Economic activity

In Q4 2022, French GDP slowed further (+0.1%, according to the detailed results from the quarterly accounts, after +0.2% in Q3). Activity proved to be resilient in a context affected by continuing tensions, mainly regarding energy prices and supply chains (►**Figure 1**). Energy-saving behaviour combined with the mild temperatures certainly helped the economy to resist over the last months of 2022. Notably, apart from the manufacture of coke and refined petroleum products, which was affected by strikes in October, output in the manufacturing branches fell back only moderately, despite a significant drop in energy consumption by businesses in the sector. Households also demonstrated energy-saving behaviour: their consumption declined substantially in Q4 (►**Figure 2**), mainly of energy products. All in all, across the whole of 2022, economic growth was +2.6%, after +6.8% in 2021 (►**Figure 3**).

According to the business tendency surveys, the start of 2023 was notable for a gradual and partial easing of supply chain difficulties (►**Figure 4a**), and by a slight relaxing of the tensions that energy prices are causing for businesses (►**Focus**). However, very many business leaders still expect to raise their selling prices: the corresponding balances of opinion have recently increased in both services and trade. The latest available short-term economic indicators thus appear to be divided: while business tendency surveys in February continued to show the resilience of the business climate in France in the main sectors of activity (►**Figure 4b**), it is still in a deteriorated state in the most energy-consuming branches (chemicals, wood-paper, metallurgy, ►**Figure 4c**), which is consistent with the latest production data (►**Box**).

In this still uncertain context, GDP is expected to increase moderately in Q1 2023 (+0.1% forecast). Despite an automatic rebound in the coke and refined petroleum products sector, activity in manufacturing industry is likely to decline, weakened mainly by the most energy-intensive branches (►**Figure 5**). Concerning energy production, and especially electricity production, growth in activity is likely to slow, following maintenance being carried out in some nuclear power plants and social movements. At the same time, market services are expected to grow only moderately. In particular, activity in trade is likely to be sluggish, and will probably fall back in transport services, which have been penalised by strikes.

►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)

	2021				2022				2023		2021	2022	2023 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross domestic product	**0.1**	**1.1**	**3.3**	**0.6**	**-0.2**	**0.5**	**0.2**	**0.1**	**0.1**	**0.2**	**6.8**	**2.6**	**0.6**
Imports	1.4	1.5	0.9	5.2	1.3	1.1	4.2	-0.4	0.0	0.5	7.8	9.1	2.4
Total resources	0.4	1.3	2.8	1.4	0.3	0.8	0.9	0.0	0.1	0.3	7.4	4.1	0.9
Household consumption expenditure	0.5	1.2	5.4	0.6	-1.0	0.6	0.4	-1.2	0.2	0.1	5.2	2.7	-0.2
General government consumption expenditure*	-0.5	0.6	3.4	0.7	0.3	0.0	0.3	0.6	-0.1	0.0	6.4	3.0	0.5
of which individual general government expenditure	*0.0*	*0.9*	*4.8*	*0.6*	*0.3*	*-0.4*	*0.3*	*0.6*	*-0.2*	*0.0*	*8.3*	*3.2*	*0.2*
of which collective general government expenditure	*-1.8*	*-0.1*	*0.0*	*0.7*	*0.2*	*0.8*	*0.2*	*0.6*	*-0.1*	*0.1*	*2.8*	*1.5*	*0.8*
Gross fixed capital formation (GFCF)	0.7	2.1	0.5	-0.3	0.3	0.3	2.3	0.3	0.4	0.3	11.4	2.3	2.0
of which Non-financial enterprises (NFE)	*0.6*	*1.7*	*0.9*	*-0.2*	*0.1*	*0.5*	*3.8*	*0.6*	*0.6*	*0.5*	*11.4*	*3.3*	*3.6*
Households	*0.4*	*4.0*	*1.2*	*-0.7*	*0.0*	*-0.1*	*-0.7*	*-0.9*	*-0.4*	*-0.3*	*17.0*	*0.3*	*-1.7*
General government	*-1.5*	*0.6*	*-1.6*	*-0.5*	*1.1*	*-0.1*	*1.0*	*0.5*	*0.4*	*0.2*	*2.7*	*0.6*	*1.4*
Exports	-0.3	2.5	2.2	2.9	1.9	0.7	1.0	0.5	-0.2	1.0	8.6	7.1	1.7
Contributions (in points)													
*Domestic demand excluding inventory***	*0.3*	*1.3*	*3.7*	*0.4*	*-0.4*	*0.4*	*0.8*	*-0.4*	*0.2*	*0.1*	*7.0*	*2.7*	*0.5*
*Changes in inventories***	*0.3*	*-0.4*	*-0.7*	*0.9*	*0.0*	*0.3*	*0.4*	*0.2*	*0.0*	*-0.1*	*-0.3*	*0.6*	*0.4*
Foreign trade	*-0.5*	*0.2*	*0.4*	*-0.7*	*0.2*	*-0.1*	*-1.1*	*0.3*	*-0.1*	*0.1*	*0.1*	*-0.7*	*-0.3*

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 Q1 2023, exports would decrease by 0.2% compared to Q4 2022; the contribution of foreign trade to quarterly GDP growth would be negative at -0.1 points.
Source: INSEE calculations from various sources.

French economic outlook

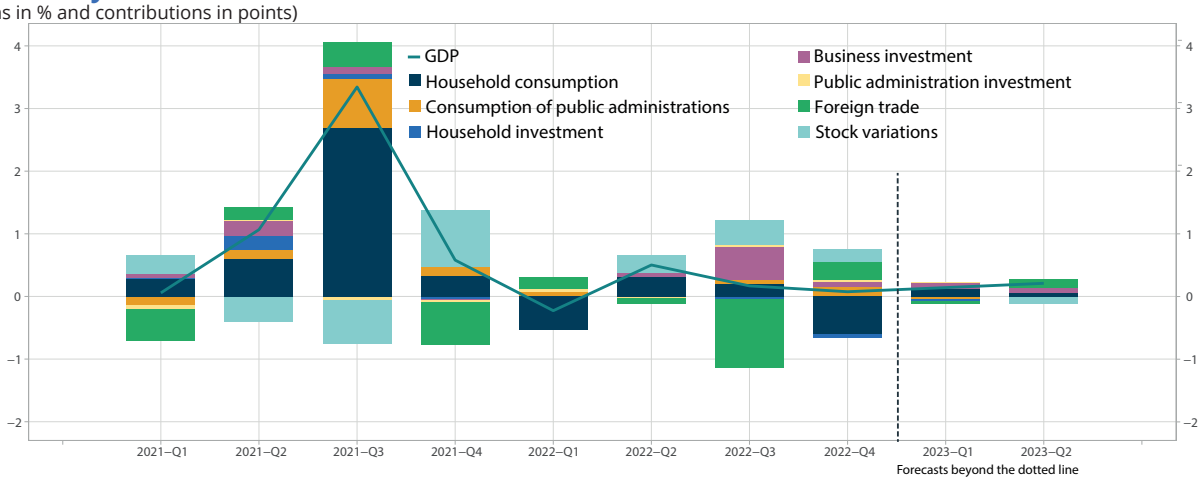
Within the main demand items, household consumption is expected to bounce back slightly in Q1 2023. Electricity and gas consumption are likely to settle down somewhat with lower temperatures than in the autumn, although energy-saving behaviours will probably continue. Growth in corporate investment is expected to continue, in the wake of economic activity and despite a less favourable context of rising interest rates. Lastly, foreign trade is likely to make a negative contribution to growth. Imports should remain stable, with lower energy imports compensating for weak domestic demand. Exports, meanwhile, are expected to decline, mainly as a backlash after naval deliveries in the previous quarter.

In Q2 2023, activity is expected to grow moderately (+0.2%). After two quarters of decline, activity should stabilise in manufacturing, but accelerate slightly in services. Meanwhile, household consumption is expected to grow only very moderately in a context where purchasing power is in decline. Corporate investment should continue to grow, again driven by the use of information and communication services, despite further increases in interest rates. Foreign trade looks set to support growth slightly: while imports are expected to increase again, exports are likely to be particularly dynamic, sustained by new aeronautical and naval deliveries.

All in all, the annual growth overhang for 2023 is expected to be +0.6% at mid-year. Apart from geopolitical developments, these forecasts remain highly dependent on changes in price increases and the behaviour of households and businesses in this context. The continuing social movements also create uncertainty: however, previous episodes of this type have shown that while their effects could be significant for the sectors concerned directly (transport services, coke and refined petroleum products, energy production where applicable) or less directly (e.g. accommodation-catering services), the impact remained limited at a macroeconomic level. Finally, the effects of monetary tightening could begin to slow activity in the coming quarters. ●

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

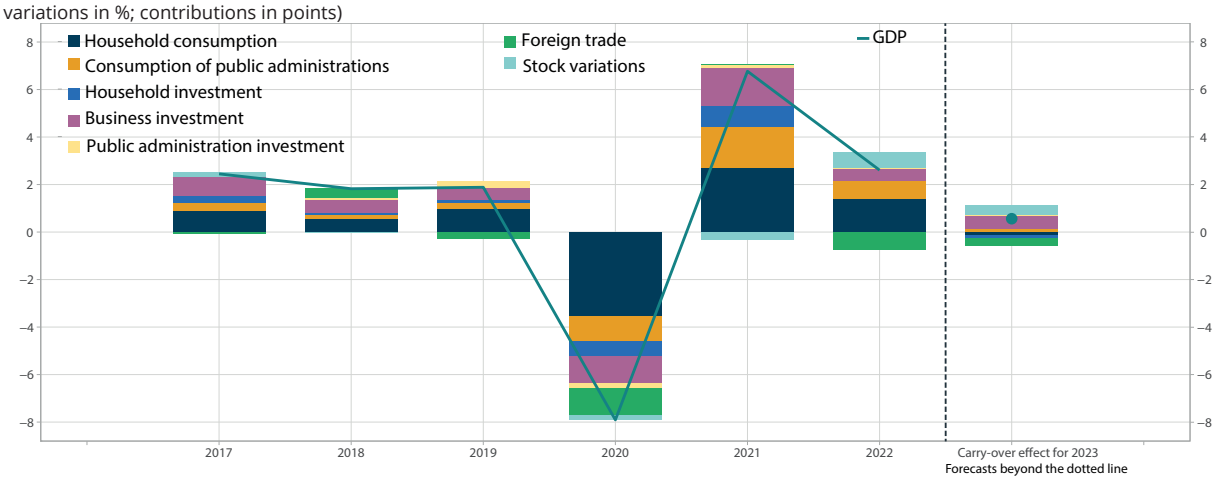
(variations in % and contributions in points)



Note: general government consumption also includes consumption by non-profit institutions serving households (NPISH).
How to read it: in Q1 2023, GDP is expected to increase by 0.1% compared to Q4 2022; the contribution of household consumption is likely to be about +0.1 points.
Source: INSEE.

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

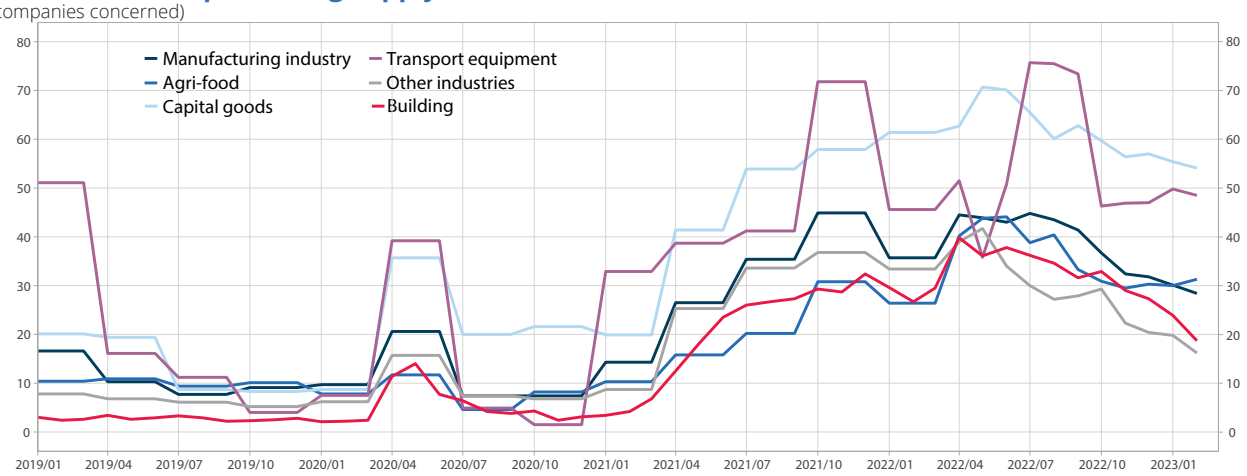
(annual variations in %; contributions in points)



Note: general government consumption also includes consumption by non-profit institutions serving households (NPISH).
How to read it: in 2022, GDP would increase by 2.6%; the contribution of household consumption amounted to 1.4 points.
Source: INSEE.

►4a. Businesses experiencing supply chain difficulties

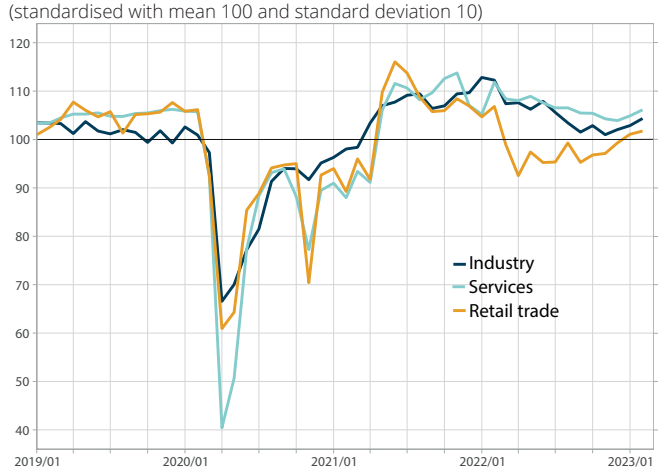
(% of companies concerned)



Last point: February 2023.
Note: results are weighted by turnover.
How to read it: in February 2023, 28% of businesses in the manufacturing industry reported supply chain difficulties.
Source: business surveys, INSEE.

►4b. Business climate in industry, services and retail trade

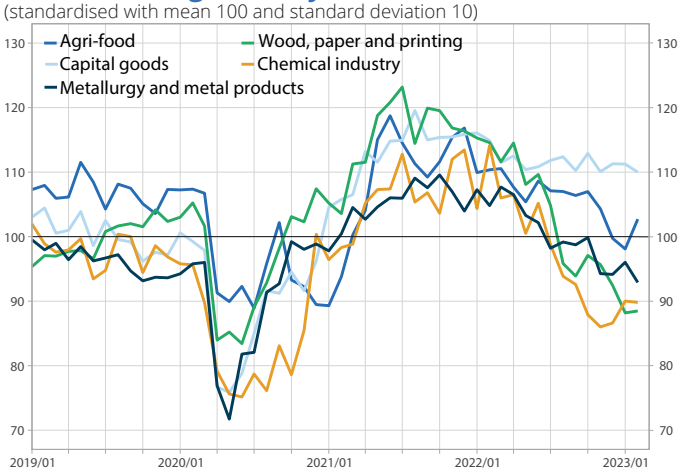
(standardised with mean 100 and standard deviation 10)



Last point: February 2023.
How to read it: the business climate in services stood at 106 points in February 2023, above its long-term average (100).
Source: business surveys, INSEE.

►4c. Business climate in different branches of the manufacturing industry

(standardised with mean 100 and standard deviation 10)



Last point: February 2023.
How to read it: the business climate in metallurgy stood at 93 points in February 2023, below its long-term average (100).
Source: business surveys, INSEE.

►5. Quarterly changes in economic activity by industry

(quarterly changes in %)

Branch	weight in %	2021				2022				2023	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture, forestry and fishing	**2**	**0.1**	**0.2**	**0.5**	**0.2**	**0.4**	**0.1**	**0.3**	**0.2**	**0.2**	**0.1**
Industry	**14**	**-0.9**	**-0.7**	**-0.2**	**-0.2**	**-0.1**	**-1.0**	**-0.6**	**1.3**	**-0.1**	**0.0**
Manufacturing industry	11	-0.3	-1.0	-0.5	-0.1	1.2	0.2	0.5	-0.3	-0.2	0.0
Manufacture of food products, beverages and tobacco-based products	2	1.2	0.4	0.4	0.2	-0.1	-1.3	0.0	0.0	-0.4	-
Coke and refined petroleum	0	-31.3	-2.1	-12.8	3.4	21.4	5.4	0.9	-9.2	9.5	-
Manufacture of electrical, electronic. computer equipment; manufacture of machinery	2	1.7	-0.2	0.1	0.5	1.1	0.3	2.1	0.2	0.4	-
Manufacture of transport equipment	2	-4.2	-5.4	-1.7	1.2	-3.2	5.0	4.3	-0.3	-0.8	-
Manufacture of other industrial products	6	-0.2	-1.0	-0.7	-0.6	1.9	-0.1	-0.2	-0.3	-0.6	-
Extractive industries, energy. water, waste treatment and decontamination	3	-3.3	0.7	1.1	-0.9	-4.5	-5.3	-4.7	7.5	0.3	0.0
Construction	**6**	**2.7**	**2.1**	**-0.2**	**-0.1**	**0.2**	**-0.7**	**-0.4**	**-0.3**	**0.1**	**0.1**
Mainly market services	**57**	**-0.1**	**1.9**	**5.1**	**1.1**	**-0.3**	**1.2**	**0.5**	**0.0**	**0.2**	**0.3**
Trade; repair of automobiles and motorcycles	10	-0.2	-0.5	2.1	0.5	-1.2	-0.3	0.4	-0.7	-0.1	0.2
Transport and storage	5	3.6	2.6	8.6	3.7	1.0	3.4	0.1	0.7	-0.3	0.2
Accomodation and catering	3	-12.5	30.0	43.4	0.1	-2.1	9.3	0.1	-0.2	0.4	0.4
Information and communication	5	2.2	1.7	2.8	1.0	0.5	1.8	2.4	0.8	0.8	0.9
Financial and insurance activities	4	1.8	1.7	2.8	0.4	-0.5	0.6	-0.2	-0.2	0.1	0.3
Real estate activities	13	-0.1	0.4	0.8	0.3	0.3	0.5	0.3	0.1	0.3	0.2
Scientific and technical activities; administrative and support services	14	-0.4	1.5	2.9	0.7	-0.5	0.5	0.3	-0.2	0.2	0.4
Other service activities	3	-1.9	4.6	25.2	6.6	-0.2	2.1	0.5	1.0	0.5	0.6
Mainly non-market services	**22**	**0.3**	**-0.1**	**1.8**	**0.2**	**0.2**	**-0.1**	**0.0**	**0.1**	**0.1**	**0.1**
Total VA	**100**	**0.1**	**1.0**	**3.3**	**0.7**	**-0.1**	**0.5**	**0.2**	**0.2**	**0.1**	**0.2**
Taxes and subsidies		*0.1*	*1.2*	*3.9*	*0.0*	*-1.0*	*0.4*	*0.0*	*-0.9*	*0.3*	*0.0*
GDP		**0.1**	**1.1**	**3.3**	**0.6**	**-0.2**	**0.5**	**0.2**	**0.1**	**0.1**	**0.2**

Forecast

How to read it: in Q4 2022, value added of the manufacture of transport equipment branch declined by 0.3%. It is expected to fall by 0.8% in Q1 2023.

Source: INSEE.

Strong decline in production in some energy-intensive industrial branches

In the context of rising electricity and gas prices, energy-intensive branches are particularly exposed to a sharp rise in their production costs. Within industry, metallurgy, the paper and paperboard industry and also the chemicals industry are among the most energy-consuming branches (compared to their level of activity measured in value added, ►**Figure 1**). This is also the case for the manufacture of other non-metallic mineral products (especially the glass industry and the manufacture of construction materials). Other branches of manufacturing are much less energy-intensive.

Within the four most energy-intensive branches (in terms of divisions in the French classification of activities NAF rev.2), output in several activities has been on a downward trend since early 2022, and this has been even more pronounced since November (►**Figure 2**). This is the case for the iron and steel industry (sub-group 241 of the metallurgy division, ►**Figure 3**), other non-ferrous metals (sub-group 244 of the metallurgy division), the manufacture of pulp, paper and paperboard (sub-group 171 of the paper and paperboard industry division), and the manufacture of basic chemicals (sub-group 201 of the chemical industry). In these branches, companies are facing a sharp rise in their costs, especially energy costs, which may force them to reduce their production and/or increase their selling prices, although the latter option would reduce their competitiveness in relation to foreign competitors, especially in America and Asia. In comments in their responses to the monthly branch surveys (from which data is used to calculate the industrial production index published every month), a small proportion of companies report that they have decided to reduce production. From questions added recently to the business tendency surveys, the proportion of such companies can be determined (►**Focus**).

Other energy-intensive activities show a more moderate drop in production, sometimes with very different behaviour from one sub-branch to another. For example, in the manufacture of glass and glass products (group 231 of NAF), the shaping and processing of flat glass remains at a higher level of production than at the start of 2022, although it has shown a definite downward trend since November (►**Figure 4**). Conversely, the manufacture of hollow glass (class 2313) is down considerably, especially tableware, kitchen glassware and crystalware, where production has plummeted since November, and production capacity has also been reduced. ●

►1. 10 most energy-intensive branches in the manufacturing industry, excluding refined petroleum products, by ratio of energy consumption to value added

(energy consumption in 2019 in thousands of tons of oil equivalent (kTOE), value added in 2019 in €M (current euros))

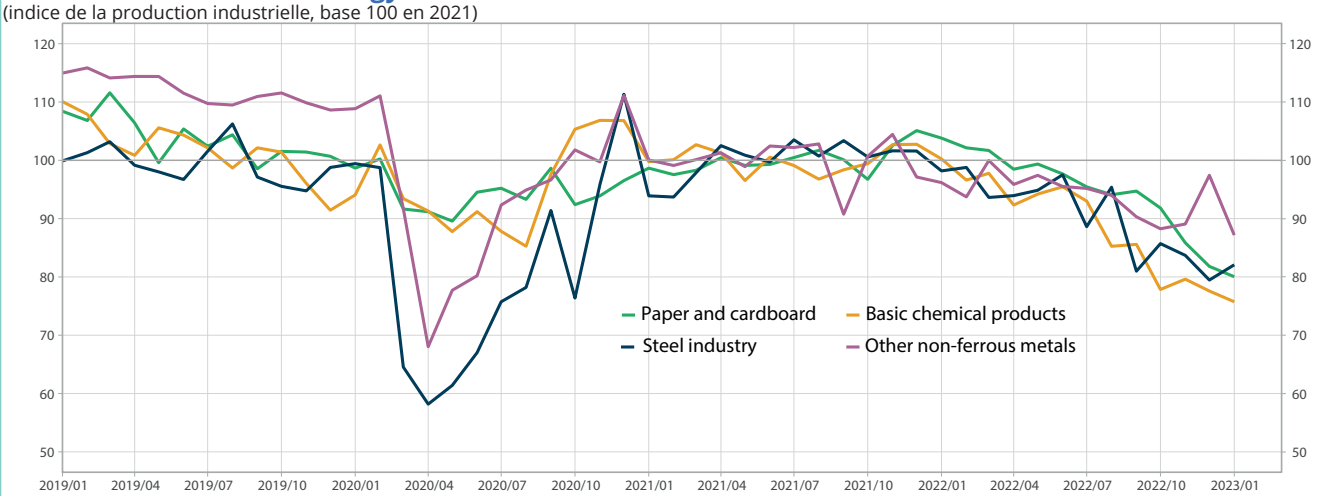
Sector of activity, division of NAF rev.2	Gross consumption in kTOE [1]	Value added in millions of euros [2]	Ratio [1] / [2]
24 - Metallurgy	7,712	4,936	1.56
17 – Paper and board industry	3,013	4,534	0.66
20 – Chemical industry	10,569	20,899	0.51
23 – Manufacture of other non-metallic products	3,698	8,623	0.43
16 – Manufacture of wood and of products of wood	545	3,290	0.17
10 – Food industries	4,660	39,449	0.12
13 – Manufacture of textiles	207	1,989	0.10
22 – Manufacture of rubber and plastic products	900	11,484	0.08
29 - Automobile industry	723	13,703	0.05
11 – Manufacture of beverages	304	6,679	0.05

Note: energy consumption includes all types of energy: all combustibles (including gas), steam and electricity. The activities mentioned may differ slightly from those identified in the Focus in the October 2022 Economic Outlook ("Which are the branches of activity where production is most dependent on energy?"): in fact, the energy intensity consumption indicator is not the same (ratio on production in the October 2022 Focus and not on value added), nor is the same level of disaggregation considered. In addition, the coke and petroleum products branch is not considered here as it is an energy-producing activity.
How to read it: in 2019, establishments whose main activity was in metallurgy consumed 7,712 thousand tons of oil equivalent in energy. The same year, value added in the branch was 4,936 million current euros. The ratio of these two figures gives an energy intensity of 1.56.
Sources: INSEE, Annual Industrial Energy Consumption Survey 2019 and National Accounts 2019.

.../...

▶2. Production in four energy-intensive industrial branches

(indice de la production industrielle, base 100 en 2021)



Source : INSEE.

▶3. Change in industrial output for the most energy-intensive industrial branches

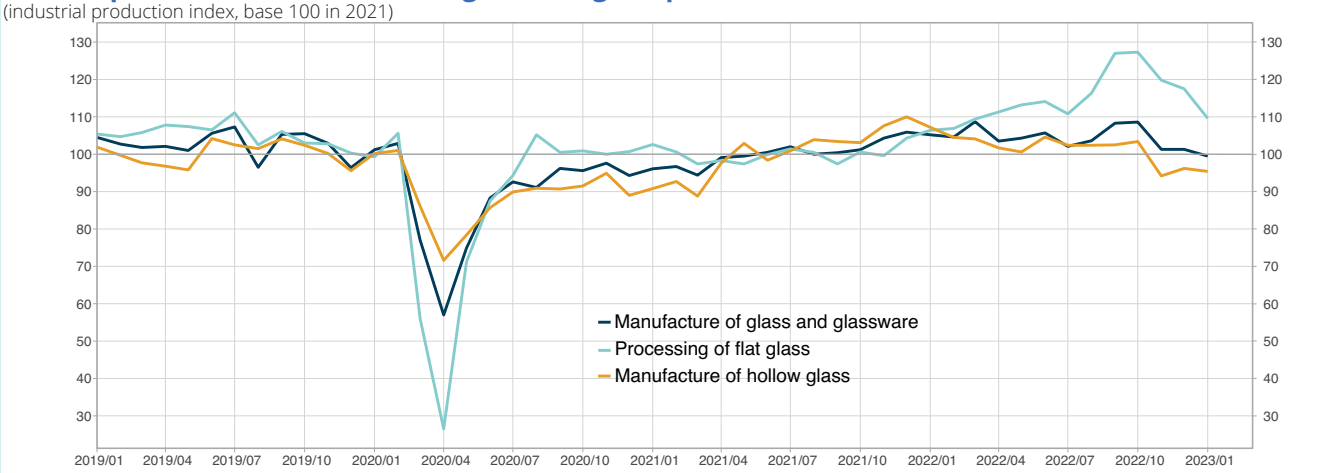
(year-on-year variation in the industrial production index in %: average index over the half-year as a ratio of the average index over the same half-year one year earlier, indices SA-WDA)

Section and division of NAF Rev. 2	S2 2021	S1 2022	S2 2022
All manufacturing industry	**0.6**	**1.0**	**2.3**
24 – Metallurgy	1.1	-2.2	-6.8
241 – Steel industry	*15.6*	*-2.0*	*-16.0*
244 – Other non-ferrous metals (Aluminium, lead, zinc, copper)	*0.3*	*-3.9*	*-7.3*
17 – Paper and paperboard industry	3.8	0.8	-5.6
171 – Manufacture of pulp, paper and paperboard	*6.4*	*1.6*	*-10.4*
20 – Chemical industry	2.7	-1.7	-4.8
201 – Manufacture of basic chemical products	*1.6*	*-4.0*	*-16.7*
23 – Manufacture of other mineral and non-metallic products	0.0	0.8	-3.0
231 – Manufacture of glass and glass products	*8.2*	*7.8*	*1.9*

How to read it: in metallurgy, the average of the industrial production index in H2 2022 was 6.8% below the average of the industrial production index in H2 2021.
Source: INSEE.

▶4. Output in the manufacture of glass and glass products

(industrial production index, base 100 in 2021)



Source: INSEE.