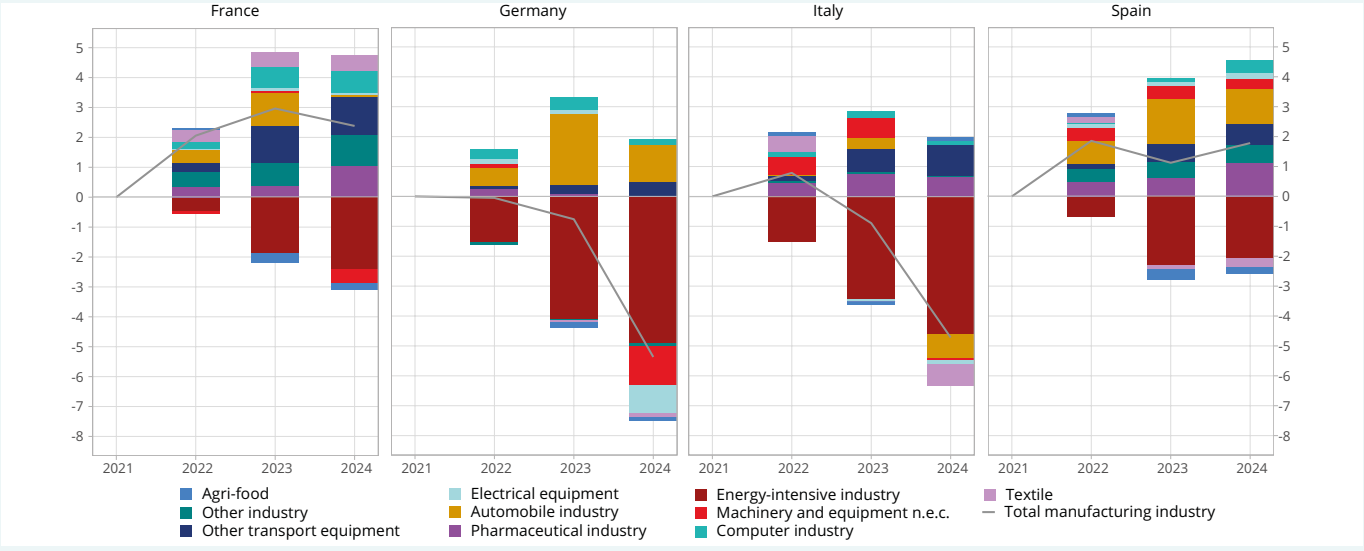
(base 100 in 2021)



Last point: January 2025.
How to read it: in January, the industrial producer price index in energy-intensive industries was 18.1% above its 2021 average in Germany.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

►7. Sectoral breakdown of change in the industrial production index in the four main European economies

(difference in industrial production index compared to 2021 in %, and cumulated contributions by the sectors to change in the index in points)



Last point: 2024.
Note: in this study, sectoral contributions were obtained with constant sector weights in the countries' total manufacturing industry (share of value added at factor cost, average in 2019), whereas the industrial production index is a chained index, whose weightings change every year. As a result, the sum of the sectoral contributions represented in the figure is slightly different from the overall change in industrial production: this difference is small, however, and does not compromise the analysis presented here.
How to read it: on average in 2024, the industrial production index in the manufacturing industry was 5.4 points lower than its 2021 average in Germany. Energy-intensive industries contributed -4.9 points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

were worse in all sectors, on average, compared to those of industry in France. An analytical breakdown of the difference in the dynamism of industrial production in our neighbours compared to that of France highlights these different factors.

Firstly, the contribution of the dynamics of an industrial sector to the difference in the evolution of total production between 2021 and 2024 (►**Figure 8**) is estimated by representing, at a given weight in the industry, the effect of a differential in the sector's growth on industry as a whole. We thus compare the contribution of sectors in the different countries to that observed in France at fixed weights. By convention, this performance effect of the sectors is measured by taking the weights they had in French industry in 2019 as a common reference for all countries. Secondly, the contribution of the structural effect between France and the other countries is deduced from the balance, once the dynamism effect has been deducted from the difference in total industrial performance.

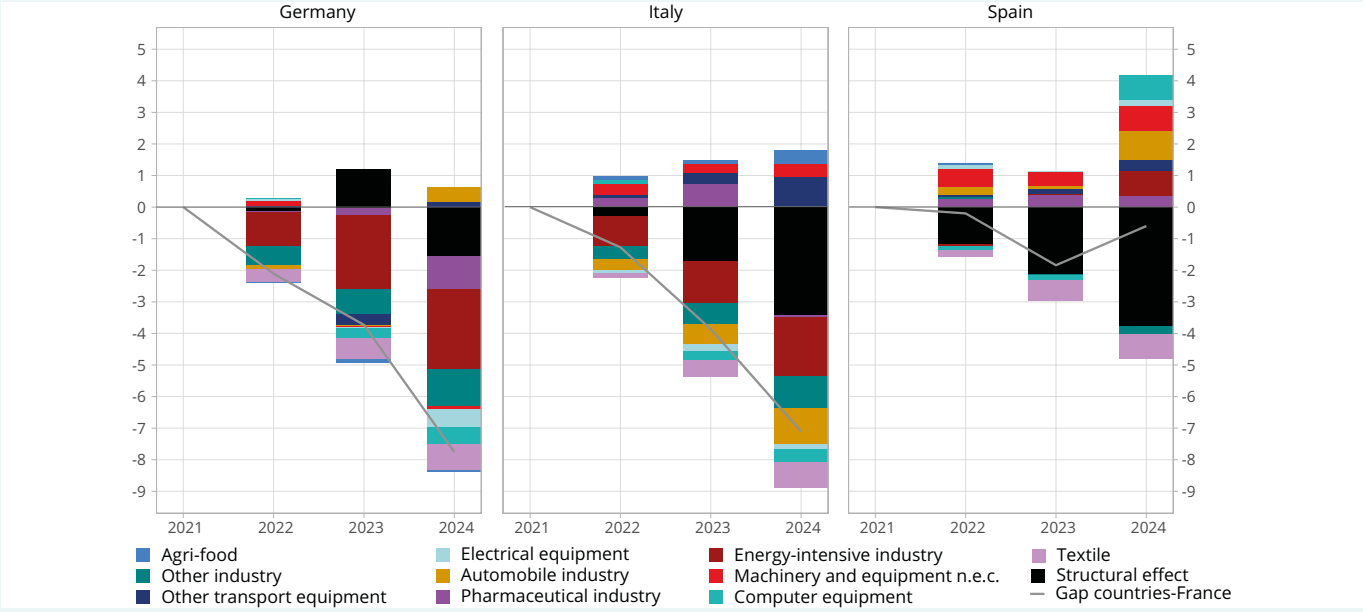
In Germany, industrial production fell by 5.4% between 2021 and 2024 compared to an increase of +2.4% in France over the same period. In this gap of approximately 8 points, the structural effect accounts for about 1.5 points: although the decline in the manufacture of machinery and equipment is broadly equivalent in France and Germany, the weight of this sector is nearly three times greater in German production. Excluding the structural effect, a few sectors account for the resilience of French industry compared to German industry: energy-intensive industries account for 2.7 points of difference, and pharmaceuticals, textiles and the manufacture of electrical and computer products about one point each. The other sectors contribute to the difference in dynamism to a much lesser extent.

In Italy, industrial production fell back by 4.7% between 2021 and 2024, a gap of about 7 points compared to the dynamics of French industry over the same period. The structural effect accounts for about half of the gap, notably because the "other transport equipment" sector, which was fairly dynamic over the period, has half the weight in Italy. As with Germany, the difference in growth is largely linked to that of the energy-intensive sectors, counting for around 2 points, and to the dynamism of French textiles, for 1 point. However, the automotive industry in Italy fell back sharply over the period, contributing more than one point to the gap with France. Conversely, the manufacturing of "other transport equipment", which was more dynamic in Italy, helps moderate the divergence between Italian and French industrial production, by 1 point.

Meanwhile in Spain, the situation is unique. Sector by sector, since 2021 Spanish industrialists have generally performed better than their French competitors. Nevertheless, Spanish industry as a whole has been heavily penalised compared to French industry due to the effects of sectoral composition (the weight of energy-intensive industries is greater in Spain and that of "other transport equipment" is less). Thus, industrial production grew less quickly in Spain than in France over the period, by a difference of around one point.

►8. Breakdown of factors accounting for the difference in change in the IPI between the major European economies and France

(change in % and contributions cumulated in points; difference compared to France)



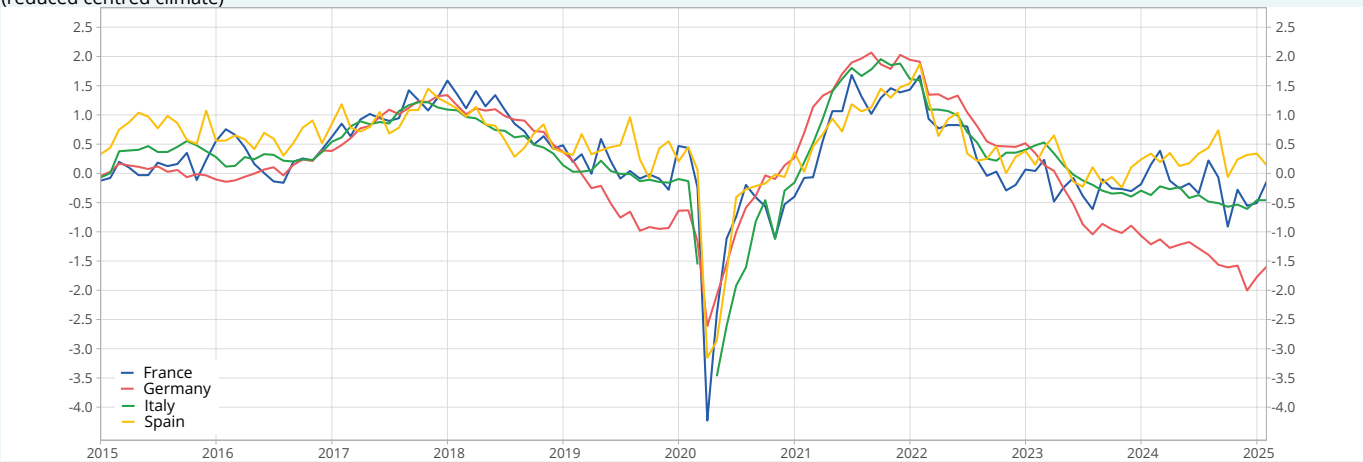
Last point: 2024.
Note: the structural effect in each country is obtained from the balance between the country-France difference on the one hand and the sum of the contributions of sectoral dynamics to this difference.
How to read it: on average in 2024, compared to 2021, the structural effect in the difference in production in the manufacturing industry in France and Germany was -1.4 points. However, the difference in dynamism in the automotive sector in Germany contributed 0.4 points more to the total production index compared to France.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

The decline in German industry is expected to continue throughout the forecasting period

The decline in German industry began in 2018. In addition to cyclical effects linked to the increase in energy prices, the German economy suffers from weak demand for its goods, especially in the automobile industry, due to growing competition from Chinese industry. The structural dimension of this decline and the disappointing results in the business tendency surveys (►**Figure 9**) suggest that this further downturn is likely to continue into the coming quarters. In addition, German industry is significantly more exposed to US tariff measures (►**Sheet Eurozone**).

While the German economy has slowed substantially in recent years, this has also affected the other European economies, because the industries of the Member States are all highly interconnected (►**Italy bank 2025 [3]**). Thus, in all likelihood, the slowdown in the German manufacturing industry will continue to hold back the entire Eurozone in the coming quarters. ●

►9. Manufacturing industry in Germany: the business climate is scarcely encouraging for future production
(reduced centred climate)



Last point: February 2025.
How to read it: in Spain, in February 2025, the business climate in the manufacturing industry was 0.1 standard deviations above its long-term average (average over the period January 2005 to February 2025).
Source: DGECFIN surveys, INSEE calculations.

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[1] Larrieu S. (2024), "Quel est vraiment le poids de l'industrie en France et en Allemagne?", blog Insee 2024.

[2] Iasoni E., Roulleau G., Zaidan S. (2024), "About a quarter of the losses of market share in the Eurozone since the health crisis stem from the energy price shock, but do not appear to be due to energy-intensive products alone", *Economic outlook*, INSEE, July 2024.

[3] Banque d'Italie (2025) "The recent weakness of manufacturing in Germany and its impact on the rest of the euro area", *Economic Bulletin*, Issue 1, Bollettino Economico n. 1 - 2025. ●

United Kingdom

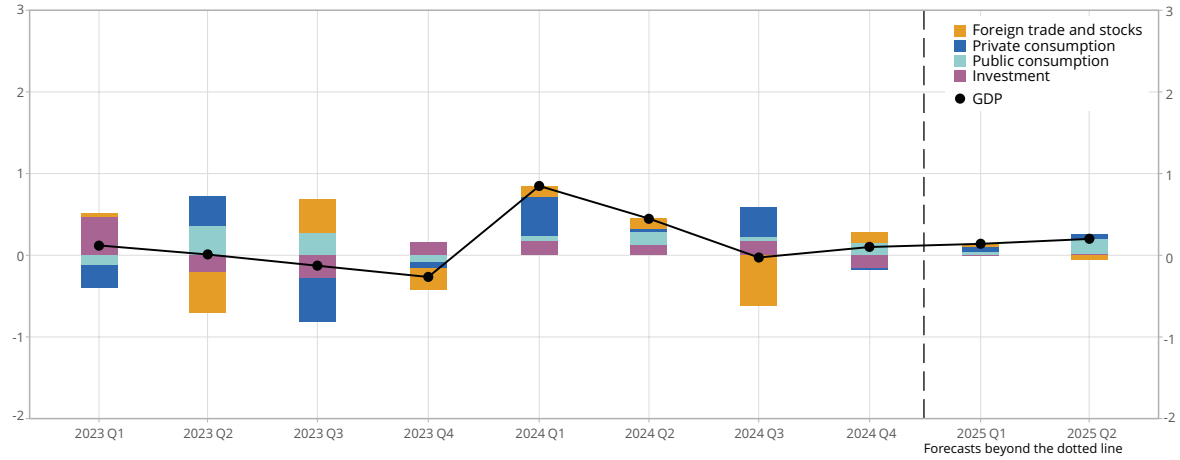
In Q4 2024, UK growth remained modest (+0.1%; ►**Figure 1**), thus confirming the slowdown observed since mid-2024. This near stagnation is mainly due to sluggish domestic demand, which made no contribution to GDP over the quarter. Household consumption did not grow, corporate investment declined (-3.2%) and residential investment rebounded slightly (+0.6% after -2.1% in Q3). Domestic demand has received some public support, however, with public sector consumption and investment increasing by +0.6% and +3.9% respectively over the quarter. Exports fell back for the third consecutive quarter (-2.5%), while imports increased (+2.1%), leading to a significantly negative contribution to GDP growth by foreign trade (-1.4 points), broadly offset by inventory growth (+1.5 points).

For Q1 2025, activity indicators based on surveys of businesses in the Confederation of British Industry (CBI), such as the household confidence survey, were in decline in January and rebounded only very slightly in February, reflecting concerns about the economic future (►**Figure 2**). Similarly, in February, the PMI for the manufacturing industry and the composite PMI both weakened (46.9 and 50.5 respectively). The companies interviewed attributed the slowdown in activity to high interest rates, economic uncertainty and the drop in confidence resulting from the autumn budget. Thus, over the first part of the year, activity is expected to increase by +0.1% in Q1 and +0.2% in Q2.

Inflation rose significantly in January (+3.0% after +2.5% in December), mainly due to higher transport prices and the application of VAT to private schools, as announced in the autumn budget. It is expected to continue to rise to 3.7% in Q2. On the one hand, energy prices look set to rise again as part of the increase in price caps set out by the regulatory body (Ofgem). On the other hand, core inflation, which was at +3.7% year on year in January, is expected to remain at this level, supported by the new increase in the minimum wage (+6.7%) and the increase in employer contributions planned for April.

Growth in employment is expected to be sluggish (+0.1% over Q1 and zero in Q2), in line with activity. As a result, although wages remain dynamic (annual wage growth excluding bonuses reached +5.9% in December), household purchasing power is likely to stagnate in Q1 2025 before falling back in the spring (-0.2%), and private consumption looks set to remain sluggish (+0.1% per quarter). Corporate investment is expected to continue to contract (-0.3% per quarter), in a context of depleting margins. Conversely, the beginning of a decline in interest rates looks set to favour the recovery of residential investment, as hinted at by the improvement in past housing starts. The main support for activity would still be public demand, which should accelerate in Q2 as the new budget comes into force.

►1. UK activity is expected to remain sluggish in H1 2025
(quarterly change in GDP in %, contributions in percentage points)

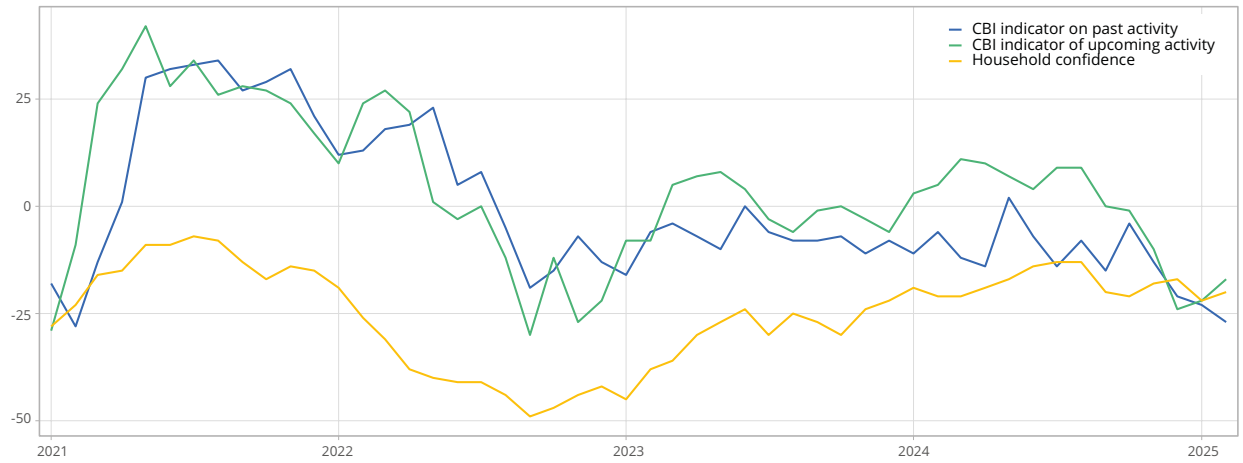


Last point: Q2 2025 (forecast from Q1 2025).
How to read it: in Q4 2024, GDP grew by 0.1% and investment contributed -0.2 points to this increase.
Source: ONS, INSEE calculations.

Concerning foreign trade, the United Kingdom is expected to continue to lose market share: exports are likely to increase at a slower rate than world demand for UK products, while imports will receive only weak support from domestic demand. All in all, the contribution of foreign trade to growth is set to be zero in H1 2025.

The mid-year growth overhang for 2025 is expected to be +0.5%, after annual growth of +0.9% in 2024.

►2. Economic indicators are not promising
(in level)



Last point: in February 2025.
Note: the CBI Growth Indicator is based on a monthly survey of UK industrialists, analysing their past and future performance. The household confidence indicator is constructed by the GfK institute from households' responses to survey questions on their financial situation over the last 12 months and how they envisage this situation over the coming year.
How to read it: in February, the CBI indicator on future activity was -17 and the household confidence index was also -20.
Source: Confederation of British Industry (CBI), GfK.

United States

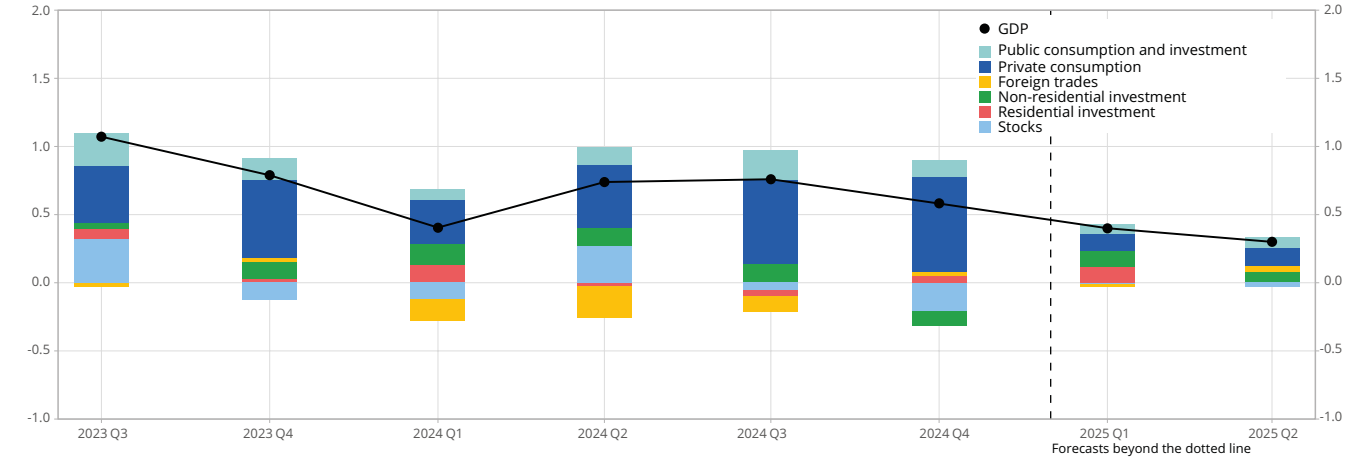
In Q4 2024, US growth remained solid (+0.6% after +0.8%, ►**Figure 1**). Household consumption was the main driving force behind economic activity (+1.0%), bolstered by a still dynamic labour market, purchasing power gains and a further decline in the savings ratio. Residential investment rebounded significantly (+1.3% after -1.1% in the summer). Conversely, non-residential investment contracted (-0.8% in Q4), partly because strikes in the aeronautics sector delayed deliveries, which also weighed on exports (-0.1% in Q4, after +2.3% in Q3). Imports also declined (-0.3% after +2.6%). Over 2024 as a whole, growth reached +2.8%, after +2.9% in 2023, driven by robust domestic demand: private consumption grew at a sustained pace (+2.8% after +2.5%), as did public demand (+3.4% after +3.9%), residential investment rebounded after two years of decline (+4.2% after -8.3%) and productive investment remained very dynamic (+3.6% after +6.0%). Foreign trade, for its part, hampered US growth, with the increase in imports (+5.4%) exceeding that in exports (+3.3%).

Inflation measured by the CPI published by the Bureau of Labor Statistics stood at +3.0% year on year in January, compared to +2.6% in October 2024. This increase was driven on the one hand by food inflation (+2.5% compared to +2.1% in October) due to the rising price of eggs as a result of avian flu, and on the other hand, by the rise in energy prices in the wake of oil prices. Core inflation too remained relatively high (+3.3% in January, as in October): the healthy labour market is fuelling sustained wage growth (+4.1% year on year in January). Core inflation is expected to increase to +3.5% year on year by June: in addition to wage dynamics, the increase in customs tariffs is likely to raise the prices of certain manufactured products.

Concerning activity, the business tendency surveys indicate a sharp slowdown in H1 2025, in a climate of growing uncertainty as trade tensions intensify. In the manufacturing sector in particular, balances in the surveys relating to activity edged down slightly in February and balances relating to expected selling prices increased substantially (►**Figure 2**). In addition, monthly consumption fell in January (-0.5%), and consumer confidence indices by the University of Michigan and the Conference Board fell sharply in February (►**Figure 3**). Thus GDP is set to slow (+0.4% in Q1 2025 then +0.3% in Q2). The announcements by the new US administration are expected to contribute to this slowdown. On the one hand, employment is likely to suffer from cuts in public budgets and will also be hampered by the planned travel bans, as the labour force has been boosted significantly in recent years by net migration. In addition, the increase in customs tariffs is expected to disrupt industrial value chains. Household consumption is likely to slow considerably (+0.2%), with purchasing power gains diminishing due to inflationary pressures. The savings ratio is not expected to decline any further but will stabilise at a low level. Residential investment should continue to pick up a little, due to the dissemination of earlier monetary easing. Regarding non-residential investment, the end of the aeronautical strikes should favour a sharp recovery in Q1. Fiscal policy is expected to be less favourable: federal spending, excluding defence, is set to slow significantly. Foreign trade is likely to be affected by the introduction of additional tariffs and retaliatory measures by partner countries, starting in Q1 and more strongly felt in Q2. These measures are expected to result in a contraction in imports and exports in the spring. All in all, the mid-year GDP growth overhang for 2025 is expected to be +1.6%. ●

►1. Contributions of GDP components to US growth

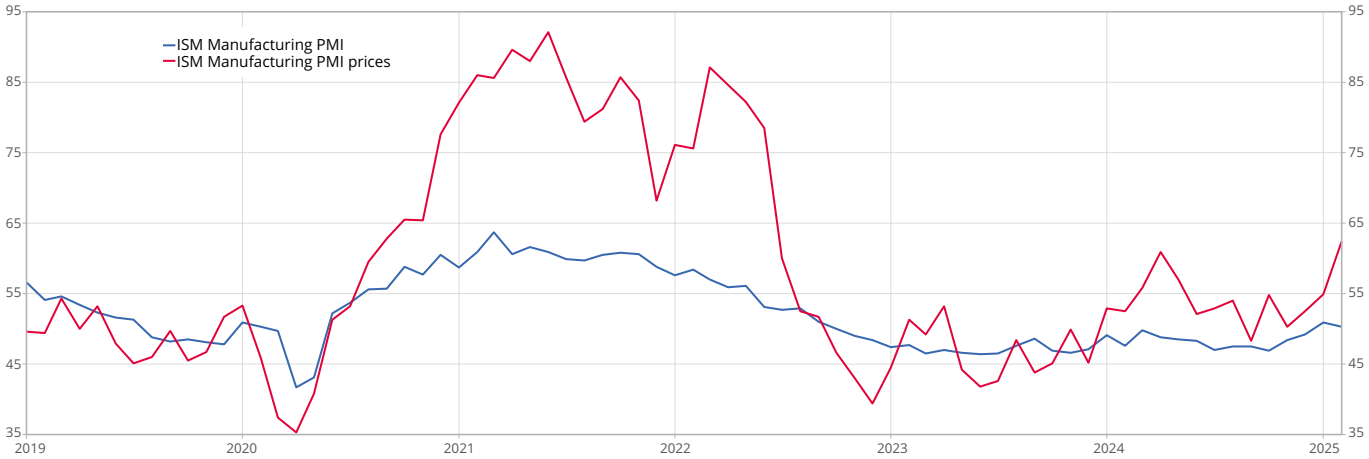
(quarterly change in GDP in %, contributions in percentage points)



How to read it: in Q4 2024, the US GDP increased by 0.6% and private consumption contributed +0.7 points to this growth.
Source: Bureau of Economic Analysis, INSEE forecast.

►2. Customs tariffs are exerting upward pressure on the prices of manufactured products

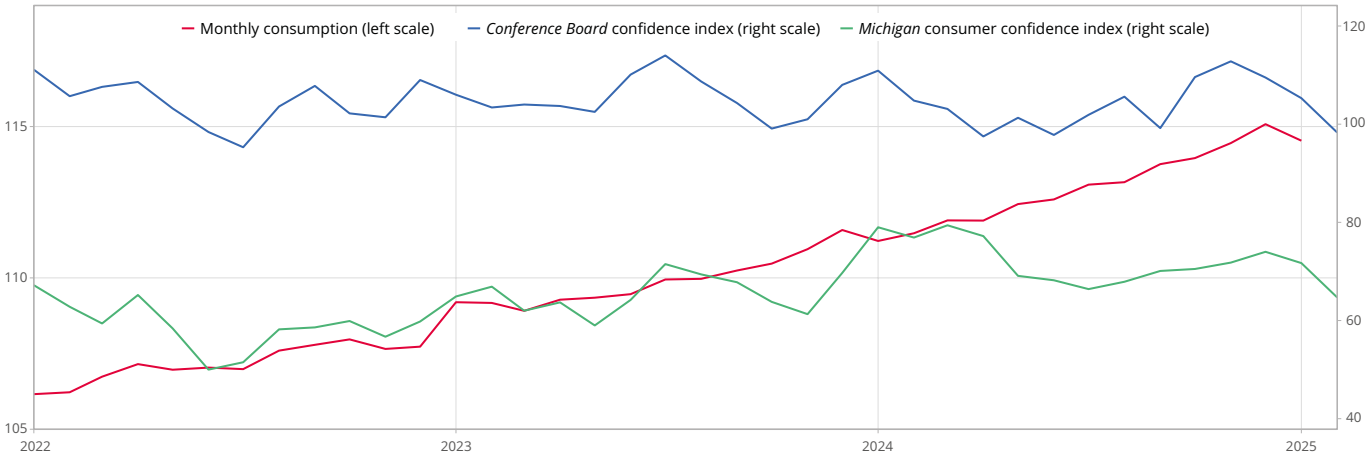
(balance of opinion in %)



Last point: February 2025.
How to read it: in February 2025, the ISM manufacturing index for prices in the manufacturing sector was 62.4 and the general index for the sector was 50.3.
Source: S&P.

►3. Household consumption and consumer confidence fell in early 2025

(level= January 2020 for monthly consumption, level for indices, Michigan university 100= Q1 1966, Conference Board 100= average 1985)



Last point: February 2025 for the Conference Board and University of Michigan confidence index, January for monthly consumption.
How to read it: in February 2025, the University of Michigan consumer confidence index was 65 and the Conference Board index was 98. In January 2025, monthly consumption was 14 points above its January 2020 level.
Source: University of Michigan, Conference Board, BEA, INSEE calculations.

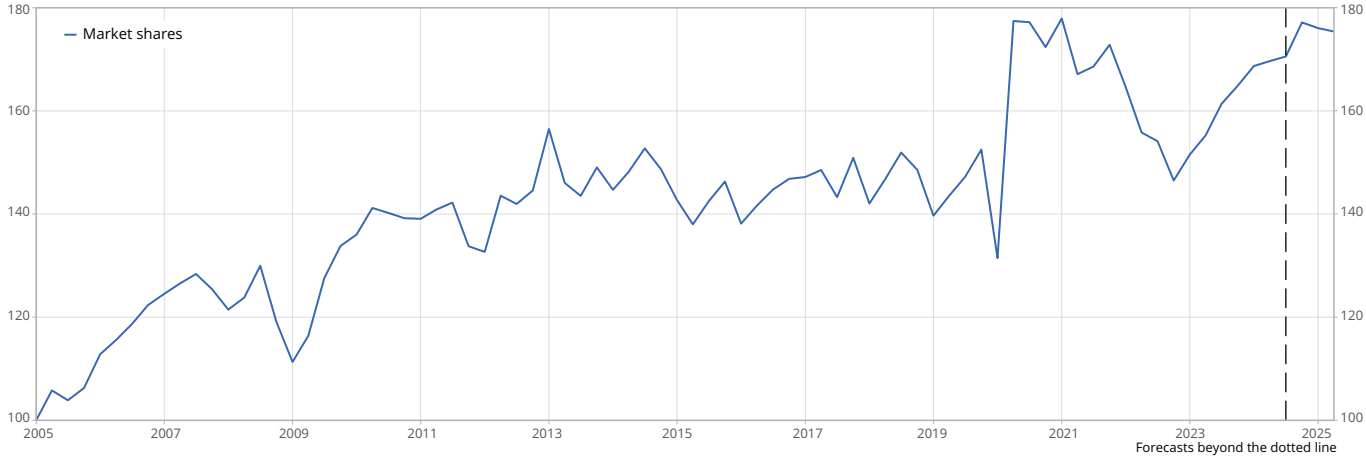
China

According to the Chinese National Bureau of Statistics, activity would appear to have accelerated in China in Q4 2024 (+1.6% after +1.3% in Q3). Growth would thus have averaged +5.0% over the whole of 2024, its lowest since 1990 (excluding the pandemic). Growth was driven largely by foreign trade, with exports being dynamic once again in Q4 (+4.0%): on the one hand, manufacturers continue to gain market shares by lowering their prices (producer prices in industry declined by 2.2% year on year in February); on the other hand, exporters have probably anticipated the imminent increase in customs barriers to the United States. Meanwhile, imports rebounded by 2.0% (►**Figure 1**). Over the whole of 2024, export volumes increased by 12% and imports by 4%, thus ensuring a record trade surplus of nearly $1,000 billion. Chinese exports benefitted in particular from sales of electric vehicles, despite the introduction of measures by partner countries to curb their imports (►**Focus** on imports of electric vehicles).

In contrast, domestic demand remained sluggish: regarding households, the year-on-year increase in retail sales has stayed well below 5% since March 2024 despite a slight acceleration at the end of the year, and the consumer confidence index remains at a low level; on the business side, profit is clearly down (►**Figure 2**) and investment growth stands at +3.2% year on year (compared to an average of +15% in the 2010s), notably due to the crisis in the real estate sector. Faced with this anaemic domestic demand, the Chinese authorities strengthened their support for the domestic economy at the end of 2024, in line with the announcements made in September: financing was released for the renewal of business equipment and to replace consumer goods.

In February 2025, the business tendency surveys, whether from the Chinese National Bureau of Statistics or S&P, reported a slight improvement compared to the declining indicators seen in January for both the non-manufacturing and manufacturing sectors. However, the employment components are not so positive. Thus, in H1 2025, activity is certainly expected to be stimulated somewhat by support measures (+1.0% per quarter) but the stimulus is likely to remain modest and foreign trade looks set to stall. Exports are expected to slow completely in the winter after strong momentum in the autumn, then contract in the spring (-0.2%), hampered by the introduction of customs barriers by the United States, and by additional curbs on exports in the most buoyant sectors, such as electric vehicles. ●

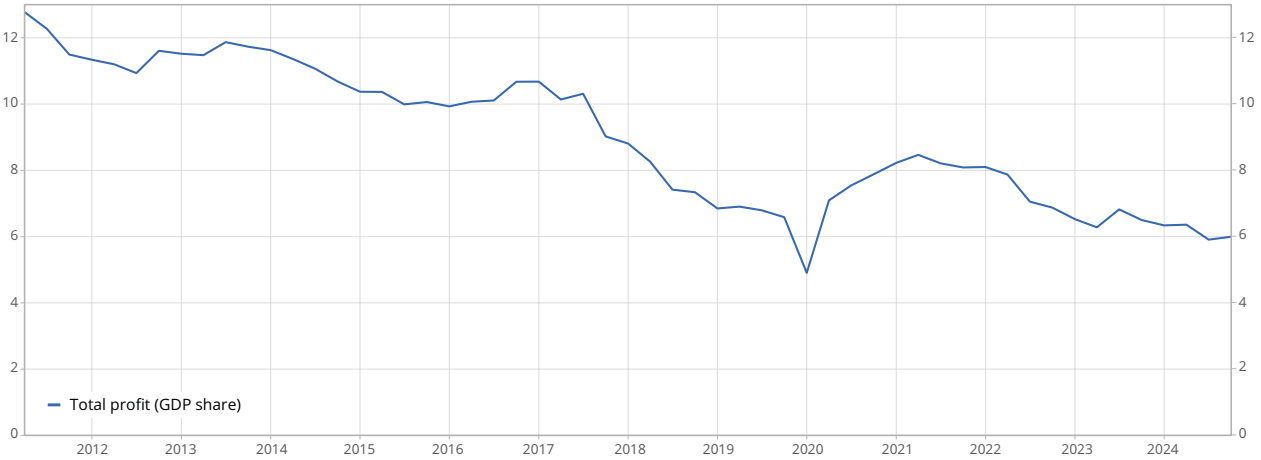
►1. Market shares expected to stop increasing at the beginning of 2025
(ratio of exports to world demand for Chinese goods, base 100, Q1 2005)



Last point: Q2 2025 (forecast from Q3 2024 based on customs and CPB data).
How to read it: in Q2 2024, the ratio of Chinese exports to world demand for Chinese goods was 70% above the level in Q1 2005.
Source: NBSC, OCDE, CPB, INSEE calculations.

►2. Profits are still on a downward trend

(total profit of industrial businesses in % of GDP by value)



Last point: Q4 2024.
Note: all industrial businesses (private and public).
How to read it: . total profit of industrial businesses represented 6.0% of GDP by value in Q4 2024.
Source: NBSC.

In France, in 2024, the change in the ecological bonus and the introduction of customs barriers by the European Union led to a collapse in imports of Chinese electric vehicles, to the benefit of Germany

Since 2022, Chinese electric vehicle exports have risen sharply. The world's major economies are adapting their strategies in response to this dynamic trend. In the United States, due to the government's efforts to boost domestic production through a combination of subsidies and tariff protection, Chinese imports of electric vehicles are very low. In the UK, on the other hand, the prioritisation of growing environmental commitments has promoted greater openness to Chinese vehicle imports. In the European Union, Chinese vehicle imports soared in 2023, prompting the tightening of tariffs in European regulations from mid-2024 onwards in order to protect the European automotive industry. Imports from China fell sharply in the summer following this measure, as anticipated in the literature, before bouncing back slightly in the autumn.

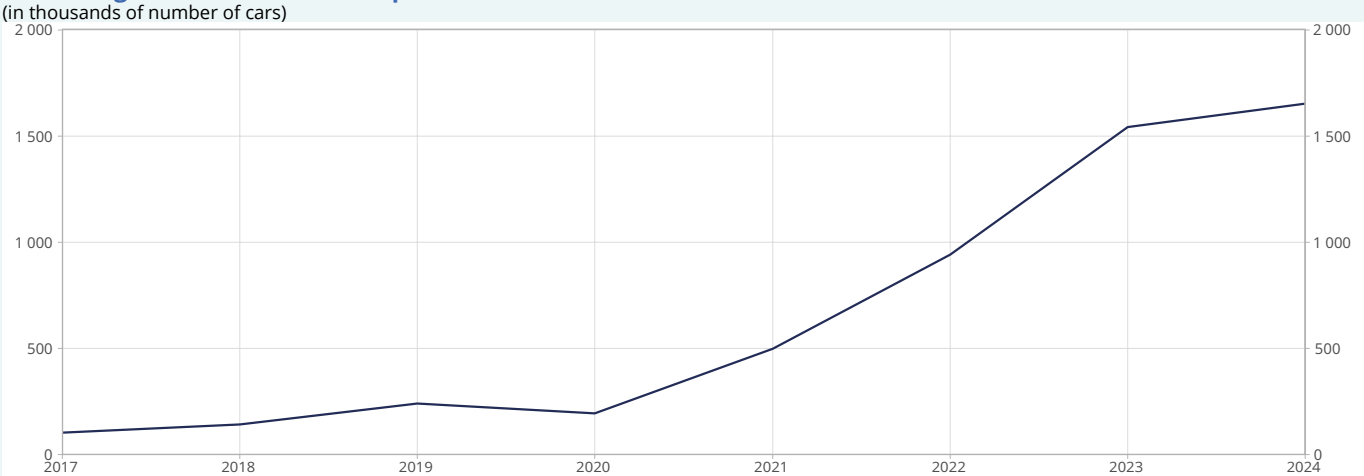
In France, electric vehicle imports have also been affected by legislative changes concerning subsidies for electric vehicle purchases. Since October 2023, the environmental bonus has been dependent on an environmental score that takes account of the place of assembly, effectively excluding vehicles from China. After increasing significantly in 2023, Chinese vehicle imports fell back very sharply in 2024. However, this downturn did not benefit the domestic industry, whose output dropped slightly over the year and, so far, the decline in imports of vehicles assembled in China has been mainly reflected in a sharp rise in imports from Germany.

Raphaële Adjerad, Mathilde Niay

From 2021 to 2024, Chinese electric vehicle exports increased significantly

The electric vehicle market is growing rapidly: according to the ►**International energy agency** (IEA, 2024), 14 million electric vehicles were sold worldwide in 2023, almost six times more than in 2018. Almost one in five vehicles sold was electric, compared with just 2% in 2018. This rapid growth is primarily due to the Chinese market: 60% of electric vehicles sold worldwide are purchased in China, and electric vehicles will account for almost half of the Chinese car market by 2024, according to the Chinese Manufacturers' Federation. As well as the leading market, China has rapidly become the leading producer of electric vehicles, and its exports of electric vehicles have risen sharply from 240,000 in 2019 to almost 1.5 million in 2023 (►**Figure 1**). However, these exports slowed in 2024 (+7% in 2024, compared with +103% on average in 2021, 2022 and 2023). This success is partly due to a proactive industrial policy that favoured electric vehicles from an early stage, and partly to an aggressive sales policy, with export prices falling back sharply in China from October 2022.

►1. Change in electric vehicle exports from China
(in thousands of number of cars)



Last point: 2024.
Note: the vehicles considered are those designed primarily for passenger transport, equipped with an electric propulsion motor.
How to read it: in 2024, 1,653,000 Chinese electric vehicles were exported.
Source: General Administration of Customs of the People's Republic of China, INSEE calculations.

The United States continues to pursue an industrial protection strategy

In the United States, the share of electric vehicles remained low in 2023 (around 10% of vehicles sold according to the IEA) but increased rapidly. Since 2018, trade tensions with China have contributed to reshaping the electric vehicle market in the United States. Under the first Trump administration (2016-2020), tariffs were raised in order to significantly curb the growth of Chinese exports in several sectors. This policy promoted a decoupling phenomenon, i.e. a reduction in the interdependence between the two economies through the diversification of sources of supply (►**IMF, 2023**), particularly in the automotive sector. This led to a drop in imports of electric vehicles and the components essential to their production (rare metals, batteries), directly from China.

Starting in 2021, the new Biden administration retained these measures before stepping up the decoupling process from 2022 onwards via the Inflation Reduction Act (IRA). This scheme set out to encourage domestic production and restrict imports by making the granting of subsidies and tax credits dependent on the origin of the materials used (purchase and assembly in the United States).

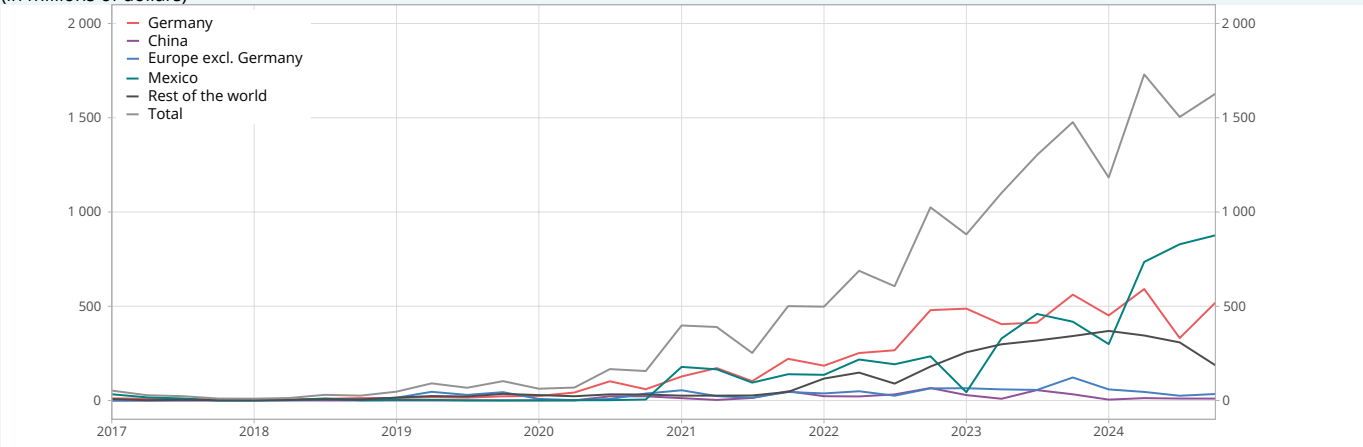
Over the years, these trade tensions have led to a reorientation of import flows, with China gradually being replaced by other trading partners, including Mexico. Finally, imports of Chinese electric vehicles into the United States are low. Despite soaring demand, US imports of Chinese electric vehicles fell by 8% between the 2020-2022 and 2023-2024 averages, while total imports of these products almost quadrupled (►**Figure 2**). The share of Chinese vehicles in all imported electric vehicles has been marginal since the end of 2020: in 2023, it fluctuated between 0% and 4% depending on the month, and dropped to less than 1% in 2024. At the same time, 45% of electric vehicle imports into the United States originated from Mexico in 2024, compared with 2% in 2019, and Germany's market share also increased over the period, rising from 22% of imports in 2019 to 31% in 2024.

The Biden administration implemented new measures against Chinese vehicles in September 2024, increasing customs duties from 25% to 100%, although this seemed a symbolic measure given that imports from China accounted for such a small proportion overall. The players most likely to be affected by these measures could ultimately be US producers who depend on Chinese batteries: a disruption to Chinese battery exports would be likely to have major impacts on the entire supply chain (►**Cheng L. and al., 2024**).

In the United Kingdom, the prioritisation of environmental commitments is reflected in increasing openness to Chinese imports

In the UK, electric vehicles accounted for around 20% of registrations in 2023, but the country has adopted a radically different strategy to the United States and the European Union as far as imports are concerned, keeping customs duties unchanged, particularly in relation to China. This decision is justified by the priority focus on its ambitious environmental policy. The *Zero Emission Vehicle Mandate*, which came into force at the beginning of 2024, requires car manufacturers to gradually increase the proportion of electric vehicles in new car registrations (increasing to 80% by 2030 and 100% by 2035). As a result, the share of Chinese electric vehicle imports in total UK electric vehicle imports has risen from an average of 1% in 2020 to around 40% between 2021 and 2023 (►**Figure 3**). Germany has also benefited significantly from the rise in electric vehicle sales, and now accounts for a larger share of electric vehicle imports than China (50% by 2024), with other countries occupying only a marginal share of the UK market.

►2. Electric vehicle imports into the United States, by origin
(in millions of dollars)



Last point: Q4 2024.
Note: the change in electric vehicle imports is shown as a quarterly average from 2017 to 2024.
How to read it: in Q4 2024, imports of German electric vehicles into the United States averaged $520 million.
Source: UN Comtrade.

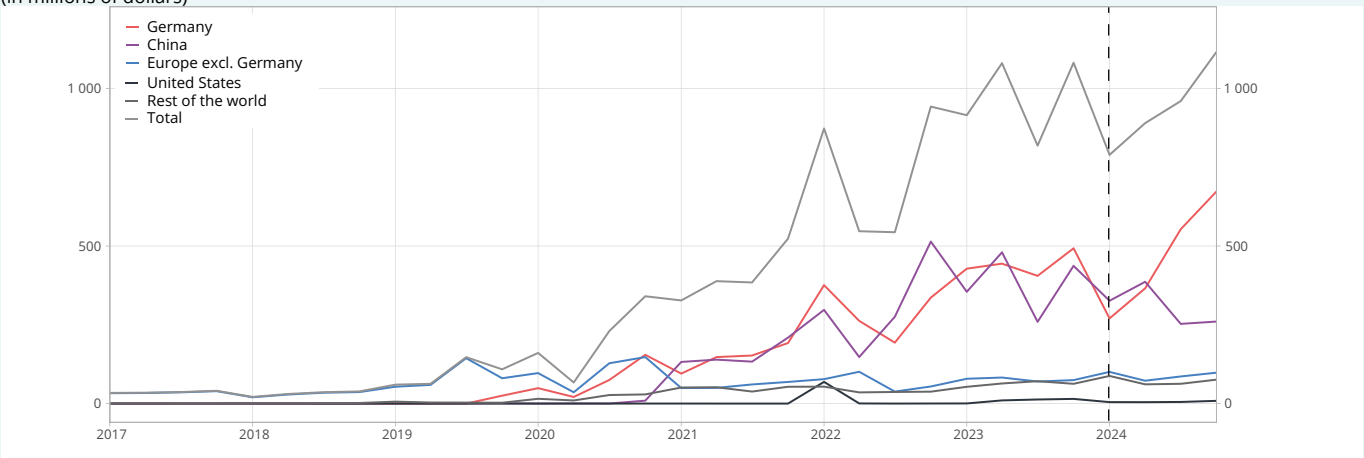
The European Union has stepped up its efforts to curb Chinese imports of electric vehicles in favour of domestic production

In the European Union, the market share of rechargeable battery-powered vehicles was around 20% in 2023, as in 2024. In March 2023, as part of the "zero-emissions" strategy, the European Parliament adopted a ban on the sale of new internal-combustion-engine powered vehicles by 2035, boosting demand in the sector. Sales of Chinese electric vehicles have benefited from this growing demand: imports from China accounted for an average of 68% of EU imports of electric vehicles between 2022 and 2024, compared with 2% in 2019 (►Figure 4). In one year, the share of imports of Chinese electric vehicles even rose from 60% in mid-2023 to 74% in mid-2024.

In July 2024, the European Union introduced a temporary increase in customs duties on Chinese electric vehicles. This decision came as part of the investigation into unfair competition in this sector, launched in October 2023 by the European Commission, which found that the value chain for electric vehicles in China benefited from unfair subsidies. The provisional measure consisted of customs duties varying between 17% and 38%, depending on the degree of cooperation from manufacturers. These customs duties were in addition to the existing 10%. Following the introduction of these provisional tariffs in July, Chinese imports tumbled year-on-year (-11% year on year in H2 2024). The European investigation concluded that subsidies did exist, and definitive countervailing duties on vehicles imported from China (up to 35%) were subsequently introduced in October 2024.

►3. Electric vehicle imports into the United Kingdom, by origin

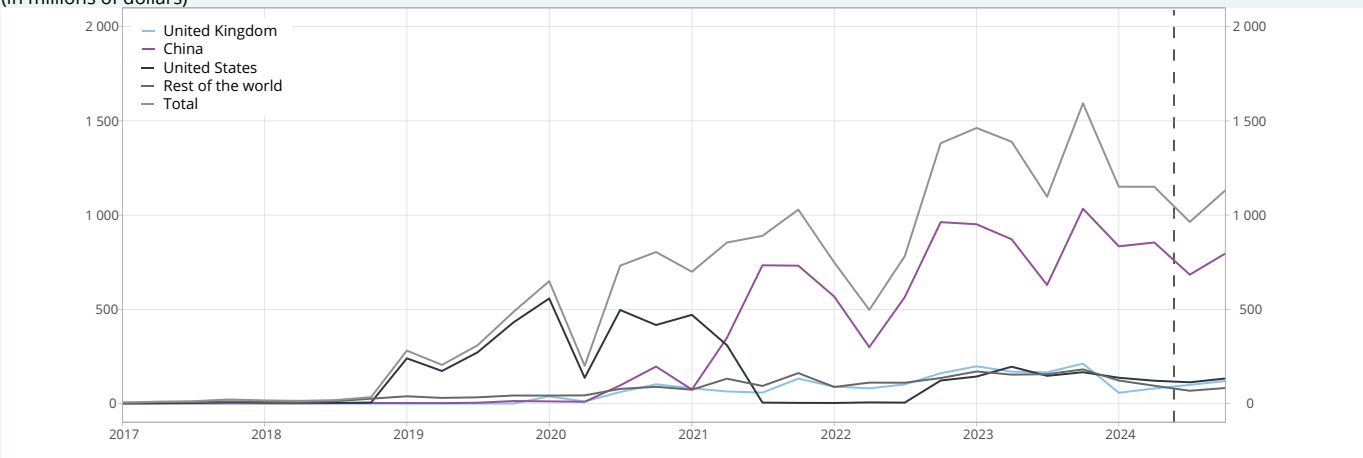
(in millions of dollars)



Last point: Q4 2024.
Note: quarterly average from 2017 to 2024. The vertical bar corresponds to the date of implementation of the *Zero Emission Vehicle mandate* (January 2024).
How to read it: in Q3 2024, imports of German electric vehicles into the UK averaged $553 million.
Source: UN Comtrade.

►4. Electric vehicle imports into the European Union, by origin

(in millions of dollars)



Last point: Q4 2024 (ovgh end November).
Note: quarterly average based on monthly data from 2017 to 2024. The vertical bar corresponds to the date of imposition of provisional countervailing duties on China (July 2024). Intra-EU flows are not included in the data.
How to read it: in Q3 2024, Chinese electric vehicle imports into the European Union averaged $684 million.
Source: UN Comtrade.

The literature predicts a drop in electric vehicle imports from China to Europe following the introduction of tariffs…

According to simulations by the Kiel Institute for the World Economy (►**Hinz J. and al., 2024**), a 20% increase in European tariffs on Chinese electric vehicles would eventually lead to a 25% drop in imports from China, corresponding to around 125,000 vehicles (2024). Part of this decline would probably be offset by an increase in European production, but also by the redirection of European exports of electric vehicles to serve domestic European demand. This would result in higher prices for consumers, since European production costs are higher than those in China. More indirectly, European exports to China would also be likely to edge down as a result of reduced Chinese demand for European inputs used specifically in the production of electric vehicles in the European Union.

The US International Trade Commission (2024) has also simulated the *ex ante* impact of customs duties based on scenarios in which all the regions considered in their study (United States, European Union, Japan, South Korea and the rest of the world) increased customs duties on Chinese electric vehicles by 20%. According to this scenario, Chinese exports of electric vehicles to the European Union would be expected to fall by 53%, with intra-European flows likely to increase by 20%.

In this regard, ►**Mayer and al. (2024)** point out that despite the recent emergence of new Chinese makes as major players in the automotive industry in Europe, the "historic" non-Chinese companies continue to account for a large proportion of European imports. Local sales also remain significant: in Europe, over 80% of sales concern vehicles produced on the continent.

… which could lead Chinese manufacturers to establish a local presence

In addition, avoidance strategies can be used to overcome this type of barrier. ►**Mayer and al. (2024)** cite the historical example of the expansion of Japanese and Korean makes in the 2000s, which invested heavily in local factories following the introduction of protectionist policies in the United States. Chinese enterprises could therefore develop this type of strategy. For example, to enable it to carry out local production, the Chinese car manufacturer BYD has invested in its first European factory in Szgeded, Hungary, which is scheduled to open in Q2 2025. At the same time, BYD has announced a major new investment in Turkey, which benefits from a free-trade agreement with the European Union, concerning a plant which is due to open before the end of 2026. In addition, a growing number of collaboration projects between Chinese and European manufacturers are being undertaken: Stellantis acquired around 20% of the Chinese manufacturer Leapmotor in September 2024 and sells its models (some assembled in Poland) through its own network, while the Chinese manufacturer Geely has acquired a significant stake in the Swedish manufacturer Polestar.

Alongside these strategies, Chinese exporters have diversified their markets into non-EU countries, notably the UK, Eastern Europe and emerging economies, in order to offset the decline in exports to the European Union. In particular, sales of Chinese electric cars in Russia increased by 500% in 2023.

In France, Chinese imports of electric vehicles have fallen back sharply as a result of changes to the environmental bonus scheme, in favour of those from Germany

In France, imports of Chinese electric vehicles started falling sharply at the end of 2023 – well before the introduction of the increased European customs duties. This decline seems largely attributable to changes to the environmental bonus scheme (financial aid to encourage the purchasing or leasing of electric vehicles). In October 2023, an environmental score was introduced to assess the environmental benefits over a vehicle's entire life cycle, including the production of its batteries and the types of energy used. A limited list of eligible vehicles has been published, which effectively excludes vehicles assembled in China from the scheme.

As a result, since December 2023, imports from China have fallen as a proportion of total French imports of electric vehicles (►**Figure 5**). The share of Chinese electric vehicles in total electric vehicle imports, which fluctuated between 40% and 50% in 2023, dropped to 20% in Q2 and Q3 of 2024. Between Q1 2023 and Q2 2024, total imports from China declined by 60%. Over the same period, imports from Germany rose by 80%, reflecting a shift towards vehicles assembled in Germany.

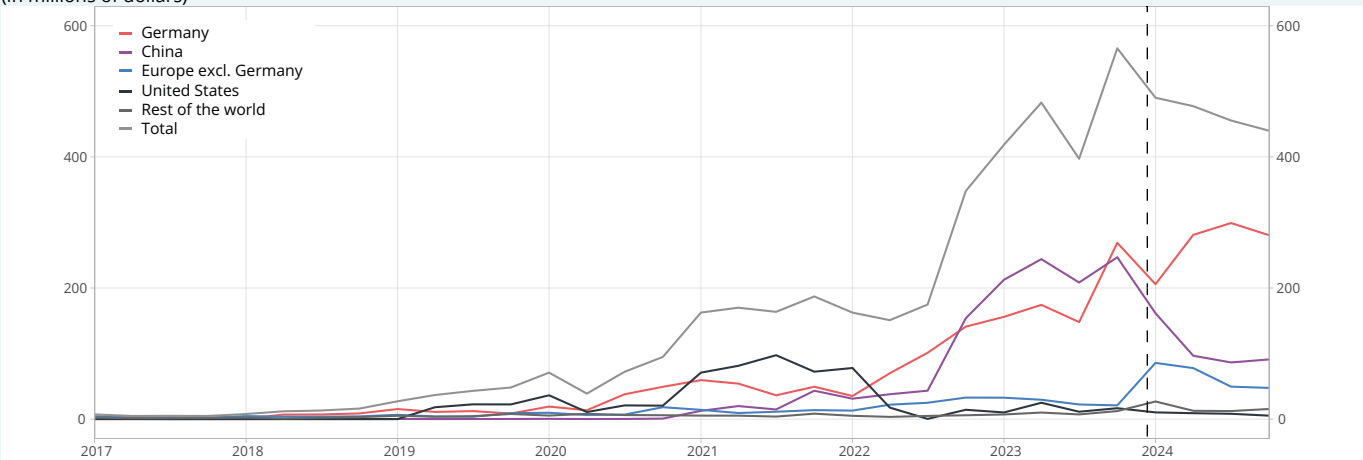
The preceding analysis focuses on the countries in which vehicles are assembled and not on the nationality of the makes. However, assembling in China does not exclusively concern Chinese makes. For example, the Dacia Spring, marketed by the Renault group and assembled in China, has suffered greatly from the loss of the bonus: its sales dropped almost sixfold between 2023 and 2024 (from nearly 30,000 to just over 5,000). Vehicles sold by Tesla (14% of electric vehicles sold in France in 2024) are assembled either in the United States, China or Germany, but only the latter are eligible for the environmental bonus: Tesla has therefore focused on channelling the vehicles assembled in Berlin into the French market. However, the Chinese makes that were already present on the French market have suffered greatly from the changes to the bonus: sales of MG (SAIC Motor) have dropped by around

25%, more than 60% of which concerns electric vehicles alone, with the overall decline being limited by the sharp rise in sales of hybrid vehicles.

Other factors may also have affected electric vehicle imports in 2024, notably the "social leasing" scheme, introduced on 1st January 2024, which gives low-income households access to an electric vehicle for an outlay of €100 per month. This scheme has strongly boosted demand for electric vehicles and may have sustained vehicle imports in spring 2024.

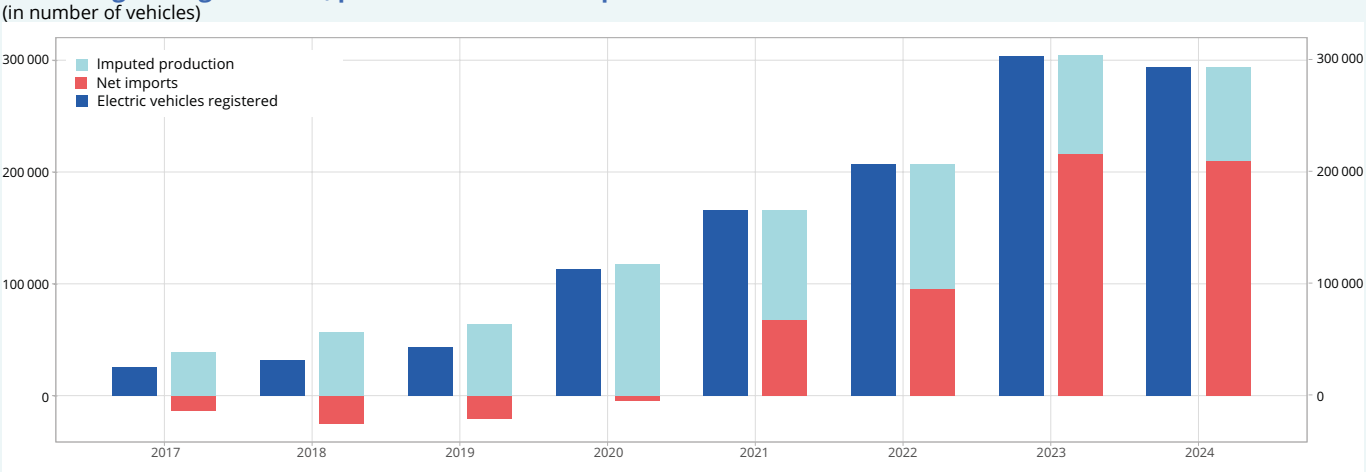
All in all, electric car registrations fell slightly in France in 2024 (-3.4%, ►**Figure 6**). Over the year, domestic production would appear to have fallen by 5%, while net imports fell only slightly (-3%), despite the very sharp decline in purchases of vehicles imported from China. The redefinition of public subsidies for electric vehicle purchases therefore appears to have been to the detriment of vehicles assembled in China, but to the benefit of those assembled in Germany, with no marked effect on production in France at this stage. ●

►5. Electric vehicle imports into France, by origin
(in millions of dollars)



Last point: Q4 2024.
Note: quarterly average based on monthly data from 2017 to 2024. The vertical bar corresponds to the date of introduction of the list of cars eligible for the environmental bonus (December 2023).
How to read it: in Q3 2024, Chinese electric vehicle imports into France averaged €86 million.
Source: DGDDI, monthly customs base.

►6. Change in registrations, production and net imports of electric vehicles
(in number of vehicles)



Last point: 2024.
Note: the imputed production is the difference between registrations and net imports. To enable comparisons with registrations, only the 87038010 product code for new electric vehicles is considered here.
How to read it: en 2024, 293,600 electric vehicles were registered and net imports accounted for around 210,200 vehicles.
Source: DGDDI / DSCECE.

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