

Economic outlook

9 September 2024

In spring 2024, the French economy continued to grow at a moderate pace (+0.2%), driven by foreign trade and government spending. At the same time, private investment fell back and consumption struggled to pick up, despite gains in purchasing power as a result of disinflation. In Europe, Germany continues to stagnate and business managers are lamenting their empty order books, while the Spanish economy is racing ahead. In France, the business climate has had a turbulent summer, with companies' expectations fluctuating significantly, in line with political uncertainties. Household consumption should regain some momentum by the end of the year with household spending on real estate expected to stop falling after three years of continuous decline. Conversely, companies are likely to continue to hold back on their investment. In this context, despite the short-term boost from the Olympic and Paralympic Games in the summer, French growth is expected to remain modest until December, at +1.1% for 2024 as a whole.

In spring 2024, economic activity in France continued to grow

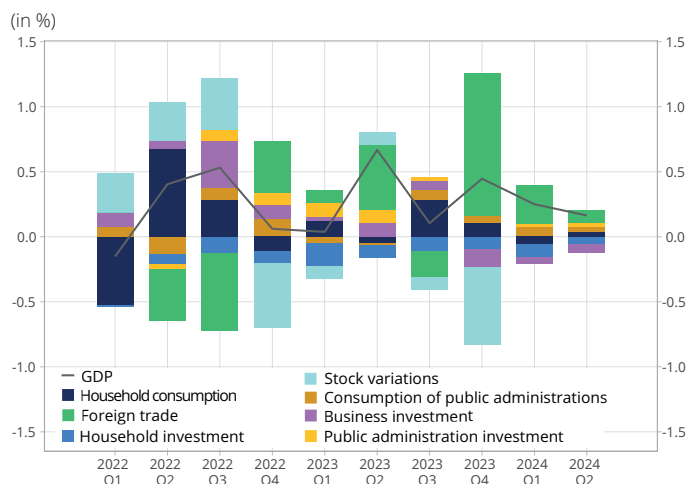
French economic activity grew by +0.2% in Q2 2024 (► **Figure 1**). Domestic demand was at a standstill for the third consecutive quarter: household consumption remained sluggish (+0.1%), while investment declined, both for businesses (-0.5%) and households (-1.1%). Government spending provided the only source of dynamism in domestic demand. Meanwhile, foreign trade continued to bolster activity: exports grew moderately (+0.4%) while imports stabilised (+0.1%), after three quarters of decline. All in all, the mid-year growth overhang for 2024 was +0.9%, driven mainly by foreign trade. Payroll employment was at a standstill in the spring (► **Figure 2**): employment fell slightly in the private sector, particularly in temporary work and construction, but continued to rise in the civil service.

US growth is still solid, while Germany remains bogged down

In the United States, activity has not weakened: GDP grew by +0.7% in the spring and by mid-year the growth overhang for 2024 was already at +2.3%. The business tendency surveys faltered a little in the summer, however, suggesting a slightly less dynamic H2. The effects of the Federal Reserve's first cuts to the base interest rates, expected from September, are likely to spread slowly.

In the Eurozone, where activity stagnated for five quarters between summer 2022 and autumn 2023, growth has returned since the beginning of 2024: GDP increased by +0.2% in Q2 (after +0.3% in Q1). This recovery is driven by foreign trade, while domestic demand remains sluggish, and still masks some significant disparities (► **Figure 3**). Once again, activity in Spain was vigorous (+0.8% in Q2,

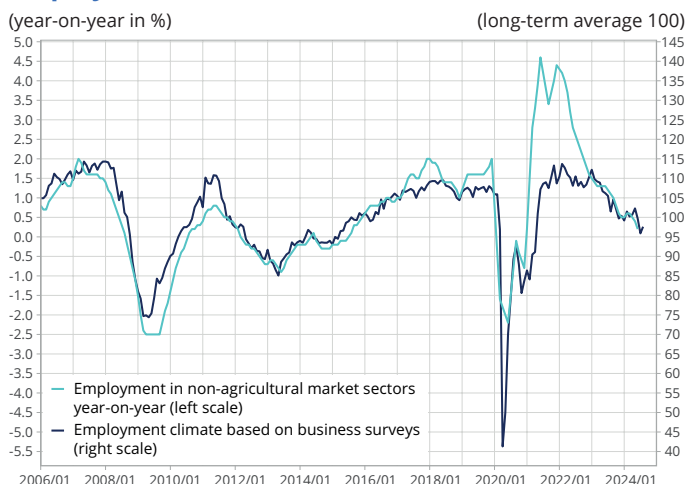
► 1. Quarterly variations in GDP and contributions of the main demand items



How to read it: in Q2 2024, GDP increased by +0.2% compared to the previous quarter; foreign trade contributed by +0.1 points.

Source: INSEE.

► 2. Business climate and change in market payroll employment



Last point: August 2024 for the employment climate; Q2 2024 for non-agricultural market payroll employment.

How to read it: in August 2024, the employment climate stood at 98 points, slightly below its long-term average. In Q2 2024, non-agricultural market payroll employment increased by 0.2% year-on-year.

Source: INSEE.

i.e. a mid-year growth overhang for 2024 of +2.4%), while the German economy remained at a standstill (-0.1%, i.e. zero growth overhang for 2024). In Italy, growth remained moderate (+0.2%, i.e. a growth overhang for 2024 of +0.6%). For H2, companies' responses to the business tendency surveys suggest that this gap between the different economies in the Old Continent is likely to persist: German industrialists remain very pessimistic, while in Spain the outlook for activity appears much more favourable. However, inflation fell back sharply to 2.2% in August (after 2.6% in July), thus fuelling gains in purchasing power in all the Eurozone countries.

Inflation looks set to continue to decline until the end of the year

In France too, disinflation continues, at a faster pace than expected (► **Figure 4**): inflation stood at +1.9% in August 2024 (according to the provisional estimate) after +2.3% in July. This is the first time in three years that inflation has dropped below the 2% threshold.

Despite continuing tensions in the Middle East, oil prices have been trending downwards since mid-July, due to sluggish domestic demand in China: the forecast is for the price of a barrel to stand at \$78 until the end of the year, or €71 per barrel. Conversely, the price of gas in Europe has been trending upwards for several months, given the developments in the Russia-Ukraine conflict. According to these assumptions, the year-on-year increase in energy prices is expected to remain contained and reach +0.9% in December 2024.

Food inflation, the main contributor to headline inflation between September 2022 and September 2023, stood at +0.5% year-on-year in August 2024, and is expected to maintain a similar pace until the end of December 2024. Prices of manufactured goods have also slowed since the start of the year: in August, their year-on-year variation was -0.1%. This pace is likely to increase a little by the end of 2024, as a result of the rise in freight costs, although this is unlikely to contribute significantly to headline inflation.

On the services side, companies are passing on earlier wage increases and prices look set to continue to rise: in August 2024, they were up +3.1% year-on-year, bolstered temporarily by the increase in transport fares in Île-de-France; this pace is expected to slow to +2.4% in December.

All in all, inflation is expected to remain below +2.0% until the end of the year, and reach +1.6% year-on-year in December 2024. Core inflation is likely to be similar. Given these assumptions, it seems highly unlikely that there will be an automatic increase in the minimum wage at the end of the year.

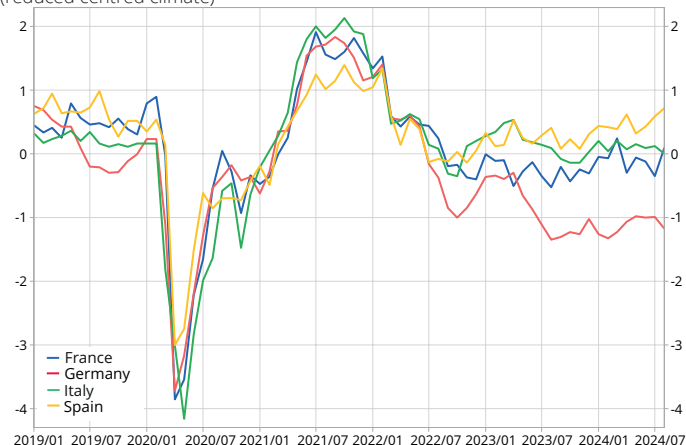
Business expectations shaken by political uncertainties

While composite indicators from the business tendency surveys have remained relatively stable and kept close to their long-term average throughout the spring (► **Figure 5**), they experienced a turbulent summer: the business climate brings together the responses from business leaders, which were collected for the most part before the second round of the legislative elections. This indicator fell sharply in July to 94, then rebounded in August to 97. Although the composite indicator has returned to its June level in industry and construction, it has only partially recovered in services. In addition, the latest short-term indicators point to a gloomy summer, especially in industry, where production fell sharply in July. While industry was mainly struggling with supply constraints until April, demand difficulties are re-emerging and are now also often cited (► **Figure 6**): they are particularly prominent in the automobile sector. Conversely, order books, and foreign order books in particular, are considered to be very full in the aeronautics sector, with production limited mainly by supply constraints.

The improvement in purchasing power should result in a moderate recovery in consumption

On the demand side, household consumption was sluggish in spring 2024 (► **Figure 7**). Food purchases by product fell again (-1.6%). Conversely, housing energy consumption rebounded significantly (+3.0%). On the services side, consumption maintained a more trend-based pace (+0.5%).

► 3. Business climate indicators in the Eurozone (reduced centred climate)

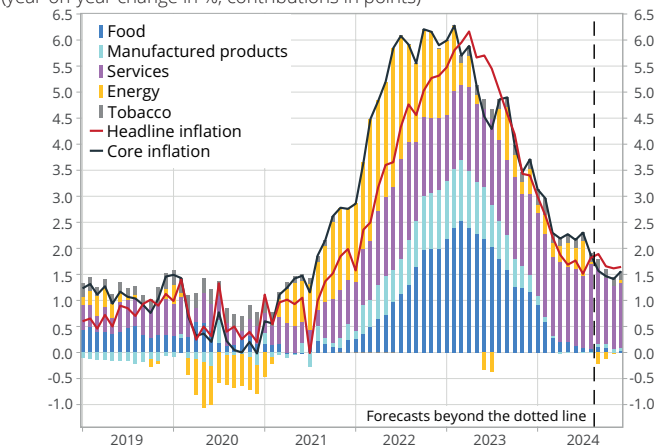


Last point: August 2024.

How to read it: in Spain, in August 2024, the general business climate was standard deviation 0.7 above its long-term average.

Source: DG ECFIN surveys, INSEE calculations.

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



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

How to read it: in August 2024, the consumer price index increased by 1.9% year-on-year, according to the provisional estimate. Food is expected to contribute 1.6 percentage points of this increase.

Source: INSEE.

For the end of 2024, household consumption is expected to increase sharply in the summer, as a result of spending related to the Olympic and Paralympic Games, mainly through the purchase of tickets for the events, which are recorded in the national accounts at the time the events took place and, to a lesser extent, additional spending on accommodation-catering and transport in the Île-de-France region (July 2024 *Economic outlook*). In reaction to this, household consumption is expected to be at a standstill at the end of the year.

Looking beyond this uneven profile, the average pace of household consumption is expected to increase slightly at the end of the year. Households made gains in purchasing power at the end of 2023 and the beginning of 2024, particularly with the indexing of social benefits against past inflation, but they did not spend these gains: the savings ratio is still well above its pre-crisis level (17.9% in Q2 2024 against 14.6% on average in 2019). For the end of the year, advance indicators suggest a slight improvement

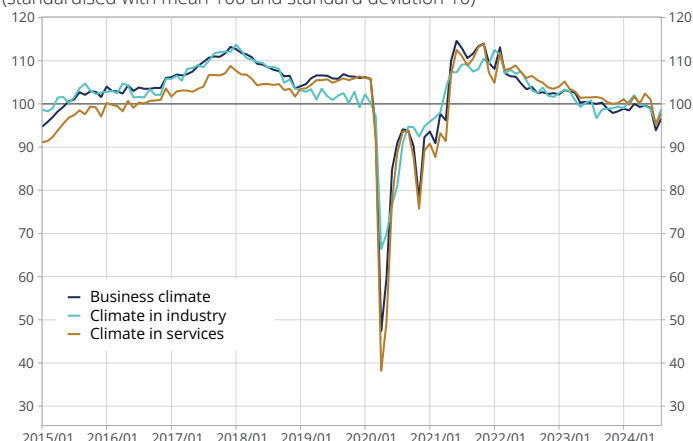
on the consumption front (► **Figure 8**): although household confidence is still below its long-term average, it has recovered since mid-2022, the business climate in the agrifood industry has improved markedly, sign of a possible upswing in food consumption, and entrepreneurs in accommodation-catering are optimistic about prospects for demand in their sector. The only downside is the business climate in retail trade, which is still well below its long-term average, with the slight recovery in August not making up for the sharp decline in July.

Corporate investment is falling back, household investment is stabilising

Corporate investment continued to decline in the spring, for the third consecutive quarter. Adverse effects are likely to continue to be felt until the end of the year due to financing conditions, the limited recovery of demand in the Eurozone and the uncertain political climate. Monetary easing has begun but is not expected to have much effect

► 5. Business climate indicators in France

(standardised with mean 100 and standard deviation 10)



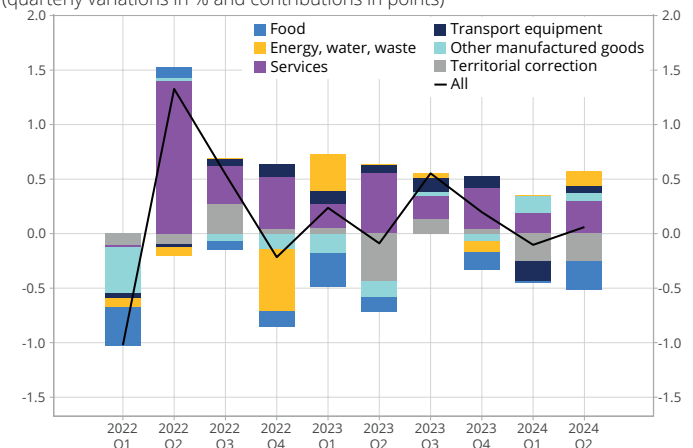
Last point: August 2024.

How to read it: in August 2024, the business climate in France stood at 97, below its long-term average (100).

Source: business survey, INSEE.

► 7. Household consumption

(quarterly variations in % and contributions in points)



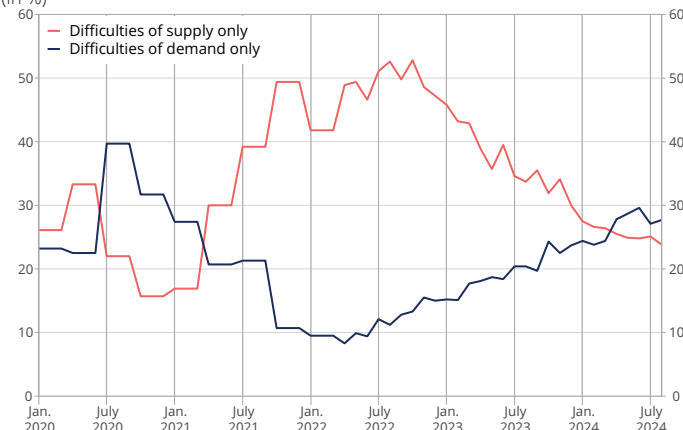
Note: territorial correction represents purchases made by French residents abroad (also counted in imports) minus purchases by non-residents made in France (counted in exports).

How to read it: in Q2 2024 household consumption increased by +0.1% compared to the previous quarter. Consumption of energy, water and waste contributed by +0.1 points to variation in consumption.

Source: INSEE.

► 6. Supply and demand difficulties in industry

(in %)



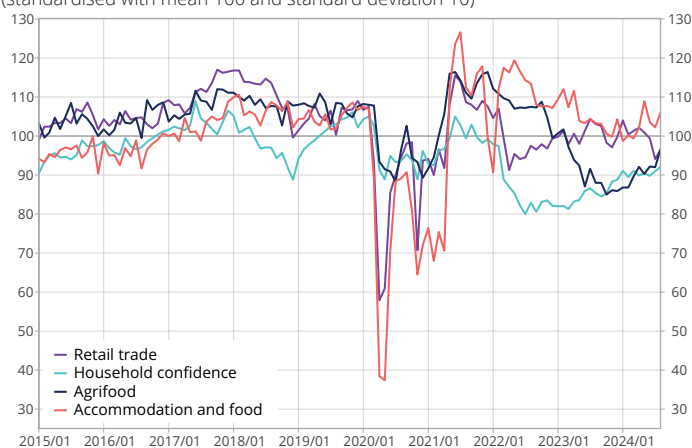
Last point: August 2024.

How to read it: in August 2024, 24% of industrialists experienced supply difficulties only, 28% experienced demand difficulties only.

Source: industry business survey, INSEE.

► 8. Business climate in retail trade, the agrifood industry, accommodation-catering and household confidence

(standardised with mean 100 and standard deviation 10)



Last point: August 2024.

How to read it: in August 2024, household confidence stood at 92 points, below its long-term average (100).

Source: business surveys, INSEE.

before the end of the year. The most recent short-term signs suggest a downward trend (► **Figure 9**): in the capital goods industry, the business climate stood at 94 in August, its lowest level since the pandemic. In addition, the trend forecast for investment in services is one of decline, and notably, the business climate in the information-communication sector fell below its long-term average in July 2024 for the first time since spring 2021: despite boosting French growth constantly since the health crisis, investment in software by French companies now seems to have stalled.

Concerning households, investment fell in the spring for the twelfth consecutive quarter (-1.1%) but is expected to stabilise in H2: investment in new housing is unlikely to decline further (reflecting, albeit with some delay, the momentum in housing starts), while investment in services, which includes the costs linked to purchasing second-hand housing, looks set to recover a little, driven by the rebound in July 2024 in households intending to purchase a home (► **Figure 10**). In this sector, the drop in interest rates should spread quickly and encourage a timid recovery in the real estate market.

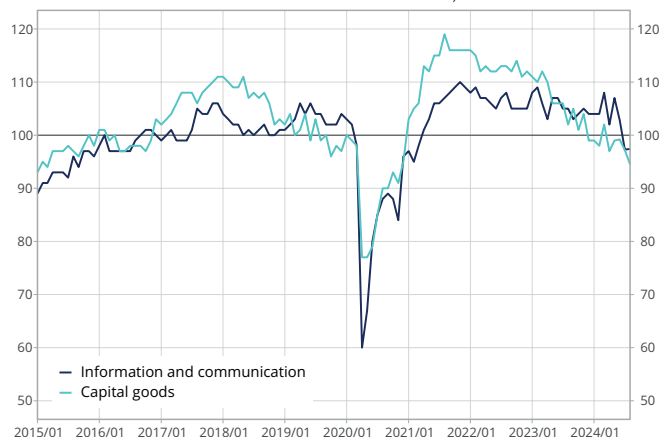
Weakened growth

Overall, activity is expected to improve by +0.4% this summer, bolstered by the hosting of the Olympic and

Paralympic Games, whose impact on quarterly growth is estimated at 0.3 points (► July 2024 **Economic outlook**), before falling back by -0.1% as a reaction in the autumn (► **Figure 11**). Across the whole of 2024, growth should reach +1.1%, the same as in 2023. Momentum for 2025 is expected to be weak, with the growth overhang at the end of 2024 probably at +0.2%.

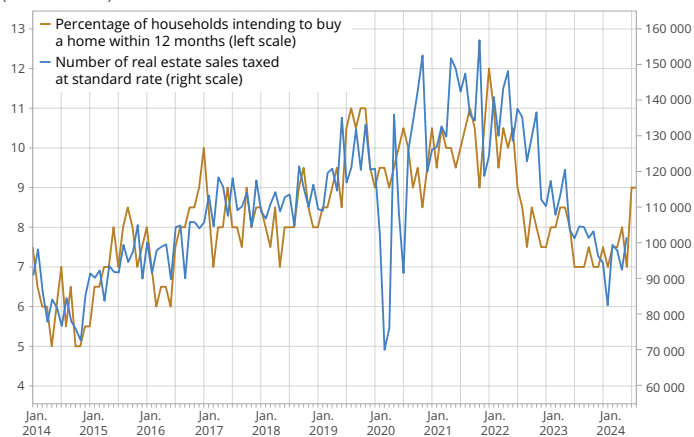
There are several uncertainties that may affect this scenario, pushing the trend either upwards or downwards. Regarding external affairs, the recovery of the German economy continues to be pushed back: if they manage to get out of this rut, this would provide welcome support, whereas a clear entry into recession would slow down French exports. In France, while growth has been mainly driven by foreign trade and government spending over the last three quarters, the political situation remains a major factor of uncertainty. Regarding budget, the direction to be taken in the short-term remains to be established. The context could also affect the behaviour of private agents: for households, recent gains in purchasing power are not yet reflected in their consumption although the short-term signals currently show a moderate upswing; for companies, a relative wait-and-see attitude would seem to be appropriate, although recent fluctuations in the business climate have shown that expectations can quickly change. ●

► 9. Business climate in information-communication and in the capital goods industry (standardised with mean 100 and standard deviation 10)



Last point: August 2024.
Source: business surveys, INSEE.

► 10. Share of households intending to buy a home and number of real estate transactions (non SA data)



Last point: August 2024 for the proportion of households intending to buy a home; June 2024 for the number of property transactions.
Source: monthly household survey, INSEE (Cammé). General Inspectorate for the Environment and Sustainable Development.

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

	2022				2023				2024				2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross domestic product (GDP)	-0.2	0.4	0.5	0.1	0.0	0.7	0.1	0.4	0.3	0.2	0.4	-0.1	2.6	1.1	1.1

■ Forecast.

How to read it: in Q2 2024, GDP increased by +0.2%. It is expected to increase by 0.4% in the third quarter 2024.

Source: INSEE.

Completed on 6 September 2024



Head office:
88 avenue Verdier
92541 Montrouge Cedex

Editorial director:
Jean-Luc Tavernier

Senior editors:
D. Roucher
C. Bortoli

Editor:
département de la Conjoncture

Graphic composition and layout:
F. Lézec
S. Clément
M.-A. Fons
J. Lebrun

✉@InseeFr
www.insee.fr

Translation:
Hancock Hutton

PTC2409
ISSN 2827-4660
ISBN 978-2-11-162447-4
© Insee 202x

Partial reproduction is authorised provided that the source and author are acknowledged.

