

Economic outlook

7 February 2024

At the end of 2023, activity in the Eurozone and in France stagnated for the second consecutive quarter. Investment had fallen back in most countries, hampered by the cost of financing. This sluggishness in Europe is in contrast to the buoyancy seen in the United States, where growth is brisk, driven by public support measures and steady consumption.

In France, the business tendency surveys suggest that growth remains hesitant. The business climate declined throughout 2022 and H1 2023 due to inflationary shock and monetary tightening. It has stabilised since, at a little below its long-term average. The short-term outlook differs from one sector of activity to another: it is favourable in transport equipment, where there is still plenty of potential for a rebound, but has deteriorated in new construction and agri-food.

Overall, prospects are expected to brighten slightly in early 2024: disinflation is indeed confirmed (+3.1% in January; +2.6% expected in June), which should bolster households' purchasing power. Their confidence is gradually improving and consumption looks set to be the main driver of activity in H1 2024. GDP growth is expected to be moderate, however, (+0.2% per quarter) as the outlook for both corporate investment and household investment still appears disappointing.

At the end of 2023, economic activity in France was stagnant

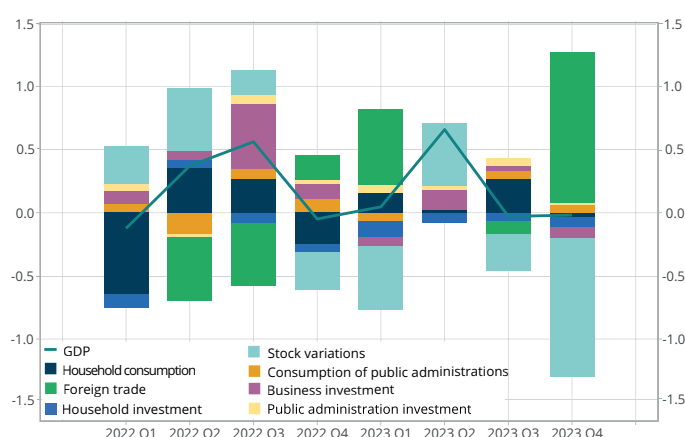
French economic activity remained stable in Q4 2023, as forecast in the December *Economic outlook* (► **Figure 1**). Domestic demand contracted slightly (contributing -0.1 points to GDP growth) in the wake of consumption. Corporate investment declined (-0.6%), while household investment fell back even further (-1.4% after -1.1%) linked to the sharp drop in purchases of new and second-hand housing. Only general government expenditure provided a little support for the domestic situation. Finally, the contribution of foreign trade was strongly positive (+1.2 points): exports stagnated (-0.1%) and

imports declined significantly (-3.1%) as a result of sluggish domestic demand, and also because companies were drawing down from their inventories, which, according to the business tendency surveys, were considered to be fairly sizeable over recent months. These changes in inventories mainly concern capital goods, petroleum products and pharmaceutical products.

All in all, growth reached +0.9% in 2023 after +2.5% in 2022, driven both by domestic demand (contribution of +0.8 points) and foreign trade (+0.6 points), whereas activity was affected by inventory change (-0.5 points). Quarter by quarter, GDP increased strongly over the spring (+0.7% growth in Q2) before stagnating throughout H2.

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

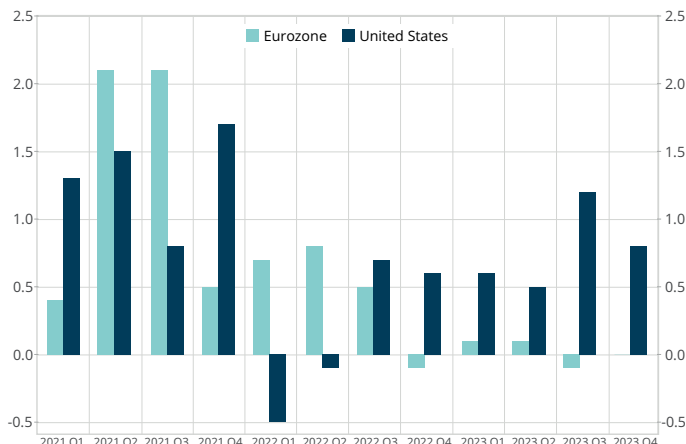
(quarterly change in %; contributions in points)



How to read it: in Q4 2023, GDP remained stable (0.0%) compared to Q3 2023; foreign trade contributed 1.2 points.
Source: INSEE.

► 2. Quarterly variations in GDP in the Eurozone and the United States

(quarterly change in %)



How to read it: in Q4 2023, GDP remained stable (0.0%) in the Eurozone, but increased by 0.8% in the United States.
Source: Eurostat, Bureau of Economic Analysis.

The Eurozone at a standstill, vigorous growth across the Atlantic

At the end of 2023, the different Eurozone countries were evolving differently. The engine of the German economy was struggling to restart: activity declined in the autumn (-0.3% in Q4 after 0.0%), as it had done throughout 2023 (-0.1%, working day adjusted). While the economic situation in Italy was similar to that in France, both in Q4 (+0.2%) and across the whole year (+0.7%), in Spain the catch-up momentum continued (+0.6% in Q4, +2.5% over the year). Taken as a whole, the Eurozone was at a standstill: although activity increased by 0.5% in 2023 compared to 2022, this was mainly due to the catch-up dynamic, which was still in play in the spring and summer of 2022. Penalised by inflationary shock and monetary tightening, activity has stagnated since then, with five consecutive quarters of almost zero growth.

The economic situation is quite different across the Atlantic (► Figure 2), with growth in the United States vigorous once again at the end of the year (+0.8% in Q4 2023 after +1.2%), driven by powerful public support measures and the good performance of consumption: all in all, activity here accelerated in 2023 (+2.5% after +1.9% in 2022).

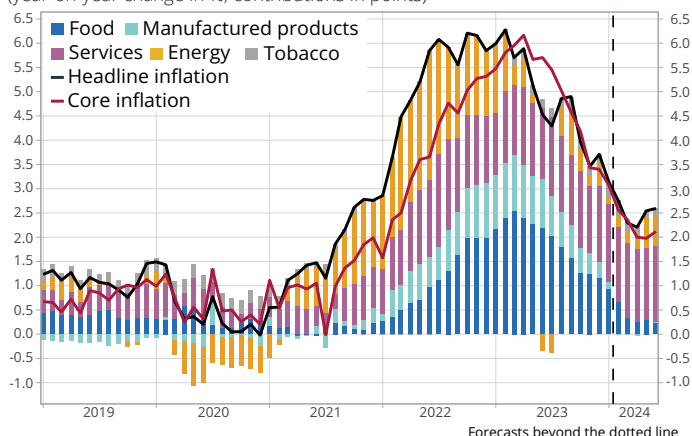
In H1 2024, the inflationary wave is expected to continue to fall back

In France, disinflation is now established (► Figure 3): inflation stood at +3.1% year-on-year in January 2024 (according to the provisional estimate) after +3.7% in December. Assuming that the price of Brent crude remains stable at €73 per barrel, i.e. a little higher than the same time last year, the year-on-year increase in energy prices is expected to stand at +7.5% in June 2024. The reintroduction of electricity taxes on 1st February will probably account for around half of this increase. Conversely, gas prices are likely to fall back in the wake of the drop in market prices.

Food was the main contributor to headline inflation between September 2022 and September 2023. However,

► 3. Headline inflation and contributions by item

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



Note: for January 2024, headline inflation is a provisional estimate, core inflation is a forecast.

How to read it: in January 2024, the consumer price index increased by 3.1% year-on-year, according to the provisional estimate. Services contributed 1.6 percentage points to this increase.

Source: INSEE.

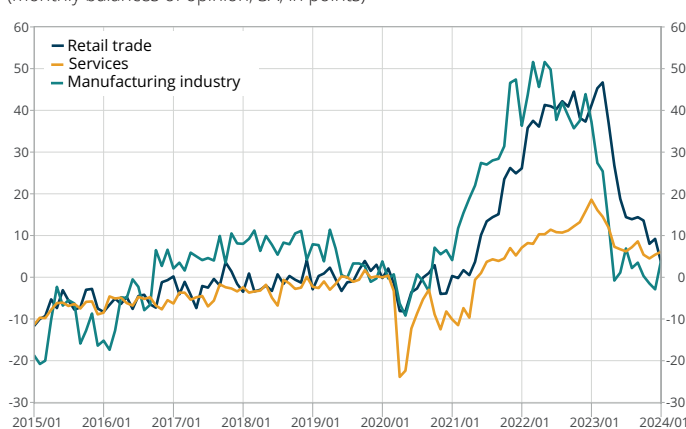
from April 2023, the prices of food products have slowed substantially and this trend looks set to continue until June 2024. This is not only suggested by the business tendency surveys of traders (► Figure 4), but is also the result of the decline in agricultural product prices after they peaked in May 2022. Food inflation is thus expected to reach +1.5% year-on-year in June 2024, compared to +5.7% in January. Similarly, the prices of manufactured products are unlikely to contribute much more to inflation over the forecasting period. Inflation is now being bolstered by the prices of services, driven by dynamic wage levels: in June 2024, they are expected to rise by 3.0% year-on-year. All in all, the inflation rate should settle at about +2.5% year-on-year from spring, with core inflation likely to be slightly lower at around +2%.

A hesitant short-term situation

Since autumn 2023, the composite indicators produced from the business tendency surveys have been relatively stable (► Figure 5). The business climate in France dropped a little below its long-term average in October and has remained there ever since: in January 2024, it stood at 98. The employment climate, which had managed to remain well above its long-term average throughout H1 2023, fell back continuously at the end of the year: in January 2024, it dropped slightly below its long-term average for the first time since spring 2021. In services, the business climate in January was just above the long-term average, while in industry it was a little below. However, this situation accompanies an unprecedented variation in short-term economic diagnoses for each industrial branch (► Figure 6): the business climate is certainly favourable in transport equipment, where there is still significant potential for a rebound and also supply chain difficulties; conversely, it has declined in the agrifood sector, which has faced a historic downturn in consumption over the last two years. In the energy-intensive sectors (chemicals, steel, wood/paper), production fell back significantly from mid-2022 to mid-2023 but seems to have stabilised and even picked up a little since then. Thus the latest data are

► 4. Balances of opinion on change in selling prices over the next 3 months

(monthly balances of opinion, SA, in points)



Last point: January 2024.

How to read it: in January 2024, the balance of opinion on change in selling prices was +4.0 in the manufacturing industry, +6.1 in services and +3.6 in retail trade.

Source: INSEE, monthly business surveys.

projecting an image of hesitant growth overall, with some major disparities between sectors.

At the start of 2024, consumption is expected to be the main driving force behind domestic demand

On the demand side, consumption fell back slightly (-0.1%) at the end of 2023 (► **Figure 7**). Food consumption by product again fell dramatically (-1.1%), after an encouraging Q3 (+0.2%), coming after six consecutive quarters of decline. Consumption in accommodation and catering fell back (-1.3%), as did consumption of housing energy, due to the very mild temperatures in October (-3.3% in Q4). On the other hand, purchases of vehicles continued their recovery (+3.3% after +2.6%), with households also anticipating the reduction in the ecological bonus on electric vehicles on 1st January 2024.

At the start of 2024, consumption is likely to be the main driver of domestic demand. Signals from the business tendency surveys are certainly encouraging (► **Figure 8**): in

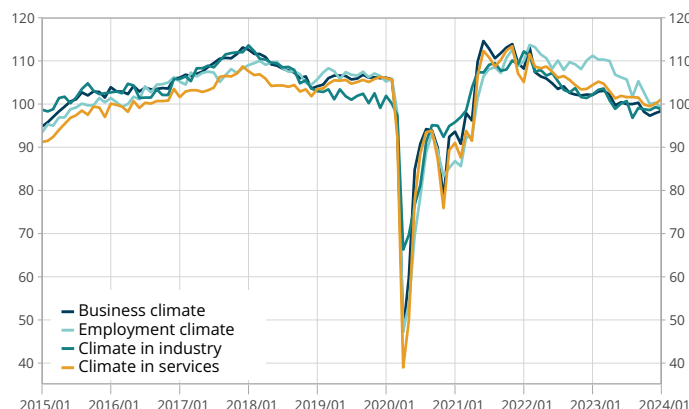
January 2024, the retail trade business climate stood at 104, above its long-term average, while household confidence has been picking up more or less continuously over the last year and a half, rising from 80 in July 2022 to 91 in January 2024. Thus household consumption is expected to benefit from gains in purchasing power in H1 as a result of the drop in inflation, particularly concerning food products, and thanks to the momentum in wages and social benefits, which have been revised on the basis of the previous inflation level. Added to this, a rebound in housing energy consumption is likely, with harsh temperatures in the first weeks of January following a mild autumn.

Productive investment at a standstill, construction in decline

In a context where the ECB base interest rate is not expected to come down before the spring, it is likely that financing conditions will continue to hamper corporate and household investment. Concerning companies, the short-

► 5. Business climate and employment climate indicators

(standardised with mean 100 and standard deviation 10)



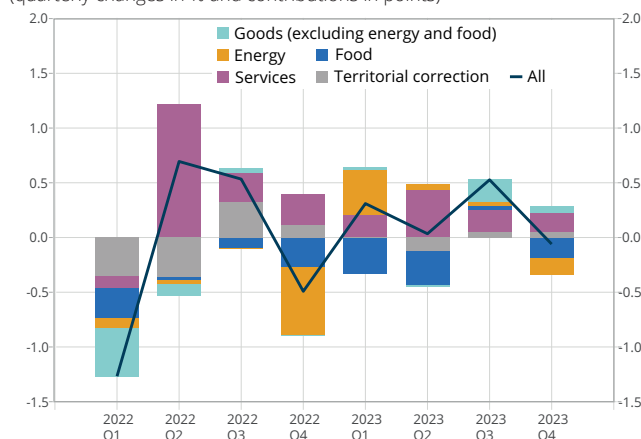
Last point: January 2024.

How to read it: in January 2024, the business climate in France stood at 98, below its long-term average (100).

Source: INSEE, business surveys.

► 7. Household consumption

(quarterly changes in % and contributions in points)



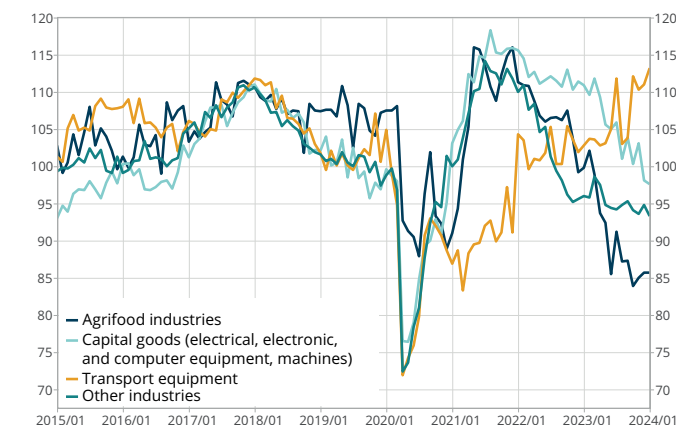
Last point: Q4 2023.

Note: territorial correction represents purchases made by French residents abroad (also counted in imports) minus purchases made by non-residents 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 2023, household consumption fell back slightly compared to the previous quarter (-0.1%). Food consumption contributed around -0.2 points to change in consumption.

Source: INSEE.

► 6. Business climate in the main manufacturing industry sub-sectors

(standardised with mean 100 and standard deviation 10)



Last point: January 2024.

How to read it: in January 2024, the business climate in the agrifood industries stood at 86 points, below its long-term average (100).

Source: INSEE, business surveys.

► 8. Business climate in retail trade and household confidence

(standardised with mean 100 and standard deviation 10)



Last point: January 2024.

How to read it: in January 2024, the business climate in retail trade stood at 104 points, above its long-term average (100).

Source: INSEE, household and business surveys.

term signs are certainly in decline: the business climate in wholesale trade, an advance indicator for capital goods deliveries, has been dropping almost continuously for two years and is currently below its long-term average, as is the balance of opinion on expected investment in services (► **Figure 9**). Regarding household investment, after a sharp decline in Q4 (-1.4%), it is expected to continue to fall over the forecasting period: the construction sector should continue to be bolstered a little by building maintenance and improvement, but this will not be enough to make up for the decline in activity around new housing, where the balance of opinion on prospects for activity over the next three months continues to deteriorate (► **Figure 10**).

Moderate growth

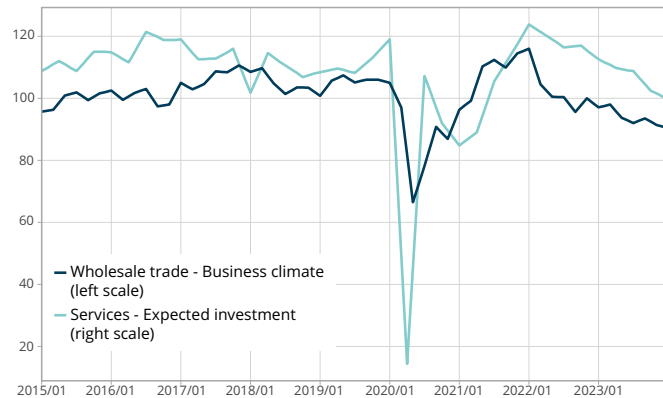
The recovery in consumption should boost activity, which is expected to regain some momentum in H1 2024 (+0.2% per quarter) after six months at a standstill. In France, however, growth is likely to remain fairly lacklustre, hampered by the many increases in interest rates, which are holding back investment. Regarding supply, some sectors are expected to continue to get closer to achieving

their production potential with the gradual lifting of supply chain constraints (for transport equipment) and the return to service of the nuclear reactors (for electricity production). Construction and real estate services, however, are expected to continue their decline. By mid-year, the growth overhang for 2024 should thus stand at +0.5% (► **Figure 11**).

There are several uncertainties that may affect this scenario, sending estimates either up or down. A worsening of geopolitical tensions in the Middle East could have repercussions on the outlook for world trade and on oil prices. Change in the economic situation in Germany in H1 should also be closely monitored, in terms of both supply and demand, especially in the public sector. Concerning French domestic demand, households' savings ratio is well above its pre-health crisis level: this renewed confidence could encourage households to draw on their savings, whereas the reverse, too much of a wait-and-see attitude, could result in another six months of stagnation. Concerning businesses, the effects of monetary tightening and the increasing number of business failures mean that investment forecasts are surrounded by uncertainty. ●

► 9. Business climate in wholesale trade and expected investment in services

(standardised with mean 100 and standard deviation 10 for business climate; balance of opinion, seasonally adjusted, in points for investment)



Last point: January 2024.
How to read it: in January 2024, the business climate in wholesale trade stood at 90 points, below its long-term average (100).
Source: INSEE, business surveys.

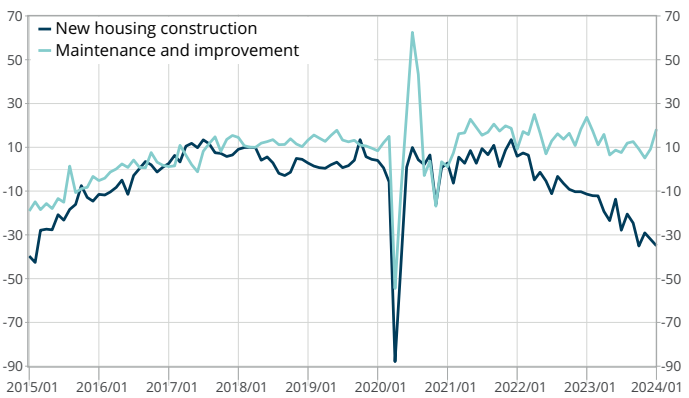
► 11. Past and projected economic activity (GDP) (quarterly and annual variations in %)

	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross domestic product (GDP)	-0.1	0.4	0.6	0.0	0.0	0.7	0.0	0.0	0.2	0.2	2.5	0.9	0.5

■ Forecast.
How to read it: in Q4 2023, GDP remained stable (0.0%). It is expected to rise by 0.2% in Q1 2024.
Source: INSEE.

► 10. Balances of opinion on prospects for activity over the next 3 months in new housing construction and in maintenance and improvement

(balances of opinion, seasonally adjusted)



Last point: January 2024.
How to read it: in January 2024, the balance of opinion on prospects for activity over the next three months in new housing construction stood at -35 points.
Source: INSEE, monthly business surveys in industry and construction.