

# Economic outlook

7 September 2023



In France, the spring was marked by a slowdown in consumer prices, with economic activity more dynamic than forecast, and certainly above its basic trend. Meanwhile, employment slowed.

The decline in the year-on-year variation in consumer prices is expected to continue through to the end of 2023, although it is likely to be slower than in May-June, with the energy contribution becoming positive once again. Both headline inflation and core inflation look set to remain a little above +4% year-on-year in December.

In an international environment that seems relatively sluggish, and despite the slight rebound expected in household consumption, economic activity is likely to slow in France in H2 2023. The pace of growth is expected to be around +0.1% to +0.2% per quarter (after +0.5% in Q2), bringing annual growth in 2023 to +0.9%. At the end of 2023, the growth overhang for 2024 is expected to be modest.

## Business leaders' morale is weakening and household confidence in the economic situation is struggling to recover

In mid-2023, the major world economies were evolving in different ways. In the United States, the relative resilience of economic activity and of the labour market in particular did not suggest any short-term drop in interest rates. The Chinese economy was slowing significantly, however, with potentially mixed consequences for the rest of the world: this slowdown may hamper exports in other countries but at the same time ease tensions over supply chains.

The European economies continue to face both high inflation (although this has started to decline) and the consequences of the monetary tightening introduced

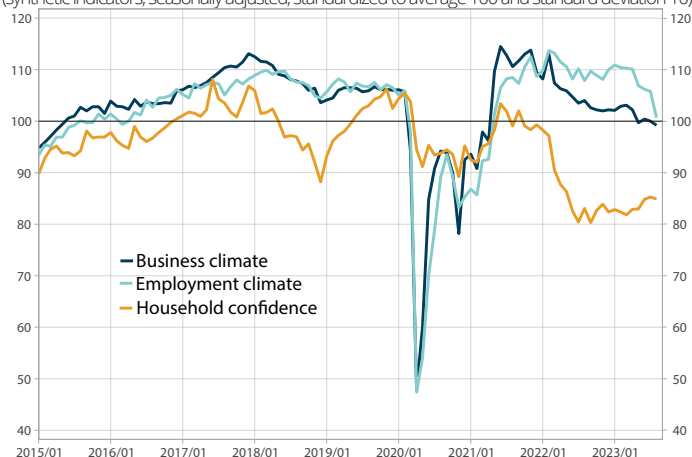
by the central banks to curb it. In this context, European business tendency surveys indicate a slowdown in activity, both in industry and services, and especially in Germany.

In France, in August 2023, the business climate dipped below its long-term average for the first time since April 2021 (► **Figure 1**). The employment climate also declined, returning almost to its average level. Meanwhile, household confidence in the economic situation remains in decline, despite a very slight improvement due to the slowdown in consumer prices.

Concerning companies' expected selling prices, the business tendency surveys show that the easing of inflationary tensions is being passed on from industry to retail trade, after a delay of several months (► **Figure 2**).

### ► 1. Business climate, employment climate and household confidence in France

(synthetic indicators, seasonally adjusted, standardized to average 100 and standard deviation 10)



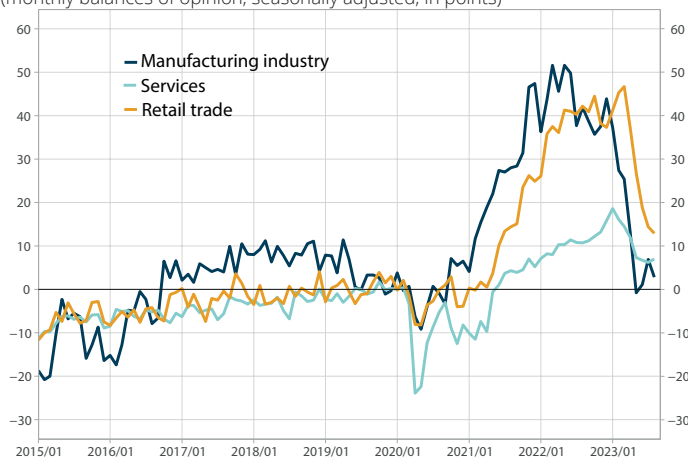
Last point: August 2023.

Note: these series are longer than shown on this graph.

Source: business and household surveys, INSEE.

### ► 2. Balances of opinion on changes in selling prices over the next 3 months

(monthly balances of opinion, seasonally adjusted, in points)



Last point: August 2023.

Source: monthly business surveys, INSEE.

## Inflation is expected to continue to fall back until the end of the year, but more slowly than in the spring

In August 2023, core inflation continued to decline, but the volatile component of inflation rebounded, thus driving up headline inflation (+4.8% year-on-year after +4.3% in July). This rebound is directly linked to the rise in oil prices and the 10% increase in regulated electricity tariffs on 1<sup>st</sup> August. The impact of this tariff revision on the year-on-year variation in consumer prices has been estimated at about 0.2 percentage points.

Assuming that the price of a barrel of Brent remains at €79 until the end of the year, the energy component of inflation should remain positive, due to the “base effect”: last autumn, oil prices were indeed high but the “reduction at the pump” tempered fuel prices. In addition, oil prices fell sharply in December 2022.

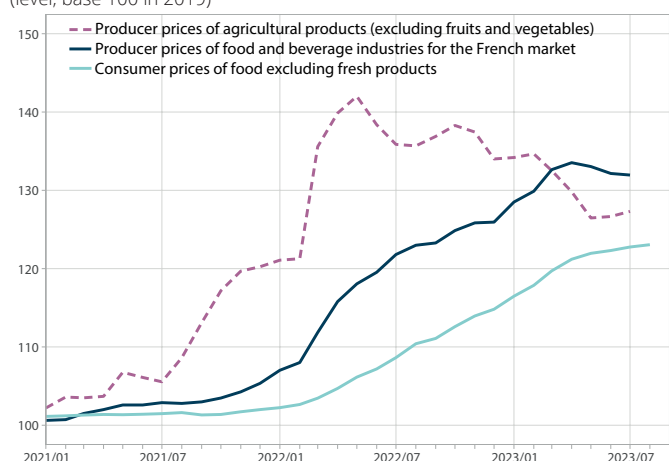
Unless world prices experience a further shock, these fluctuations in energy prices are not expected to affect

the slowdown forecast for food prices. Upstream prices have in fact been coming down for several months, both agricultural producer prices, which have been decreasing since mid-2022, and producer prices in the agrifood industries, which have slipped back slightly since spring 2023 (► **Figure 3**). However, these prices are still significantly higher than at the start of 2021, so that by the end of the year, consumer food prices are expected to slow, although without their average necessarily falling at this stage. Different changes can be observed between different products. The food price index looks set to rise by around 0.1% per month until the end of the year (against +1.7% per month at the start of 2023). The year-on-year variation is expected to be +7.2% in December 2023 (against +15.9% in March).

Consumer prices of manufactured products are also expected to slow a little year-on-year, while the contribution of services to inflation is expected to continue. All in all, headline inflation in December 2023 looks set to rise to +4.2% year-on-year (► **Figures 5 and 6**),

### ► 3. Price trends along the food production chain

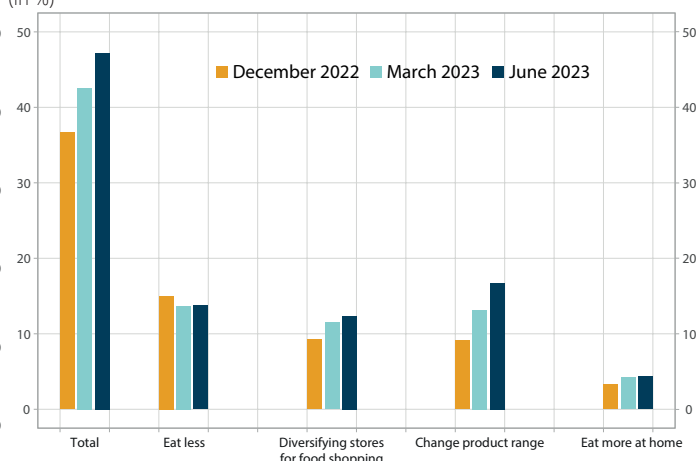
(level, base 100 in 2019)



**Last point:** July 2023 for producer prices of agricultural products and in industry, August 2023 for consumer prices.

**Source:** indices of producer prices for agricultural products (IPPAP), producer price indices in industry (PPI), consumer price indices (CPI), INSEE.

### ► 4. Share of households reporting that they have changed their food consumption habits due to inflation, and main types of adaptation adopted



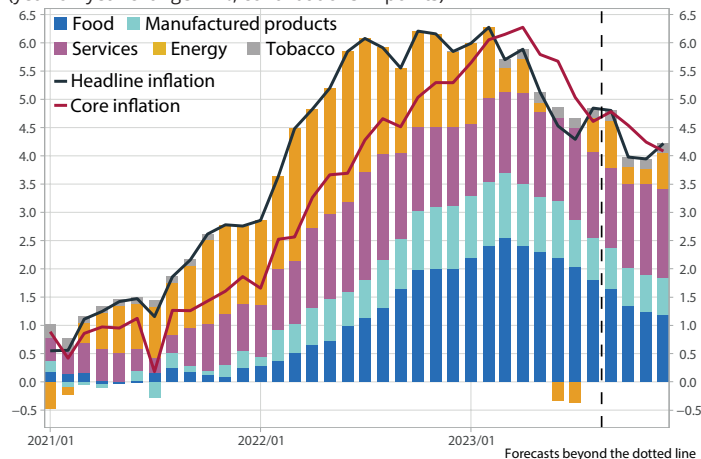
**How to read it:** in June 2023, 47% of households said they had changed their food consumption habits over the past year due to inflation. 17% of households said they were adapting by changing their product range.

**Scope:** households living in ordinary housing in Metropolitan France.

**Source:** consumer confidence survey, INSEE.

### ► 5. Headline inflation and contributions by item

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



**Note:** for August 2023, headline inflation is a provisional estimate.

**How to read it:** in August 2023, the consumer price index increased by 4.8% year-on-year, according to the provisional estimate. Food is expected to contribute 1.8 percentage points of this increase.

**Source:** INSEE.

### ► 6. Past and projected headline inflation

(year-on-year change in % of the consumer price index)

CPI* groupings (2023 weightings)	July 2023	Aug. 2023	Sept. 2023	Oct. 2023	Nov. 2023	Dec. 2023	Annual average 2023
Food (16.2%)	12.7	11.1	10.0	8.2	7.6	7.2	11.9
Tobacco (1.9%)	9.8	9.9	9.8	9.8	9.8	9.8	8.0
Manufactured products (23.2%)	3.4	3.1	3.1	2.9	2.8	2.8	3.8
Energy (8.6%)	-3.7	6.8	9.7	3.8	3.5	7.3	5.5
Services (50.1%)	3.1	2.9	2.8	3.0	3.2	3.2	3.0
<b>All (100%)</b>	<b>4.3</b>	<b>4.8</b>	<b>4.8</b>	<b>4.0</b>	<b>3.9</b>	<b>4.2</b>	<b>5.0</b>
<b>Core inflation (60.6%)</b>	<b>5.0</b>	<b>4.6</b>	<b>4.8</b>	<b>4.5</b>	<b>4.2</b>	<b>4.1</b>	<b>5.2</b>

■ Provisional ■ Forecast.

\* Consumer price index (CPI).

**Source:** INSEE.

with core inflation at a similar level (+4.1% year-on-year). As an annual average, inflation is likely to stand at +5.0% in 2023 (and +5.2% for core inflation).

### Household consumption is expected to rebound slightly in H2 2023, but corporate investment could remain flat

Total household consumption, measured in volume, has remained at around its 2019 average since the start of 2022. However, household consumption expenditure in value has increased: in Q2 2023, it was 13% above its 2019 level. High inflation accounts for this difference between the volume and value trends (► Figure 7). This difference is even more pronounced when considering the consumption of agrifood products alone, where prices have increased sharply: in Q2 2023, the consumption of agrifood products expressed in volume was 9% below its 2019 level, while the corresponding expenditure in value was 12% higher than in 2019.

This decline in food consumption in volume, as measured in the national accounts, may reflect several types of behavioural change: it may relate to an actual drop in amounts consumed, but also to changes in the quality of products bought. INSEE's consumer confidence survey provides some pointers on this subject. In June 2023, 47% of households reported that they had changed their food consumption habits over the past year due to inflation, a proportion that was up 10 points from December 2022 (► Figure 4). More specifically, 14% of households said they were eating less, a proportion that has remained more or less stable since the end of 2022. The share of households saying that they have changed the product ranges they buy has almost doubled (17% in June 2023 against 9% in December 2022). The proportion saying that they have diversified the stores where they shop for food has also increased (12% in June 2023 after 9% at the end of 2022). Finally, the proportion of households who report that they eat more at home is lower (4%).

In a context of slowing food prices, however, monthly data on household consumption of goods suggest a slight rebound in Q3 2023 (► Figure 8). In June, the business climate in retail trade (including the sale and repair of motor vehicles) again rose above its long-term average. Nevertheless, during the same period, the consumer confidence survey indicates that households are still keen to save. In spring, the household savings ratio rose to 18.8%, or almost 4 points above its 2019 level.

Domestic demand (excluding inventories) could therefore sustain activity to some extent in H2, but this would be due to consumption and not to investment. In a context of high interest rates, both corporate and household investment are likely to be affected. Finally, world demand for French products is expected to remain sluggish and exports could slow after their one-off partial rebound in the spring.

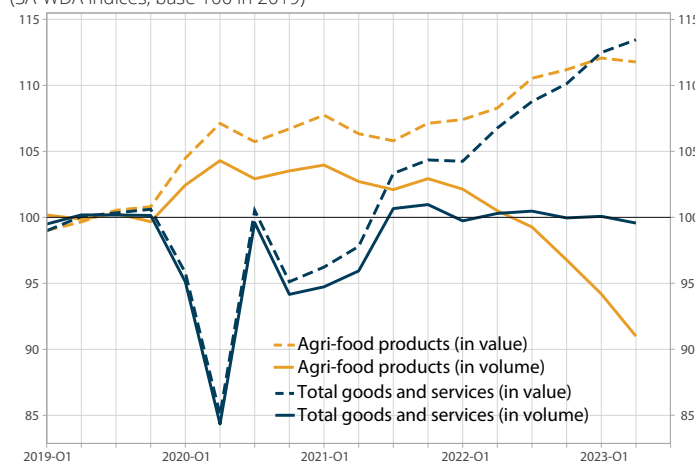
### Industrial production between catch-up and waning momentum

The economic situation in the different branches of activity is still relatively contrasted. In Q2 2023, several industrial branches benefitted from catch-up effects, after being penalised by supply problems during 2022 (► Figure 9). This was the case in the automobile industry, for example, where difficulties linked to the supply of electronic components have now lessened. Electricity production has also rebounded, with the return to production of nuclear reactors that had been shut down for maintenance. In very energy-intensive branches, like the chemical industry, the situation has stabilised or has even picked up slightly with the reduction in tensions over gas and electricity prices. These catch-up effects could continue into H2 but would be on a smaller scale.

While some supply difficulties have declined, as the months have gone by a few more industrial companies have reported that they are facing demand difficulties. For example, this is the case for the manufacture of capital goods, an activity that partly fuels corporate

### ► 7. Household consumption, in value and volume (quarterly data)

(SA-WDA indices, base 100 in 2019)

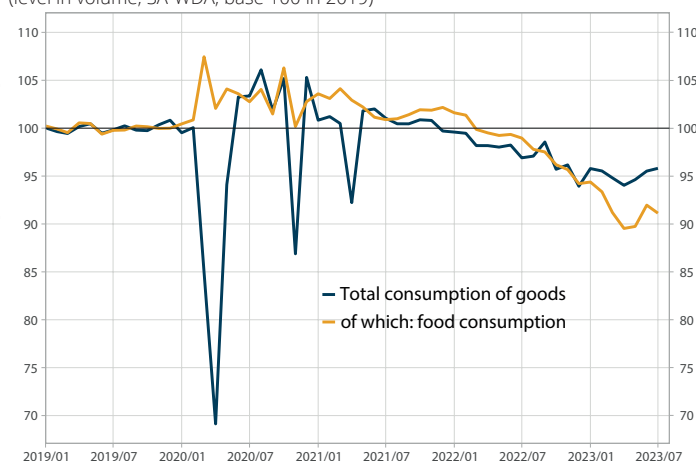


Last point: Q2 2023.

Source: quarterly national accounts, INSEE.

### ► 8. Monthly household consumption of goods (in volume)

(level in volume, SA-WDA, base 100 in 2019)



Last point: July 2023.

Source: INSEE.

investment, and which could slow down. In addition, in the construction of new housing, future prospects remain on a downward trend (► **Figure 10**). Finally, the production of services is expected to grow, but at a slower pace.

### Growth is expected to remain positive in H2 2023, but with little momentum

All in all, the slowdown in prices, both upstream (commodity and energy prices) and downstream (consumer prices), is likely to bring a little relief to some companies and to consumers. The terms of trade improved considerably in the spring, but inflation remains high and the high interest rates could further hamper investment.

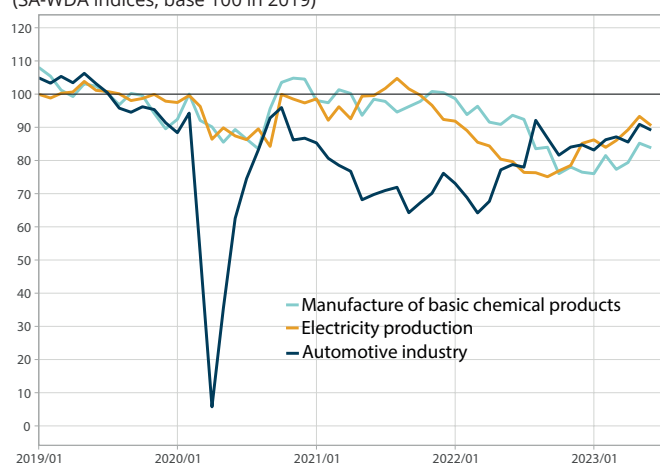
Survey data suggest that H2 could see positive growth, but without much momentum. French GDP is therefore expected to grow by 0.1% in Q3 2023 then 0.2% in Q4.

As an annual average, growth is likely to be +0.9% in 2023 (► **Figure 11**). The upward revision of this annual forecast is due mainly to the dynamism in Q2, which was better than expected. The growth overhang for 2024 (i.e. the annual growth for that year if quarterly GDP in each quarter remains at the level forecast for the end of 2023) is expected to be relatively modest (+0.3%).

There are of course many uncertainties that could affect this forecast, for example the speed at which monetary tightening is passed on to the real economy, any new shocks on international energy or commodity prices, or the outcome of trade negotiations in France between producers and distributors. ●

### ► 9. Monthly production indices for some industrial branches recently affected by supply constraints and catching up

(SA-WDA indices, base 100 in 2019)

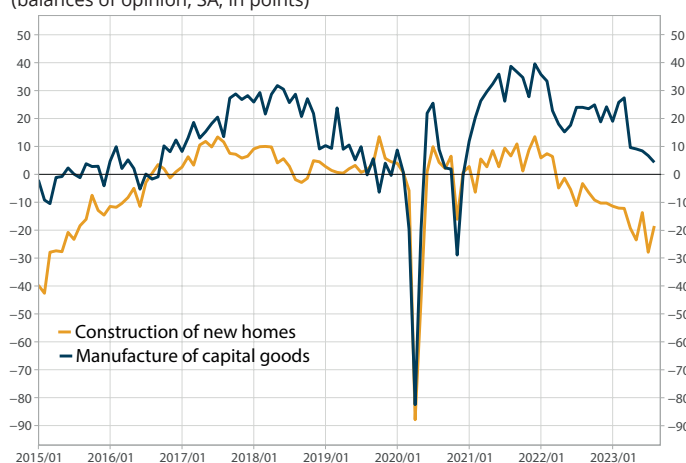


Last point: June 2023.

Source: industrial production index, INSEE.

### ► 10. Balances of opinion on personal production prospects over the next 3 months in some branches recently affected by demand difficulties

(balances of opinion, SA, in points)



Last point: August 2023.

Source: monthly business surveys in industry and construction, INSEE.

### ► 11. Past and projected economic activity (GDP)

(quarterly and annual variations in %)

	2022				2023				2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross domestic product (GDP)	-0.1	0.4	0.3	0.1	0.0	0.5	0.1	0.2	2.5	0.9	0.3

■ Forecast.

**How to read it:** in Q2 2023, GDP increased by 0.5%. It is expected to increase by 0.1% in the third quarter and by 0.2% in the final quarter of 2023. Year-on-year, growth is likely to be +0.9% in 2023, after +2.5% in 2022.

Source: INSEE.

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