

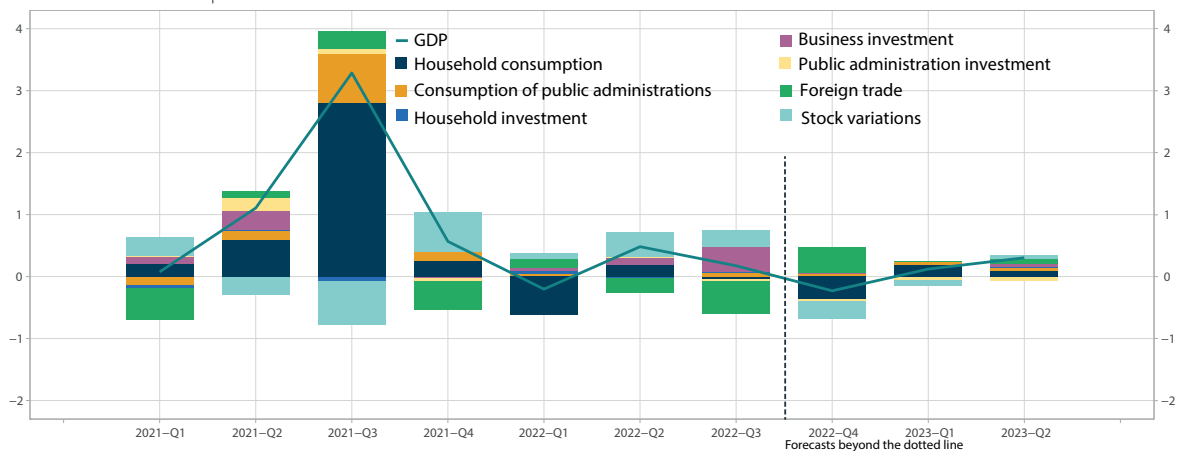
Economic activity

In Q3 2022, French GDP slowed (+0.2%, according to the detailed results from the quarterly accounts published at the end of November, after +0.5% in Q2), in a context of high prices for many commodities and fears over energy supplies, thereby putting pressure on market prices. Household consumption remained sluggish, with purchases of goods continuing to decline and the catch-up effects in services tending to fade. Corporate investment, sustained by a rebound in vehicle purchases, made the only significant contribution to growth in domestic demand. Meanwhile, foreign trade affected the development of activity, with a strong momentum in imports of goods and spending by French tourists abroad (► **Figure 1**).

The end of the year is marked by the persistence of major constraints on production. Companies, and industrial companies in particular, are faced with rising energy prices, for example when renewing their gas or electricity contracts (► **Focus** on the situations of companies faced with rising energy prices). This is also the case for households, even though most are protected by the “tariff shield” placed on regulated gas and electricity prices. Energy supply chains are also still under threat as a result of geopolitical tensions in Eastern Europe, to which are added production difficulties at national level in the nuclear power plants. In this context, the public authorities encouraged energy-saving behaviours, facilitated by the mild temperatures in October and November. In the shorter term, strikes in the oil refineries, mainly from the end of September to the beginning of November, hampered activity in the manufacture of coke and refined petroleum products sector causing fuel shortages across a large part of the country (► **Focus** on supply chain difficulties in service stations).

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

variations in % and contributions in points

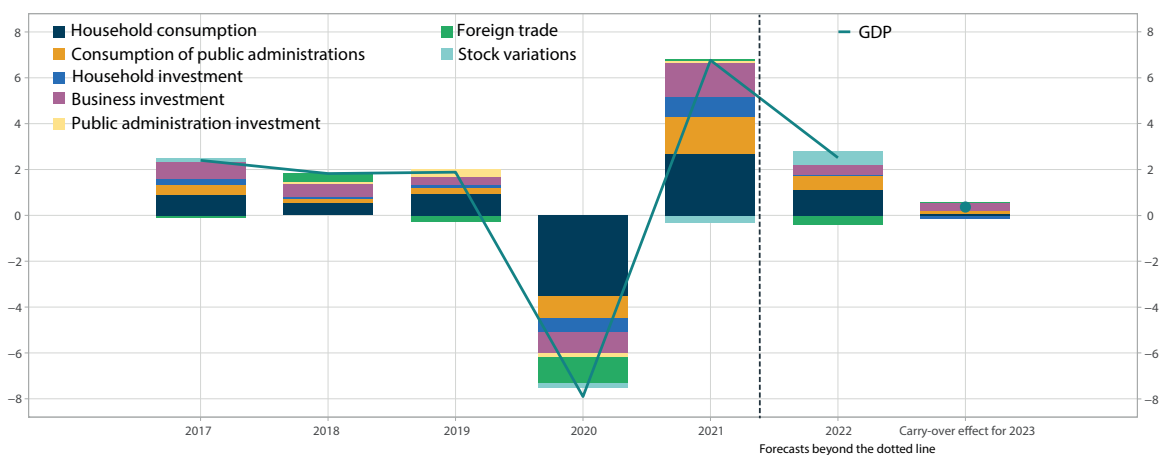


How to read it: in Q4 2022, GDP is expected to decrease by 0.2% compared to Q3 2022; the contribution of investment by non-financial enterprises (NFE) is expected to be about -0.4 points.

Source: INSEE

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

quarterly variations (in %) and contributions in points



How to read it: in 2022, GDP would increase by 2.5%; the contribution of household consumption would be 1.1 points.

Source: INSEE

French economic outlook

The latest available indicators thus show a relative deterioration in the short-term economic situation in industry. In October, industrial output fell significantly in “other industrial branches”, which include those most exposed to energy constraints (chemical industry, metallurgy, wood and paper, etc.), and in the manufacture of transport equipment. There was also a notable drop in production in the manufacture of coke and refined petroleum products and in the energy sector, linked to production difficulties in nuclear power plants. For November, electricity consumption data for businesses connected directly to the RTE network suggest that in “other industrial branches” and the manufacture of transport equipment, production would appear to have remained significantly lower than the Q3 average (► **Focus** on monitoring electricity consumption). Finally, the latest business tendency surveys show a relative deterioration in the business climate in industry, although it is showing some resilience, and still stands above its long-term average (► **Figure 3a**). Notably, although supply chain difficulties remain at high levels, they seem to be easing gradually, according to business leaders. However, the climate is well below average in “other industrial branches”, especially in the chemical industry and metallurgy, and the outlook remains unfavourable (► **Figure 3b**).

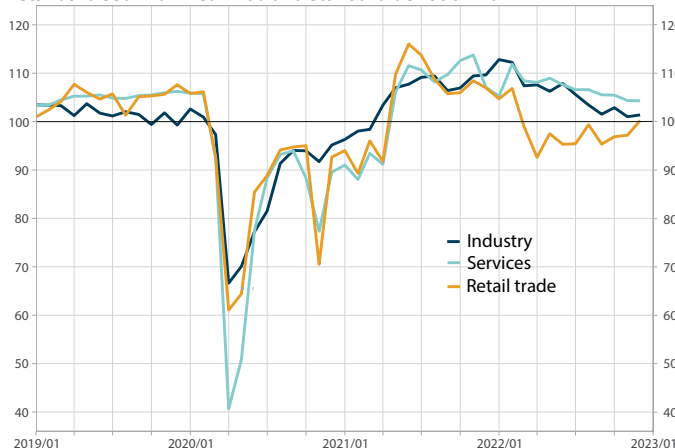
These factors are likely to affect economic activity in Q4 and the French GDP is expected to fall slightly (-0.2% forecast, ► **Figure 4**). The reason for such a downturn is likely to be the decline in industrial activity, not only in the manufacture of coke and refined petroleum products (strikes in the refineries) but also in energy (electricity production, ► **Box**) and more generally in those branches that are exposed to energy price rises (“other industrial branches” in particular) (► **Figure 5**). At the same time, market services are expected to be at a standstill, after being the main driver of growth in previous quarters. At this stage, the catch-up potential of the sectors worst affected by the health restrictions now seems exhausted, and accommodation-catering, for instance, has shrunk considerably. Activity in transport services is expected to be sluggish, but to a lesser extent.

Within the main demand items, household consumption is expected to decline considerably in Q4 2022, the reason being a very much reduced energy consumption –due both to the favourable weather conditions in October and to austerity behaviour or reaction to prices– and a downturn in spending on accommodation and catering. Investment is expected to be very much at a standstill, affected particularly by the effect of the downturn in purchases of vehicles by companies. Finally, foreign trade is expected to bolster the trend in activity, notably with some large aeronautical and naval deliveries, but these are likely to contribute to a reduction in inventory.

In H1 2023, the economic context is still likely to be affected by tensions over energy –if it is assumed in this forecast scenario that gas and electricity supplies would be sufficient to satisfy demand, businesses and households would still be faced with a rise in energy prices– and by high inflation, although this should be easing slightly from spring onwards. Activity should rebound moderately (+0.1% forecast for Q1 then +0.3% in Q2). Industrial production is expected to pick up again, thanks to the automatic rebound in the manufacture of coke and refined petroleum products branch –with the end of the strikes– and the restarting of several nuclear reactors. Meanwhile, activity in services is likely to accelerate slightly in Q2. In particular, growth should remain relatively sustained in information-communication.

► 3a. Business climate in the main sectors of activity

standardised with mean 100 and standard deviation 10



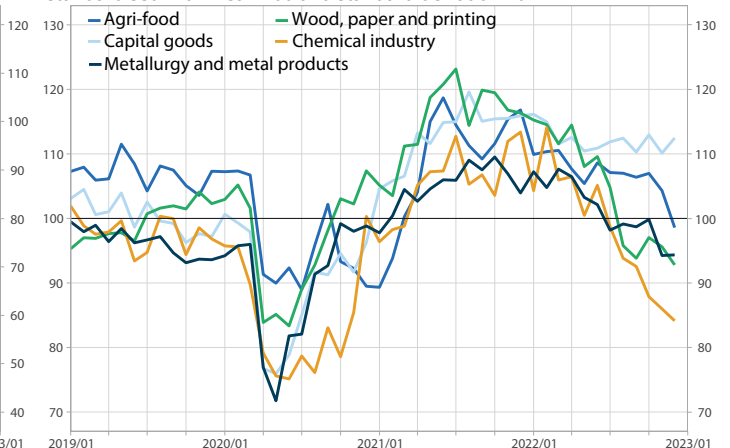
Last point: December 2022.

Note: the business climate in services stood at 104 pts in December 2022, above its long-term average (100).

Source: INSEE

► 3b. Business climate in different branches of the manufacturing industry

standardised with mean 100 and standard deviation 10



Last point: December 2022.

Note: the business climate in the metalworking industry stood at 94 pts in December 2022, above its long-term average (100).

Source: INSEE

On the demand side, household consumption is expected to pick up modestly, with the high level of inflation continuing to affect households' purchasing decisions. Investment is likely to remain sluggish, in line with the weak momentum of activity and in a context of monetary tightening. Foreign trade is expected to contribute to the development of activity, in line with the schedule of aeronautical and naval deliveries, which will once again boost exports in Q2.

All in all, over the whole of 2022, GDP growth of +2.5% (after +6.8% in 2021) looks likely, with modest growth overhang for 2023, at around 0.4% by mid-year (► **Figure 2**). These forecasts remain highly dependent not only on geopolitical developments, but also on price increases and households' and businesses' reaction to them, as well as the effectiveness of government support. Energy supply chains also remain a key factor with uncertainties over the schedule for reopening the nuclear power plants and, in the event of a harsh winter, tensions could be exacerbated. Finally, the effects of monetary tightening could start to slow down activity in the coming quarters. ●

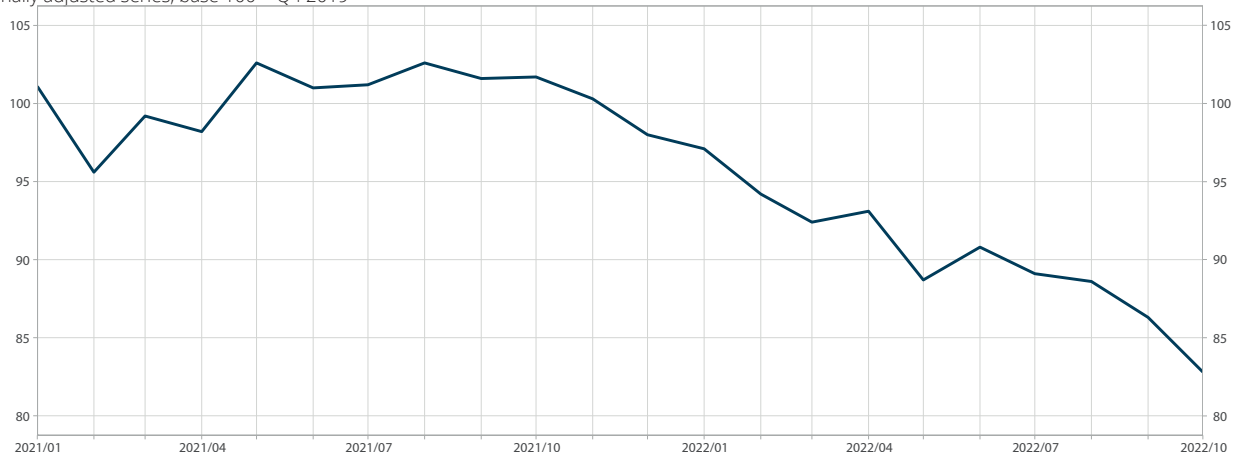
The continuing decline in activity in the “energy, water, waste treatment” branch during 2022 is likely to reduce annual growth in the French economy by 0.4 points

Since the end of 2021, activity in the “energy, water, waste treatment” branch has been in continuous decline: its value added fell by 17% between Q4 2021 and Q3 2022, and now stands at 18% below its level before the health crisis (end of 2019). This decline in activity is linked to production difficulties affecting the nuclear power plants: in the “production, transport and distribution of electricity” sector, the industrial production index has been on a distinctly downward trajectory since the summer of 2021 (► **Graph**).

The momentum for the months to come depends on the maintenance schedule for the nuclear reactors, according to the analysis by RTE in its report on the prospects for the electricity system for autumn and winter 2022-2023.¹ Based on the information published in this outlook, and particularly that relating to a return to electricity production from November, activity in the “energy, water, waste treatment” branch is expected to decline once again in Q4 2022, although less sharply than in the previous quarter (-1.4% forecast in Q4, after -5.8% in Q3). All in all, over the whole of 2022, activity in the “energy, water, waste treatment” branch is likely to reduce annual GDP growth by 0.4 points. ●

► Industrial production index in the “production, transport and distribution of electricity” sector

seasonally adjusted series, base 100 = Q4 2019



Last point: October 2022

How to read it: in October 2022, the industrial production index in the “production, transport and distribution of electricity” sector stood at 83% of its Q4 2019 average.

Source: INSEE

¹ Perspectives pour le système électrique pour l'automne et l'hiver 2022-2023”, RTE, updated in November 2022.

French economic outlook

► 4. 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

	2020				2021				2022				2023		2020	2021	2022	2023 (ovhg)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Gross domestic product	-5.5	-13.5	18.3	-0.9	0.1	1.1	3.3	0.6	-0.2	0.5	0.2	-0.2	0.1	0.3	-7.9	6.8	2.5	0.4
Imports	-5.5	-19.1	17.9	0.4	1.5	2.1	0.9	4.5	1.4	1.6	3.5	-0.3	-0.4	0.8	-13.0	7.8	8.9	2.0
Total resources	-5.4	-14.6	17.9	-0.1	0.4	1.4	2.7	1.2	0.4	0.8	0.8	-0.4	0.1	0.4	-8.8	7.4	4.0	0.7
Household consumption expenditure	-5.3	-11.5	18.3	-5.4	0.4	1.2	5.6	0.5	-1.2	0.4	-0.1	-0.7	0.4	0.2	-6.8	5.2	2.2	0.0
General government consumption expenditure**	-3.3	-11.8	17.2	-0.4	-0.5	0.7	3.4	0.7	0.2	0.0	0.2	0.2	0.2	0.3	-4.2	6.4	2.8	0.6
<i>of which individual general government expenditure</i>	-4.5	-12.8	18.8	-0.3	0.0	1.0	4.8	0.5	0.2	-0.4	0.3	0.1	0.2	0.4	-5.8	8.3	3.0	0.6
<i>of which collective general government expenditure</i>	-1.0	-9.8	15.3	0.0	-1.7	-0.1	-0.1	0.7	0.1	0.8	0.1	0.2	0.1	0.0	-0.8	2.8	1.3	0.5
Gross fixed capital formation (GFCF)	-9.5	-14.2	23.7	2.6	0.9	2.2	0.0	-0.1	0.5	0.5	1.7	0.0	-0.1	0.0	-8.4	11.4	2.2	0.9
<i>of which Non-financial enterprises (NFE)</i>	-8.6	-13.2	24.0	2.0	0.9	2.1	0.1	-0.1	0.4	0.9	3.1	0.1	0.1	0.4	-6.9	11.4	3.2	2.2
Households	-14.2	-16.3	28.8	6.1	0.3	4.0	1.2	-0.6	0.1	0.0	-0.7	-0.5	-0.9	-1.1	-11.9	17.0	0.7	-2.4
General government	-5.0	-12.6	17.1	0.4	-1.3	0.4	-1.9	-0.3	1.1	-0.5	0.3	0.4	0.0	0.1	-5.4	2.7	-0.1	0.4
Exports	-6.7	-25.3	22.3	3.5	-0.2	2.6	2.0	3.1	2.0	0.9	2.0	1.0	-0.4	1.0	-17.0	8.6	8.1	2.4
Contributions (in points)																		
Domestic demand excluding inventory**	-5.8	-12.2	19.6	-2.4	0.3	1.3	3.7	0.4	-0.4	0.3	0.4	-0.3	0.2	0.2	-6.6	7.0	2.4	0.4
Changes in inventories**	0.6	0.4	-1.8	0.6	0.3	-0.3	-0.7	0.6	0.1	0.4	0.3	-0.3	-0.1	0.1	-0.2	-0.3	0.6	0.0
Foreign trade	-0.3	-1.6	0.5	0.8	-0.5	0.1	0.3	-0.5	0.1	-0.2	-0.5	0.4	0.0	0.1	-1.1	0.1	-0.4	0.0

■ 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 2022, exports would increase by 1.0% compared to the third quarter of 2022; the contribution of foreign trade to quarterly GDP growth would be positive at +0.4 points.

Source: INSEE

► 5. Quarterly changes in economic activity by industry

quarterly changes (in %), forecast from Q4 2022

Branch	weight	2020				2021				2022				2023	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture, forestry and fishing	2	-2.3	-2.0	-0.6	-0.5	0.1	0.3	0.6	0.2	0.4	0.2	0.3	-0.6	0.1	0.2
Industry	14	-5.9	-17.7	20.0	2.6	-1.0	-0.5	-0.2	-0.4	-0.4	-1.1	-0.8	-2.1	0.4	0.6
Manufacture of food products, beverages and tobacco-based products	2	-1.5	-8.6	7.3	-1.0	1.2	0.7	0.6	-0.3	0.0	-1.2	-0.1	-0.5	-0.7	-0.1
Coke and refined petroleum	0	0.8	10.3	13.4	9.8	-30.9	-2.5	-13.9	4.5	22.0	4.9	-0.6	-23.0	29.9	0.0
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	2	-6.9	-18.3	21.6	3.9	1.7	-0.1	0.2	0.4	1.2	0.1	2.4	-0.5	-0.2	-0.1
Manufacture of transport equipment	2	-19.5	-50.0	69.0	4.8	-3.9	-5.2	-1.4	0.1	-2.7	5.3	4.8	-1.0	-0.4	-0.2
Manufacture of other industrial products	6	-5.7	-18.6	23.7	3.2	-0.1	-1.0	-0.8	-0.7	2.0	0.0	-0.2	-1.6	-1.3	-0.4
Extractive industries, energy, water, waste treatment and decontamination	3	-1.9	-9.3	10.5	2.5	-3.8	1.2	0.6	-0.5	-6.0	-6.0	-5.8	-1.4	0.5	3.7
Construction	6	-12.4	-22.5	38.6	-0.4	2.5	2.2	-0.1	-0.1	0.1	-1.3	-0.7	0.2	-0.3	-0.4
Mainly market services	57	-4.7	-12.6	15.2	-1.8	0.0	1.9	5.0	1.1	-0.2	1.3	0.6	0.2	0.1	0.4
Trade; repair of automobiles and motorcycles	10	-5.9	-11.9	21.4	-1.4	0.0	-0.6	2.0	0.6	-1.0	-0.3	0.3	0.1	-0.4	0.1
Transport and storage	5	-6.9	-22.8	22.2	-3.0	3.6	2.7	8.6	3.4	0.9	3.4	0.0	-0.2	-0.2	0.3
Financial and insurance activities	4	-3.3	-8.4	12.3	0.7	1.9	1.7	2.8	0.4	-0.4	0.5	-0.1	0.2	0.2	0.3
Real estate activities	13	-1.2	-2.4	2.7	0.1	-0.1	0.4	0.8	0.3	0.4	0.5	0.3	0.2	0.1	0.2
Accommodation and catering	3	-17.8	-48.3	89.2	-29.2	-12.4	30.1	43.4	-0.5	-2.2	9.5	0.0	-2.4	0.0	1.1
Information and communication	5	-1.6	-5.8	7.5	1.9	2.2	1.5	2.5	1.5	0.5	1.6	2.4	1.2	0.6	0.7
Scientific and technical activities; administrative and support services	14	-3.7	-13.0	15.0	0.5	-0.4	1.5	2.8	0.7	-0.2	0.8	0.8	0.4	0.2	0.5
Other service activities	3	-11.5	-34.1	39.8	-11.0	-1.7	4.5	24.9	6.6	-0.1	1.9	0.5	0.3	0.0	0.3
Mainly non-market services	22	-5.0	-12.3	20.2	-0.8	0.3	-0.1	1.8	0.2	0.1	-0.2	0.0	0.2	0.2	0.2
Total VA	100	-5.3	-13.6	17.8	-0.9	0.1	1.1	3.2	0.6	-0.1	0.5	0.2	-0.1	0.1	0.3
Taxes and subsidies		-7.5	-13.0	22.5	-1.2	0.1	1.3	3.9	0.0	-1.0	0.5	-0.1	-1.2	0.1	0.2
GDP		-5.5	-13.5	18.3	-0.9	0.1	1.1	3.3	0.6	-0.2	0.5	0.2	-0.2	0.1	0.3

■ Forecast

How to read it: in Q3 2022, the value added of the manufacture of transport equipment branch increased by 4.8%. It is expected to decline by 1.0% in Q4 2022.

Source: INSEE calculations from various sources