

Recovery is long overdue

Economic outlook

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Measuring, understanding

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Chief editors

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Julien Machado

Dorian Roucher

Guillaume Roulleau

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Hancock Hutton

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Recovery is long overdue

In early 2024, the Eurozone is lagging behind the global economy

In 2023, global economies evolved in different ways, with US growth reaching +2.5% compared to +0.5% in the Eurozone, where activity has been at a standstill overall since the end of 2022. Europe remains exposed to high energy prices, although these are now falling, and is also suffering the effects of tightening monetary policies. The US economy has been less affected by this phenomenon, having benefited from some powerful public support measures. In China, after the rebound following the reopening of the economy, growth stabilised at a significantly lower rate than that in the 2010s, penalised mainly by the contraction in the real estate sector. However, the effect of this Chinese slowdown is somewhat ambiguous overall for the French economy: although it is slowing down activity via the trade channels, it is nevertheless contributing to a relaxing of commodity prices and is thus a supporting factor.

These short-term variations are expected to continue into early 2024. The past increase in interest rates is hampering all investment, by households and businesses alike, however in the United States, their expansionary fiscal policy should continue to offset this obstacle. This is less the case in the Eurozone even though the European recovery plan is supporting investment in construction in the southern European countries. Within the zone, activity continues to deteriorate substantially in Germany where industrial companies are losing export market share. The weakening of inflation should provide some relief for the purchasing power of European households, however, thus providing a gentle boost for consumption: world demand for French products should therefore pick up slightly in H1 2024.

Disinflation is confirmed

In France, the inflationary episode is now fading: inflation within the meaning of the consumer price index dropped to +2.9% year-on-year in February 2024 (according to the provisional estimate) against +6.3% a year earlier and is expected to continue to decline, reaching +2.6% in June. The composition of inflation has changed considerably, however: prices of food and manufactured products are tending to stabilise and inflation is now driven mainly by the prices of services. In this sector companies are passing on previous increases in their wage costs to their customers. Wage increases remain moderate, however, and are not fuelling a price-wage loop: after two years of decline (in 2022 and 2023), real wages are likely to rise only modestly at the start of 2024.

In addition to increases in real wages, households also look set to enjoy an increase in benefits, primarily pensions, and dynamism in property income, which reflects the increases in payments made to savers. Ultimately, the mid-year growth overhang for purchasing power per consumption unit for 2024 is expected to reach +0.8% compared to +0.3% in 2023 and -0.3% in 2022.

A small boost for consumption

Gains in purchasing power are expected to encourage a relative rebound in household consumption. This is likely to be the case for food purchases in particular, which after two years of unprecedented decline look set to begin a timid recovery, and also for spending on accommodation-catering, which should start moving forward after stalling at the end of last year. However, although household confidence is improving since its mid-2022 low point, it is still well below its long-term average. The increase in consumption is not expected to exceed that of purchasing power and the savings ratio is likely to stabilise at a high level, between two and three points above that observed at the end of 2019.

Investment depressed by financing conditions

Monetary tightening continues to hamper investment. In building construction, real estate developers remain very pessimistic and the construction of new housing is likely to continue its decline, despite a slight easing in the spring. Maintenance and improvements, on the other hand, should continue to increase. Purchasing by companies, which resisted fairly well in 2023, looks set to be sluggish in H1. According to the business tendency surveys, companies remain cautious about their purchasing intentions, and highlight the very unfavourable impact that financing conditions are having. Investment in capital goods is expected to decline with only the regular increase in spending on services, especially IT services, enabling corporate investment to stabilise.

Delayed growth, marked sectoral contrasts

In February 2024, the business climate is slightly below its long-term average. In addition, the business tendency surveys reveal an unprecedented divergence in short-term situations between sectors: favourable in aeronautics, which is gaining altitude once again and is subject mainly to supply constraints; depressed in the energy-intensive branches, which were most affected by the rise in energy prices. The first data available for January 2024 (mainly industrial production and household consumption) are rather unpromising, with zero growth expected in Q1, penalised by occasional industrial stoppages, especially in refining and the automobile sector. Thus it is unlikely that the improvement in consumption will be reflected in growth before the spring (+0.3% forecast in Q2 2024). Regarding foreign trade, sales abroad are expected to pick up from the spring, boosted by the resumption of aeronautical deliveries. All in all, the mid-year growth overhang is expected to be modest (+0.5%).

Slight rise in unemployment

After being significantly higher than the business climate for almost two years, the employment climate has returned to normal since the end of 2023, indicating a return to a trend more in line with activity after a long period of increasing employment growth. By mid-2024, with modest growth over the half-year, employment is still expected to increase, but only a little (+40,000). Given the increase in the active population, particularly as a result of pension reform, the unemployment rate, which has been rising since the beginning of 2023, looks set to continue to rise a little, reaching 7.6% by mid-2024 against 7.2% a year earlier.

Areas of uncertainty: household savings and corporate financing

This forecast remains surrounded by uncertainty, both upwards and downwards. First of all, continuing geopolitical tensions could have repercussions on world trade or on oil prices. The behaviour of resident agents represents a considerable risk: on the corporate side, businesses have maintained a certain level of investment until now, but the deterioration in their financing conditions could lead to a sharper decline; on the household side, the savings ratio remains high and renewed confidence could provide a boost for activity. ●

French economic outlook



Aeronautical activity in France is still below its pre-crisis level, but could be ready to take off again in 2024

Although order book levels are considered to be very much higher than usual, activity in the aeronautics sector in France (almost 7% of industrial value added) is still lagging behind its pre-crisis level. On average over 2023, the sector's Industrial Production Index was around 25% below its 2019 level. Meanwhile, exports by value as measured by customs are 13% down on the pre-crisis level, with a difference of 25% for the assembled planes segment alone. Supply constraints generated by the economic recovery coming out of the health crisis have certainly significantly delayed recovery in the sector.

However, employment in the aeronautics sector is doing more than simply holding up. In 2023, it was 7% higher than in 2019. This difference between employment and production reflects a drop in apparent labour productivity. However, employment has evolved in very different ways, depending on socio-professional category: employment of managers has been particularly dynamic while the rest of employment has fallen back since 2019, in the wake of industrial activity.

For an international comparison, performance in the German aeronautics industry also appears to have deteriorated: however, aircraft assembly is doing better here than in France, despite the presence of the same integrated European aircraft manufacturer, Airbus, in both countries. This is a consequence of the specialisation of Airbus assembly lines, which is not currently favourable for France: in fact, the decline in Airbus deliveries compared to 2019 has been more pronounced for the types of aircraft assembled only in France (the A330 and A350 family, as assembly of the A380 has now ceased), with recovery more buoyant for single-aisle aircraft, which are assembled for the most part in Germany. Across the whole of the aeronautics sector, however, French exports deteriorated less than in Germany in 2023, due to the good performance of French engine manufacturers. On a global scale, the difficulties encountered by French and German industries are an exception: aeronautical exports have returned to levels close to those of 2019 in most other major producing countries, especially in North America.

In 2024, supply chain constraints are expected to continue to ease in France: production and exports should therefore be very dynamic, making it possible to regain a large part of the ground lost since 2019 in terms of activity and doubtless productivity. ●

Guillaume Roulleau

In France, aeronautical production and exports remain largely below their pre-crisis level

At the end of 2023, the level of activity in the aeronautics sector¹ in France was still well below its pre-health crisis level. After collapsing during the pandemic, aeronautical production saw its recovery hampered by supply chain difficulties, which began to appear during the post-health crisis economic recovery and which are still at high levels (► [Figure 2](#)).

Measured by the Industrial Production Index (IPI), the level of activity in the sector as an annual average for 2023 is approximately 25 points below the 2019 average (► [Figure 1](#)). This divergence is around 13 points in exports by value, as measured from customs data. This difference in trend can be explained by the fact that customs data are expressed in value, while the IPI measures production in volume. In addition, the faster recovery of exports by value measured by customs may mask differences in dynamics, depending on the aeronautical product under consideration: thus, in the assembled aircraft segment alone, exports in 2023 were still 25% below the 2019 average.

For example, the European company Airbus delivered 735 aircraft in 2023, which was 15% less than the 863 aircraft delivered in 2019 (► [Figure 3](#)), and corresponds to a drop of around 25%, once the price differences between models are taken into account: the fall in deliveries has in fact affected large aircraft more than single-aisle aircraft. This decline concerns all of the aircraft manufacturer's production lines, especially those in Toulouse, and is a good illustration of the current difficulties that the sector is experiencing as well as its significant potential for rebound.

¹ In this Focus, the aeronautics sector corresponds to division 3030 in the NAF classification of activities (Manufacture of air and spacecraft and related machinery, including both assembled aircraft and engines and part of the aircraft cockpit). As there is no such disaggregated level available, the aeronautics sector is assimilated, approximately, to "Manufacture of other transport equipment" (which, in addition to aeronautics, includes the manufacture of naval and rail equipment). Conversely, customs data can be monitored at a more detailed level: in particular, exports of assembled aircraft alone are also studied in this Focus (► [Dortet-Bernadet et al. 2016](#) for a discussion on relevant nomenclatures in aeronautics).

French economic outlook

In France, employment in the aeronautics sector remains dynamic nonetheless, bolstered by jobs for managers

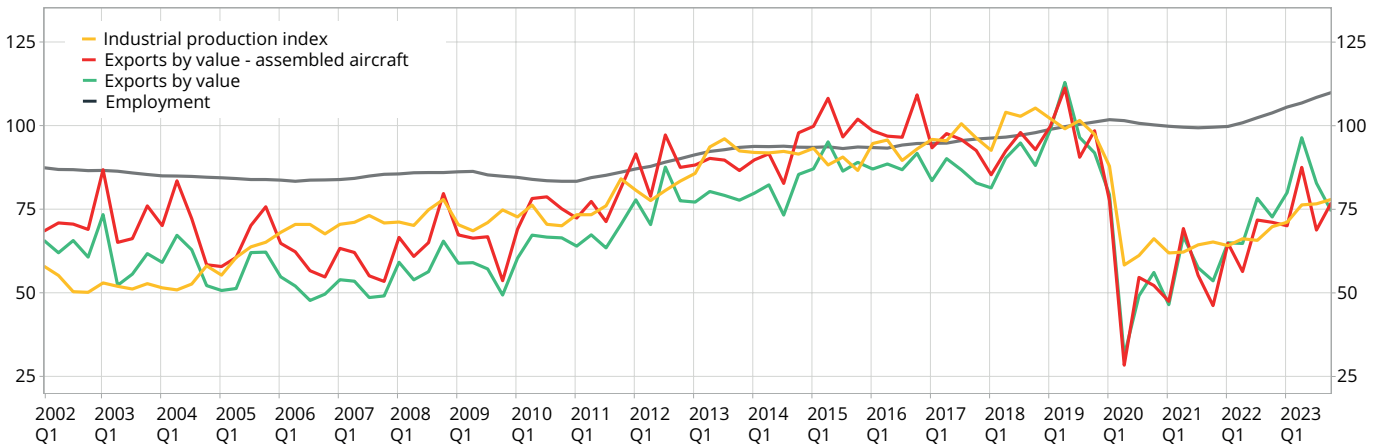
Since before the crisis, employment in the aeronautics sector has diverged significantly from production and exports. Growth in exports remains solid and in 2023 was about 7% higher than in 2019. However, compared to before the crisis, the loss of labour productivity observed in the sector has reached more than 30%. The drop in productivity in the “other transport equipment” sector (including aeronautical construction) is therefore much more marked than in the other industrial sectors (► [Jauneau et al., 2022](#)).

However, a detailed breakdown of employment dynamics in the sector reveals some very different developments, depending on socio-professional category (► [Figure 4](#)). Managerial jobs (mostly engineers) have increased substantially, especially since 2021 (about +16% in 2023 compared to 2019). The dynamics observed in managerial employment could therefore reflect an R&D investment strategy (► [Morénillas, 2023](#)), of which the impact on production is likely to be very much delayed.

However, the employment of non-managerial workers (technicians, qualified industrial workers, etc.), the momentum of which is much more closely linked to industrial activity, fell back by about 7% in 2023 compared to the 2019 level. This component of employment has therefore contracted in the wake of the drop in production. This decline is smaller than that in activity, however, which may reflect traditional “labour retention” behaviour: in a context where order book levels

► 1. Production, employment and exports in the French aeronautics sector

(seasonally adjusted level, base 100 in 2019)



Last point: Q4 2023.

Note: here, the aeronautics sector corresponds to division 3030 in the NAF classification of activities for the Industrial Production Index and exports by value. By approximation, employment in the aeronautics sector is here assimilated to employment in “manufacture of other transport equipment”.

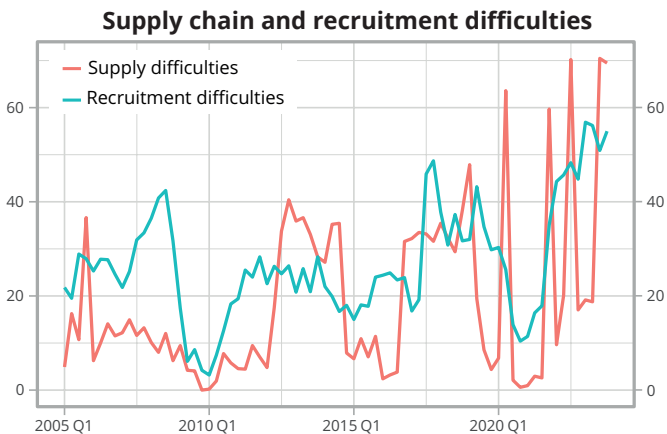
How to read it: in Q3 2023, the Industrial Production Index for the aeronautics sector was 23 points below its 2019 average.

Source: INSEE, customs, INSEE calculations.

► 2. Supply chain difficulties and order books in the aeronautics sector

(% of companies, seasonally adjusted)

(balances of opinion, seasonally adjusted)



Last point: Q4 2023 (left graph), February 2024 (right graph).

Note: by approximation, the aeronautics sector is assimilated here to the “manufacture of other transport equipment” sector.

How to read it: in Q4 2023, 70% of companies in the “manufacture of other transport equipment” sector reported having supply chain difficulties.

Source: industry business surveys, INSEE.

are high and companies in the sector are finding it very difficult to recruit, they have retained a large proportion of their employees, especially since some government initiatives, such as the long-term partial activity scheme (APLD), mean that they are able to contain the cost.

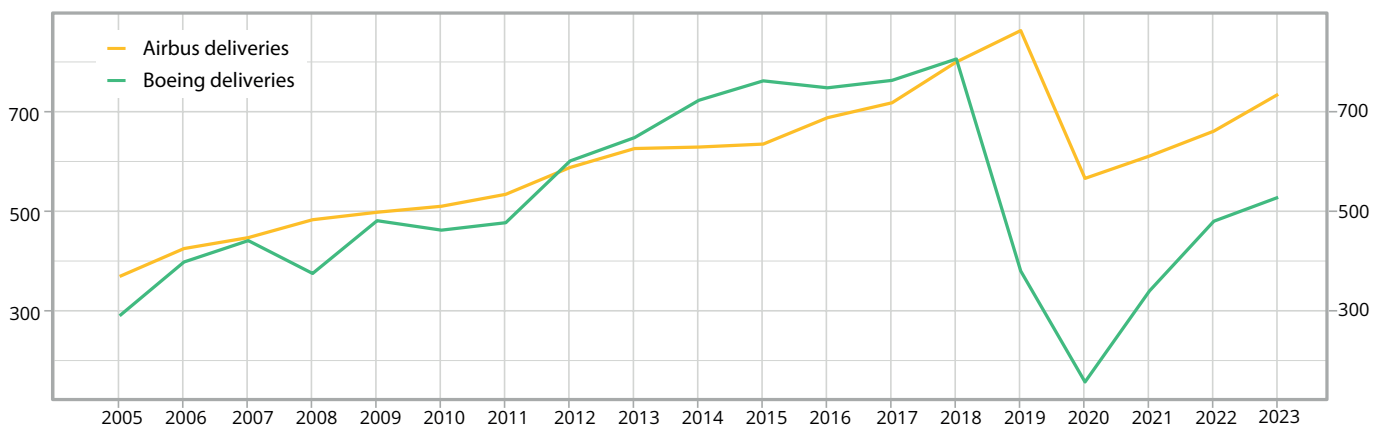
In Germany, exports of aeronautical equipment have also declined, but aircraft assembly is doing better than in France due to the geographic specialisation of the Airbus assembly lines

Given that Airbus, the main company in the sector in France, is a European manufacturer that is also strongly established in Germany, it could be interesting to compare the aeronautical industry on either side of the Rhine by studying their respective export performances: for this purpose, customs data are a more reliable indicator than the IPI, which is calculated according to different methodologies in France and Germany (► **Box**).

First, we consider only the assembled aircraft sub-sector (which has the largest weight by quantity), where German exports have deteriorated less than in France (► **Figure 5a** and ► **Figure 5b**): there was a decline of 15 points in Germany in 2023 compared to the pre-crisis level against almost 25 points in France. One possible explanation for this difference lies in the geographic specialisation of the Airbus assembly lines. Since the post-pandemic recovery, Airbus deliveries have been mainly driven by single-aisle aircraft in the A320 family (► **Figure 6**), and these are mainly assembled in Germany: the Hamburg site has four assembly lines specialising in this model, compared to only two in Toulouse, one in Tianjin in China (a second line is currently under construction) and one in Mobile in the United States (here too, a second

► 3. Annual Airbus and Boeing deliveries

(number of aircraft)

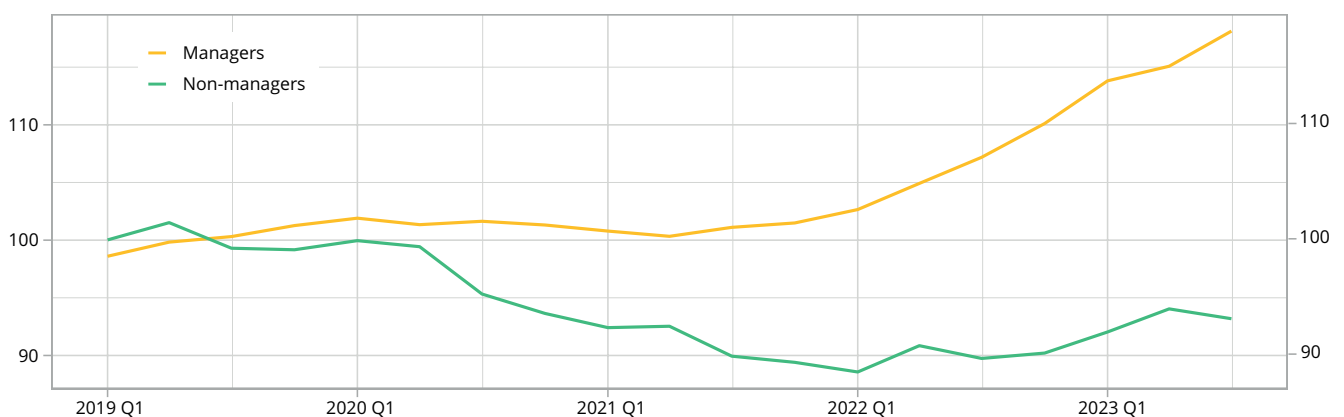


Last point: 2023.

Source: manufacturers.

► 4. Breakdown of payroll employment in the aeronautics sector in France since 2019

(seasonally adjusted level, base 100 in 2019)



Last point: Q3 2023.

Scope: France (excluding Mayotte), payroll employment by number of posts present at the end of the month.

Note: here, the aeronautics sector corresponds to division 3030 of NAF.

How to read it: in Q3 2023, employment of managers was 18 points higher than the 2019 level against -7 points for non-manager jobs.

Source: DSN - provisional processing INSEE.

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line is currently under construction). Conversely, aircraft in the A330 and A350 family, where deliveries are still very much in decline compared to 2019, are only assembled in France. This was also the case for the A380, with the last model assembled in 2021. Finally, the ramp-up of the A220 does not concern either France or Germany as this model is only assembled across the Atlantic, in Mirabel, Canada and Mobile in the United States.

When considering the aeronautics sector more broadly, the difference in exports when compared to their pre-crisis level is greater in Germany than in France (-23% in Germany as an annual average in 2023 against -13% in France). In fact, in France, exports of aircraft engines (by value) are already back to their pre-health crisis level despite the exposure of French engine manufacturers to the aircraft manufacturer Boeing, which is currently experiencing difficulties (the Boeing 737 Max, which has experienced several incidents since its launch, is equipped with the LEAP engine by Safran). Conversely, exports of engines are less buoyant and are hampering the recovery of total exports in this sector in Germany.

Elsewhere in the world, aeronautical exports are back to their pre-crisis level

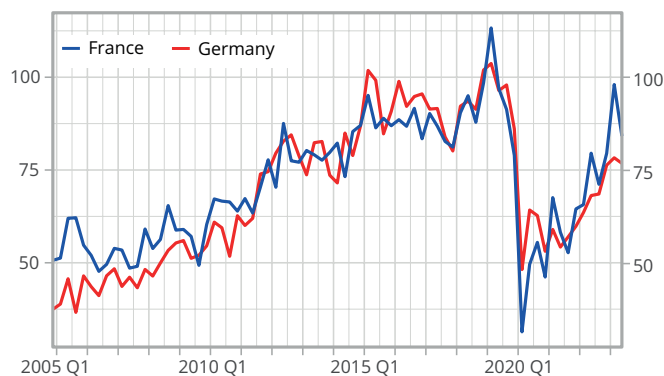
In an international comparison, the decline of the aeronautics sector compared to its pre-crisis level appears to be a specifically European feature, and particularly Franco-German. In 2023, exports by value by those of our trading partners that have significant aeronautical activity (United States,² China, Canada, United Kingdom) were similar to or higher than in 2019 (► **Figure 7**), which was not the case in the Eurozone.

² Although Boeing's deliveries fell significantly between 2018 and 2019, American aeronautical exports were generally equivalent in 2019 (\$146 billion) and 2018 (\$150 billion). Thus, using 2019 as a point of comparison does not change the result.

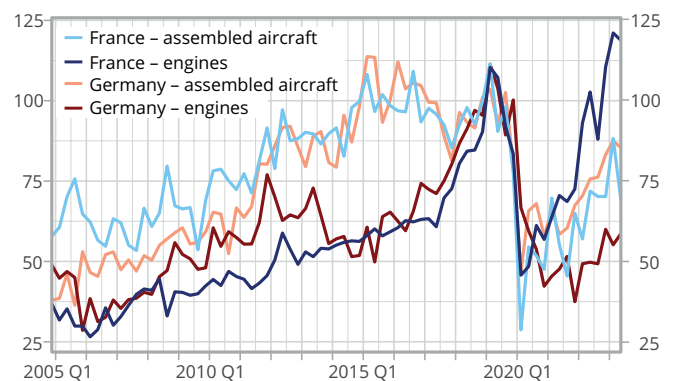
► 5. Aeronautics sector exports in France and Germany

(seasonally adjusted level, base 100 in 2019)

a. Entire sector



b. Entire sector (detail)



Last point: Q3 2023.

Note: here, the aeronautics sector corresponds to division 3030 of NAF; the assembled aircraft sub-sector is 792 in the Standard International Trade Classification (SITC) and the engines sub-sector corresponds to numbers 713 and 714 in the SITC.

How to read it: in Q3 2023, exports by value for the entire aeronautics sector were 23 points lower than the 2019 level in Germany against -16 points in France

Source: Customs, INSEE calculations.

► 6. Annual Airbus deliveries by aircraft type

(number of aircraft)

Types of aircraft	2015	2016	2017	2018	2019	2020	2021	2022	2023
A320 Family	491	545	558	626	642	446	483	516	571
A220	0	0	0	20	48	38	50	53	68
A330	103	66	67	49	53	19	18	32	32
A350	14	49	78	93	112	59	55	60	64
A380	27	28	15	12	8	4	5	0	0
Total deliveries	635	688	718	800	863	566	611	661	735

Source: manufacturer-Airbus.

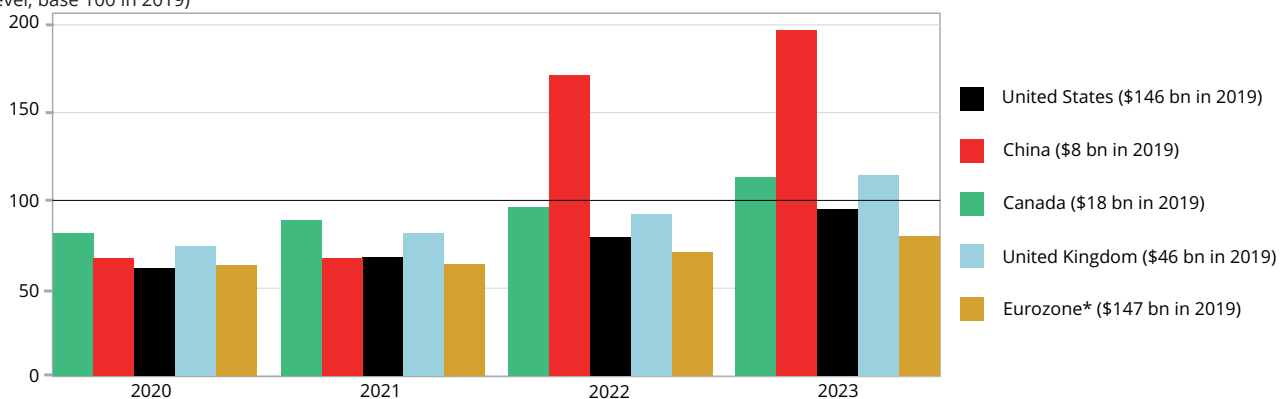
Airbus' targets for 2024 could lead to increased activity in the aeronautics sector in France

Airbus recently announced a target of 800 aircraft to be delivered in 2024, which would be an increase of almost 9% of deliveries by the group compared to 2023. Assuming that this target is reached (it was exceeded in 2023), the impact of these deliveries on French exports could be slightly encouraging.

In 2023, Airbus opened a new assembly line in France to produce type A320 aircraft, which in terms of numbers are the most important (more than three in four deliveries in 2023). Thus the share of the Toulouse site in Airbus' activity overall is expected to increase in 2024. The ramping-up of this new production line is expected to be very gradual and could partially replace the activity of the two assembly lines currently in operation. Also, French aeronautical exports could see slightly more dynamism than simply from an increase in Airbus activity. ●

► 7. International comparison of annual exports in the aeronautics sector

(in level, base 100 in 2019)



Last point: 2023.

Note: here the aeronautics sector corresponds to division 3030 of NAF. The Eurozone corresponds to the total of French, German, Italian and Spanish exports.

How to read it: in 2022, exports by value from the entire aeronautics sector in Canada were 4 points lower than the 2019 level.

Source: UN Comtrade, INSEE calculations.

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Indicators of activity in the aeronautics sector in France and Germany

There are many indicators that could be used to measure activity in the aeronautics sector and make an international comparison. Thus the diagnosis regarding the differences in trajectory between France and Germany may vary according to the indicator used (► [Figure 8](#)).

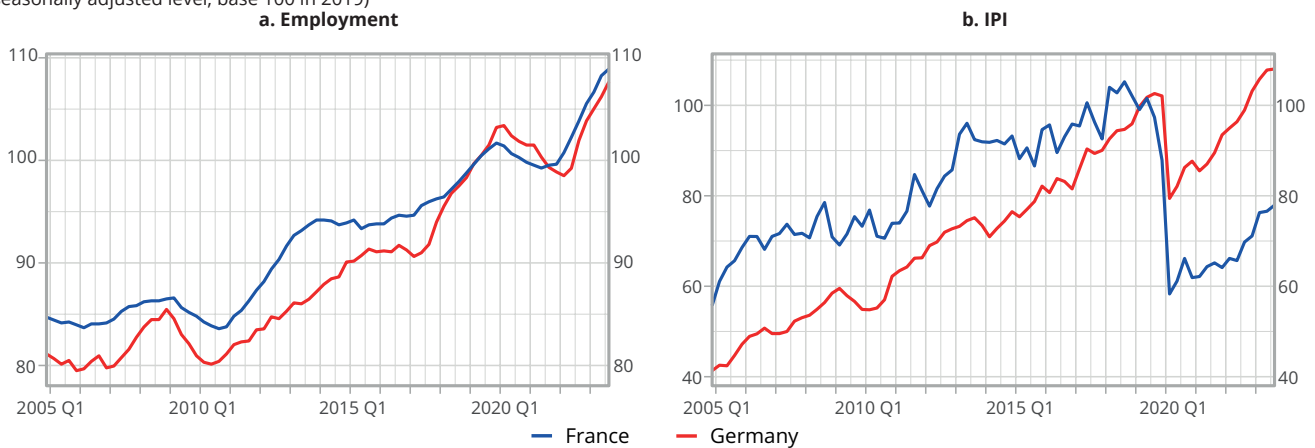
In terms of employment, the dynamics are relatively similar in the two countries, with higher levels than before the crisis. However, employment is a little more buoyant in France: here it is driven by the employment of managers (see above), in a context where the French aeronautical industry is much more specialised than Germany in research and innovation activities (► [Balcone and Schweitzer, 2019](#)).

The Industrial Production Index (IPI) is used to monitor change in industrial activity in France and Germany. The IPI is therefore an indicator of volume, making it possible to neutralise the potential impact of price differences. According to this indicator, German aeronautical industrial production – which in 2023 was around 8 points higher than its pre-crisis level – looks set to be quite a bit more dynamic than French production. However, this discrepancy reflects some methodological differences. In particular, the IPI for the French aeronautics sector measures the construction of finished planes produced by different assembly lines throughout the world (by weighting them according to a quality indicator, ► [Dortet-Bernadet et al., 2016](#) for further details on the construction of the indicator and its sub-components). In contrast, the German IPI measures activity in the aeronautics sector by hours worked within the sector: thus, and contrary to the methodological choice made in France by INSEE, the aeronautics IPI in Germany is naturally correlated with employment but is very different from dynamics of exports in the sector.

Exports by value taken from customs data reflect deliveries and therefore appear to be the best indicator for an international comparison of performances in the aeronautics sector. Customs data also have the advantage of being very granular, which makes it possible to explore the different sub-components of the aeronautics sector. However, they are expressed by value and may therefore also reflect price changes since 2019. ●

► 8. Comparison of different activity indicators for France and Germany

(seasonally adjusted level, base 100 in 2019)



Last point: Q4 2023.

Note: by approximation, aeronautical employment is assimilated to employment in the “manufacture of other transport equipment”. Here, the Industrial Production Index (IPI) corresponds to division 3030 of NAF.

How to read it: in Q3 2023, the IPI for the aeronautics sector was 23 points lower than its 2019 level in France, whereas it was 8 points higher in Germany.

Source: Eurostat, INSEE calculations.

Economic activity

In Q4 2023, French GDP remained virtually stable for the second consecutive quarter (+0.1%, according to the detailed results from the quarterly accounts, after 0.0%, ► **Figure 1**). Domestic demand contracted slightly (contributing -0.1 points to GDP growth): household consumption stabilised while both household and corporate investment fell back sharply (► **Figure 2**). Foreign trade supported activity financially (+0.9 points) but this support was to a large extent due to a destocking phenomenon (-0.7 points): companies met demand for goods by drawing down from their inventories and imports declined significantly. Exports stagnated, reflecting sluggish demand on the part of our European partners.

On the supply side, activity rebounded slightly in the manufacturing industry (value added increased by 0.2%), in the wake of the manufacture of transport equipment, and increased a little in market services (value added increased by 0.1%). However, activity continued its decline in construction for the fourth consecutive quarter (value added down 0.8%).

According to the business tendency surveys, the short-term situation remains hesitant. The business climate indicator dropped slightly below its long-term average in October 2023, and has remained there since. The employment climate has returned to a level more in line with that of activity, whereas it was much more favourable from the start of 2022 to the end of 2023. Household confidence in the economic situation is still degraded, but has picked up gradually in recent months, despite falling back in February (► **Figure 3a**).

In industry, the various branches of activity are still evolving differently: overall, the business climate is at approximately its long-term average, however, short-term discrepancies between different sub-sectors have reached historically high levels (► **Figure 3b** and ► **Focus** “The relaunch of aeronautics and the depressed energy-intensive industries account for the exceptional divergence in short-term situations within industry”). The business climate is still especially favourable in the manufacture of “other transport equipment” (mainly aeronautics), while at the same time, the situation still appears to be depressed in agrifood and the energy-intensive branches. In Q1 2024, it seems likely that the manufacturing industry as a whole will suffer from a particularly poor January in terms of production: manufacturing value added is therefore expected to fall back in early 2024 (-0.5% in Q1, ► **Figure 4**), penalised mainly by the automobile and refining industries, but should subsequently bounce back (+0.5% in Q2). On average, it is expected to remain stable over the half-year at a pace consistent with the short-term diagnosis coming out of the surveys. Energy production is expected to follow the same profile as manufacturing production.

► 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 and working-day adjusted data)

	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross domestic product	-0.1	0.3	0.6	0.0	0.0	0.6	0.0	0.1	0.0	0.3	2.5	0.9	0.5
Imports	1.5	0.4	4.7	-0.5	-3.1	2.5	-0.4	-2.3	1.4	0.7	8.8	-0.1	0.6
Total resources	0.5	0.5	1.3	-0.1	-0.2	1.1	0.0	-0.3	0.2	0.5	4.3	1.2	0.6
Household consumption expenditure	-1.3	0.7	0.5	-0.4	0.2	0.0	0.5	0.0	0.3	0.4	2.1	0.6	0.9
General government consumption expenditure*	0.4	-0.4	0.3	0.6	-0.3	0.2	0.3	0.3	0.2	0.1	2.9	0.6	0.7
of which individual general government expenditure	0.4	-1.1	0.4	0.6	-0.5	0.0	0.3	0.2	0.2	0.0	2.9	0.1	0.5
of which collective general government expenditure	0.5	0.8	0.1	0.6	0.0	0.5	0.2	0.5	0.3	0.2	1.8	1.3	1.1
Gross fixed capital formation (GFCF)	0.3	0.4	2.2	0.4	-0.5	0.3	0.2	-0.9	-0.2	0.0	2.3	1.1	-0.6
of which Non-financial enterprises (NFE)	0.8	0.4	3.9	0.8	-0.5	0.8	0.3	-0.9	-0.1	0.0	3.8	2.7	-0.4
Households	-1.9	1.2	-1.4	-1.0	-2.0	-1.5	-1.1	-1.4	-1.0	-0.5	-1.3	-5.1	-3.2
General government	1.5	-0.7	2.0	0.7	1.7	0.9	1.6	0.0	0.7	0.6	1.5	4.5	2.2
Exports	1.7	-1.1	3.3	0.3	-1.8	2.7	-0.7	0.0	0.3	1.4	7.4	1.5	1.7
Contributions (in points)													
Domestic demand excluding inventory**	-0.5	0.3	0.9	0.1	-0.1	0.1	0.4	-0.1	0.2	0.2	2.4	0.7	0.5
Changes in inventories**	0.3	0.5	0.2	-0.3	-0.4	0.5	-0.3	-0.7	0.3	-0.2	0.7	-0.4	-0.4
Foreign trade	0.0	-0.5	-0.5	0.2	0.6	0.0	-0.1	0.9	-0.4	0.3	-0.6	0.5	0.4

■ 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 2023, imports fell by 2.3%.

Source: INSEE.

French economic outlook

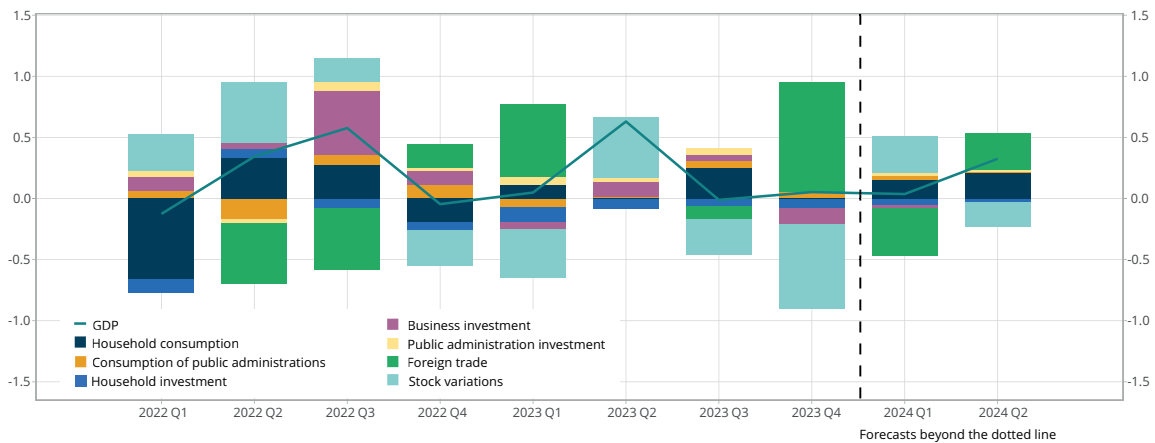
On the market services side, value added is expected to accelerate somewhat throughout H1 (+0.2% then +0.4% in Q1 and Q2), mainly due to the rebound in activity in the information-communication sector and in accommodation-catering.

Activity in construction is likely to continue to suffer because financing conditions are hampering households' and companies' ability to invest. The value added of the sector is expected to continue to decline, although at a slightly more moderate pace than at the end of 2023 (-0.6% then -0.4% in Q1 and Q2 2024).

Among the main demand items, household consumption, bolstered by a relatively dynamic purchasing power, should increase by around 0.3% per quarter, while household investment is expected to continue its decline (-1.0% then -0.5%), although this should gradually affect growth less and less. Regarding companies, past monetary tightening is expected to hamper their investment (-0.1% then 0.0% in the first two quarters of 2024); however, the decline in investment in goods and construction should be offset by movement in services, which is expected to regain a degree of dynamism after the turbulence at the end of 2023. Finally, the contribution of foreign trade to activity is likely to have an irregular profile: it is expected to affect growth in Q1 2024 as inventories are replenished after the substantial destocking operations at the end of 2023, and then boost growth in Q2, as a result of major aeronautical and naval deliveries.

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

(quarterly variations in %; contributions in points)

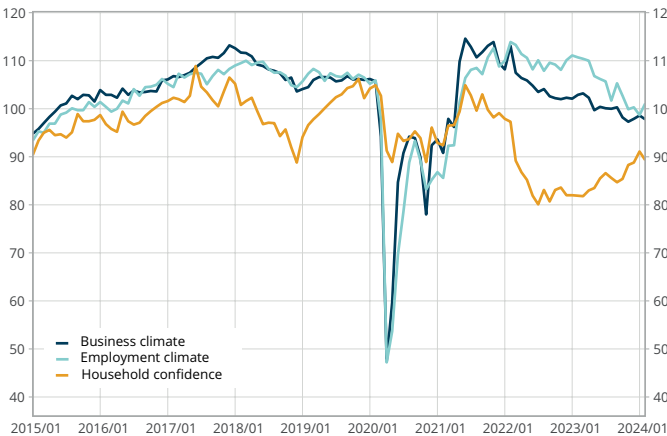


How to read it: in Q1 2024, GDP would be stable compared with Q4 2023 (0.0%); the contribution of household consumption to this growth would be around +0.2 points.

Source: INSEE.

► 3a. Business climate, employment climate and household confidence in France

(standardised with mean 100 and standard deviation 10)



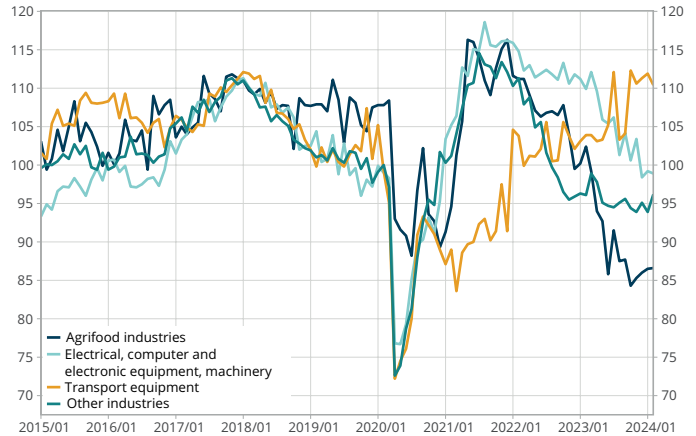
Last point: February 2024.

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

Source: business and household surveys, INSEE.

► 3b. Business climate in the main manufacturing industry sub-sectors

(standardised with mean 100 and standard deviation 10)



Last point: February 2024.

How to read it: in February 2024, the business climate in agrifood industries stood at 87 points, below its long-term average.

Source: monthly business survey for industry, INSEE.

Finally, growth in activity is expected to be limited to H1. In Q1, it is likely to remain at a standstill: it is certainly expected to derive benefit from the reboot of consumption in services, but manufacturing production looks set to decline as a result of one-off phenomena (refinery shutdowns, supply chain problems in the automobile industry). In addition, activity in construction is expected to continue to weaken. In Q2, activity should rebound (+0.3%), with the brakes coming off a little. All in all, the mid-year growth overhang for 2024 is likely to be modest, at around +0.5% (► **Figure 5**). ●

► 5. Quarterly changes in economic activity by industry

(quarterly changes in %)

Branch	weight in %	2022				2023				2024	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Agriculture, forestry and fishing	1.7	2.7	2.1	1.9	1.4	0.6	0.8	0.4	0.3	0.4	0.3
Industry	13.9	-0.7	-0.9	0.3	0.1	0.9	1.4	-0.2	0.0	-0.4	0.5
Manufacturing industry	11.3	1.1	0.1	0.9	-0.6	0.8	1.1	-0.3	0.2	-0.5	0.5
Manufacture of food products, beverages and tobacco-based products	2.1	0.1	-0.9	0.1	-0.3	-0.3	1.0	-1.2	-1.2	1.2	-
Coke and refined petroleum	0.1	60.6	8.7	4.2	-7.7	9.5	1.7	7.2	-0.6	-12.0	-
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1.5	-0.2	-0.2	2.3	-0.4	2.2	1.0	-1.0	-0.3	-0.8	-
Manufacture of transport equipment	1.6	-2.9	4.6	5.0	-0.4	2.0	2.9	-1.7	1.5	-0.4	-
Manufacture of other industrial products	5.9	1.8	-0.5	0.0	-0.4	0.1	0.8	-0.2	0.6	-0.2	-
Extractive industries, energy, water, waste treatment and decontamination	2.6	-7.0	-5.0	-2.5	3.1	1.2	2.5	0.3	-0.6	-0.1	0.5
Construction	5.7	-0.1	-0.2	0.1	0.1	-0.4	-0.5	-0.4	-0.8	-0.6	-0.4
Mainly market services	56.8	0.0	1.0	0.9	0.0	-0.1	0.9	0.0	0.1	0.2	0.4
Trade; repair of automobiles and motorcycles	10.4	-1.8	-1.0	0.7	-0.8	-0.5	1.0	0.1	-0.3	-0.2	-
Transport and storage	4.6	0.6	0.9	-0.3	-0.4	-0.9	0.4	-2.3	-0.7	0.4	-
Financial and insurance activities	3.8	-2.0	-0.6	-0.1	0.6	1.5	1.2	0.2	0.3	0.1	-
Real estate activities	12.8	0.2	0.4	0.3	0.1	0.1	0.3	0.1	0.1	0.3	-
Accommodation and catering	2.9	2.7	12.1	2.5	1.0	-1.1	1.0	-0.5	0.0	0.4	-
Information and communication	5.4	0.7	1.3	3.1	0.7	0.9	2.0	0.5	-0.3	0.6	-
Scientific and technical activities; administrative and support services	14.1	0.9	1.2	1.0	0.0	-0.2	1.1	0.5	0.5	0.4	-
Other service activities	2.9	0.4	2.5	0.8	0.8	0.5	0.1	0.3	0.6	0.4	-
Mainly non-market services	21.9	0.5	-0.4	0.2	-0.1	0.3	0.1	0.1	0.3	0.0	0.1
Total VA	100.0	0.0	0.4	0.6	0.1	0.1	0.7	0.0	0.1	0.0	0.3
Taxes and subsidies		-1.5	0.1	0.2	-0.9	-0.6	0.0	-0.1	-0.1	-0.1	0.6
GDP		-0.1	0.3	0.6	0.0	0.0	0.6	0.0	0.1	0.0	0.3

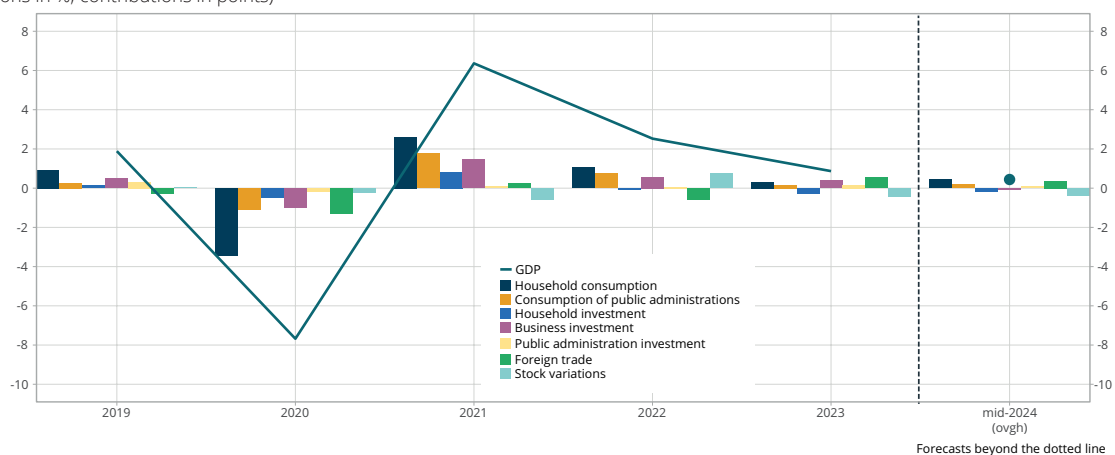
■ Forecast

How to read it: in Q4 2023, value added of the manufacture of transport equipment branch increased by 1.5%. It is expected to fall by 0.4% in Q1 2024.

Source: INSEE.

► 5. 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 2023, GDP increased by 0.9%; the contribution of household consumption amounted to 0.3 points.

Source: INSEE.

French economic outlook

The relaunch of aeronautics and the depressed energy-intensive industries account for the exceptional divergence in short-term situations within industry

At the start of 2024, the short-term situations in the different industrial sectors, as measured by the composite business climate indicators, were unusually varied. All the balances of opinion on which business climate is based contribute to this wide diversity but the main contributor is currently that relating to the state of company order books. In sectoral terms, the strong heterogeneity that can be seen at present results both from particular short-term positions of sectors that are usually poorly correlated to the overall cycle, such as aeronautics, but also from a misalignment of sectors that are usually very close to the main cycle, especially branches that consume high levels of energy (wood, paper products and printing industries, chemical industry, rubber/plastic products and metallurgy), which have suffered a specific supply shock with the increase in commodity prices, independently of the behaviour demand for capital goods which traditionally accounts for cyclical variations.

In Europe, both Germany and Spain are also still experiencing episodes of high sectoral volatility, whereas in Italy these were limited to the health crisis. The main sectors responsible for this dispersion in Germany are generally the same as in France, in particular energy-intensive industries and other transport equipment. In Spain too, energy-intensive industries have contributed to the dispersion of industrial sectors, but the automotive sector, where the confidence indicator improved in 2022, contributed more than elsewhere in Europe.

Bruno Bjai, Enzo Iasoni, Cédric Zimmer

At the start of 2024, short-term situations were particularly contrasted in the different manufacturing industry sub-sectors

The composite business climate indicators summarise the short-term information collected in the monthly business tendency surveys of companies. They are constructed at both sector level and sub-sector level, allowing for a detailed analysis of cyclical changes in economic activity.

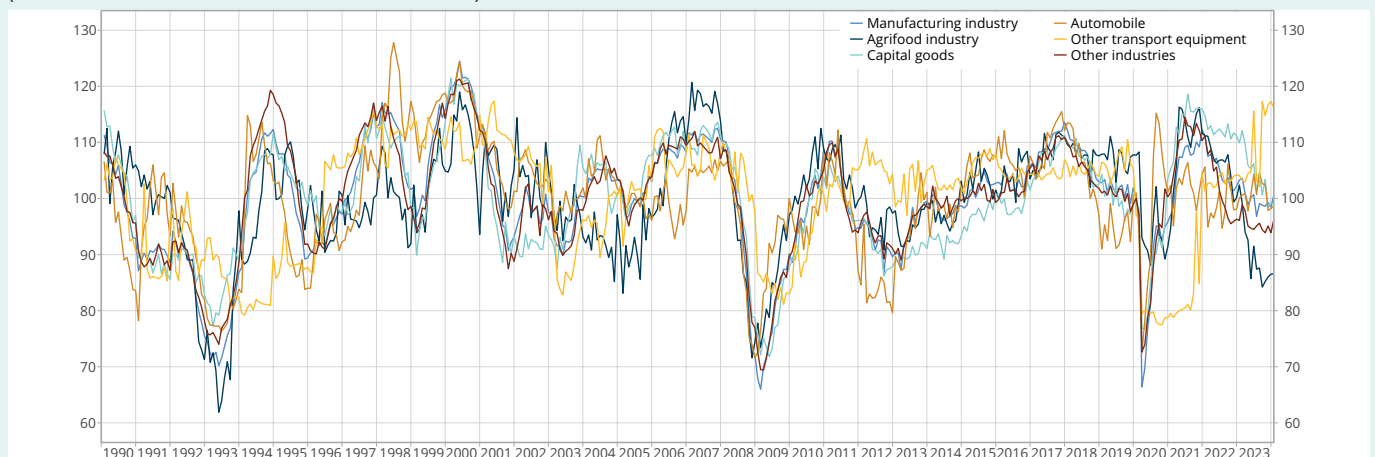
At the start of 2024, although the climate was close to its long-term average on the scale of the manufacturing industry, the business climate indicators in the different branches of activity showed an unprecedented dispersion (► **Figure 1**). For example, the business climate was at its highest level historically in January 2024 in the manufacture of “other transport equipment” (excluding

automobiles, i.e. mainly aeronautics), but at the same time remained very degraded in the agrifood industry.

A statistical measurement of the dispersion of climate indicators, corresponding to the variance of sub-sector climates at a detailed level (level A38 in the classification) confirms this qualitative diagnosis (► **Methodology box**). Between the mid-1990s and the health crisis, this dispersion remained contained and relatively stable (► **Figure 2** – blue line), including during the financial crisis and the Eurozone sovereign debt crisis. Variance then reached its lowest level historically at the end of the 2010s. It began to grow again in H2 2019 then increased sharply at the time of the health crisis, reflecting differences in exposure to the consequences of the pandemic (no travel, increased food consumption, etc.). While the dispersion appeared to have declined at the start of 2022 and to be getting closer to its long-term

► 1. Business climate in the main sub-sectors of industry

(standardised to mean 100 and standard deviation 10)



Note: February 2024.

How to read it: in February 2024, the business climate in the agrifood industry was 87 points, below its long-term average (100).

Source: INSEE, Monthly tendency survey in industry.

average, the invasion of Ukraine by Russia and the imported inflation shock which followed it triggered a new increase in this dispersion indicator that was particularly pronounced. At the start of 2024, business climates in different industries reached a level of dispersion not seen for nearly 30 years outside of a health crisis, and were even approaching the levels seen in 2020.

The method of constructing business climate indicators is not the reason behind these exceptional divergences

Climate indicators in industry are constructed from balances of opinion in business tendency surveys of recent and future changes in production, general and foreign order books, level of inventory of finished products and general expectations for activity in the sector: the selected balances are the same for all industrial branches, as well as for the entire manufacturing industry (► **Focus** “New sub-sector business climate indicators to improve economic outlook analysis”, *Economic outlook*, June 2016). For each sector, the indicator is constructed from a linear combination of these balances of opinion. However, the coefficients are derived from correlations observed historically for this sector, and are therefore specific to it.

The relative importance of each balance may therefore differ somewhat for each sector. For example, the balance of opinion on export order books is much more important for the manufacture of “other transport equipment” (which notably includes aeronautics) than for other sectors, thus reflecting the importance of foreign customers for this sector. These specific features in constructing indicators could theoretically explain part of the divergence: for example, a drop in a given balance of opinion that is common to all sectors may be reflected differently in the business climate indicators and penalise the sectors where the weight of this balance in the climate is important.

This effect can be neutralised, however, by standardising the weightings of the different balances in the business climate between sectors (for example, by retaining for each sector the weights that the different balances have in the business climate at the scale of the entire manufacturing industry) and using this new weighting to recalculate an alternative business climate for each sector: in doing so, the observed dispersion remains (► **Figure 2** – red line – and ► **Figure 3**). Thus the method used to construct the indicators can only account for a minor part of the dispersion currently observed: it is therefore the result of different short-term situations between sub-sectors.

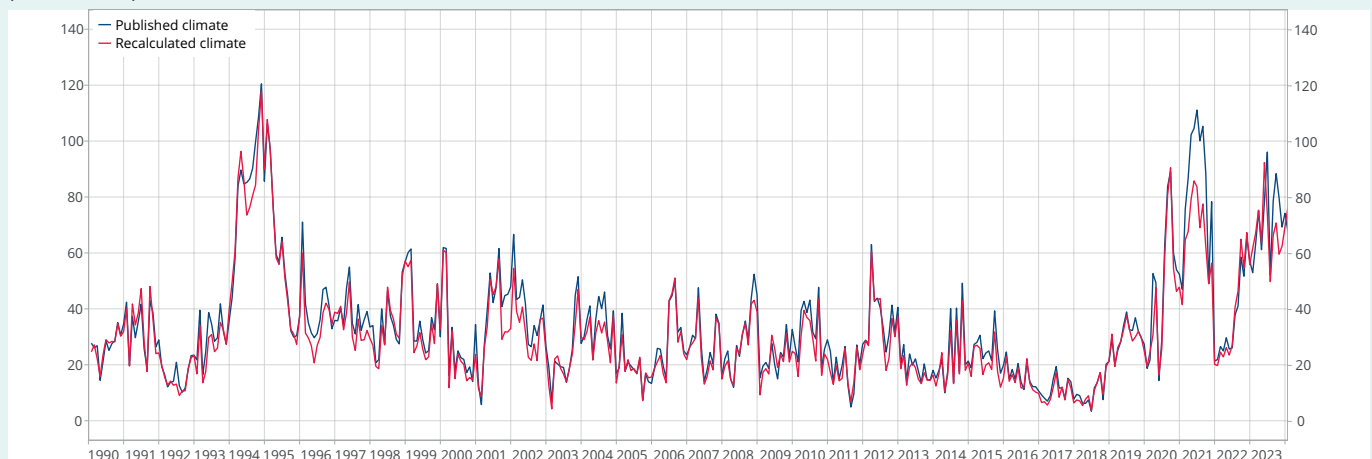
As in the mid-1990s, the balance of opinion on overall order books is the primary contributor to the sub-sector divergence currently observed in industry

The wide variety of business climates in industry sub-sectors can be broken down by studying the contribution of sectoral divergences observed for each balance (previously centred and reduced to be able to compare them with each other) involved in calculating the business climate (► **Figure 4**).

Over the recent period, variances in the different balances of opinion have all reached high levels, apart from level of inventory of finished products, which returned to levels close to its historic average. This observation can be made, in particular, on the balance of opinion concerning order books.

By taking into account the weight of each balance in the business climate, the weighted variance of each balance can be monitored over time (► **Figure 5**): this quantitative approach ensures that the main balances contributing to volatility overall can be identified more precisely (► **Methodology box**).

► 2. Dispersion of sub-sector climates in the manufacturing industry (level variance)



Last point: February 2024.

Note: the recalculated climate takes into account the standardised weightings for balances of opinion between sectors.

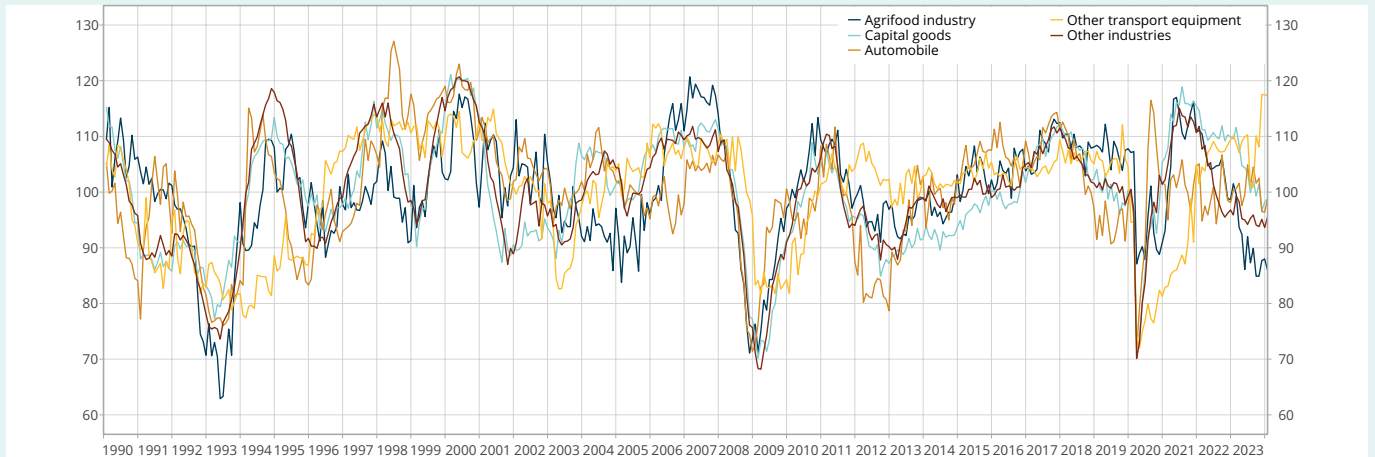
Source: INSEE.

French economic outlook

Thus, during the health crisis, balances of opinion on recent production and personal expectations for production contributed significantly to the overall variance in the business climate: it is therefore these balances that are best able to explain the strong divergence between sub-sector climates during the pandemic. On the other

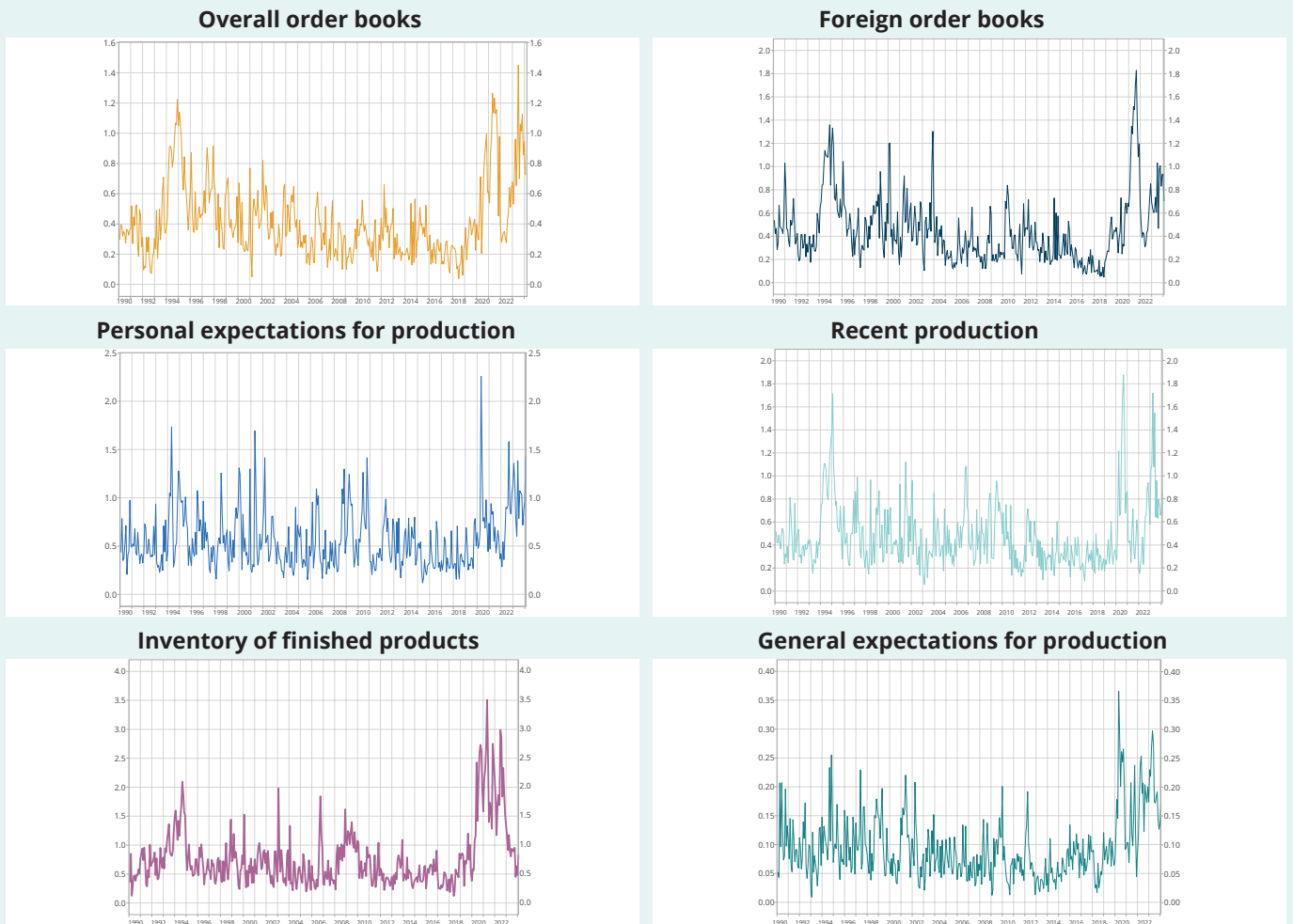
hand, during the recent period, as in the mid-1990s, the balance of opinion on overall order books was the primary contributor to the divergence of climates between sub-sectors. Conversely, over a long period, general production prospects almost never contribute to variance.

► 3. Recalculated climates, keeping the same weights for balances of opinion in all sub-sectors (standardised to mean 100 and standard deviation 10)



Last point: February 2024.
Source: INSEE.

► 4. Change in variance over time of the six balances used to calculate the climate in industry (variance between sectors, by level, from centred and reduced balances)



Last point: February 2024.
Source: INSEE.

Manufacture of “other transport equipment” and the energy-intensive branches mainly account for the recent divergence in sub-sector climates

Divergence can also be analysed with regard to the contribution of each sub-sector to the overall dispersion. On average, some sectors contribute more than others to the overall variance in the business climate because they are less correlated with the main cycle. Over the long term, the rubber and metallurgy sub-sectors (and to a lesser extent chemicals and wood) are closest to the main industry cycle (► **Figure 6**). These are products that are highly mobilised in various downstream production cycles (transport equipment or capital goods) and fluctuations in demand for investment goods have a strong knock-on effect on these branches. The manufacture of capital goods is highly correlated with investment and is also very close to the main cycle. Conversely, the manufacture of “other transport equipment” and to a lesser extent the agrifood

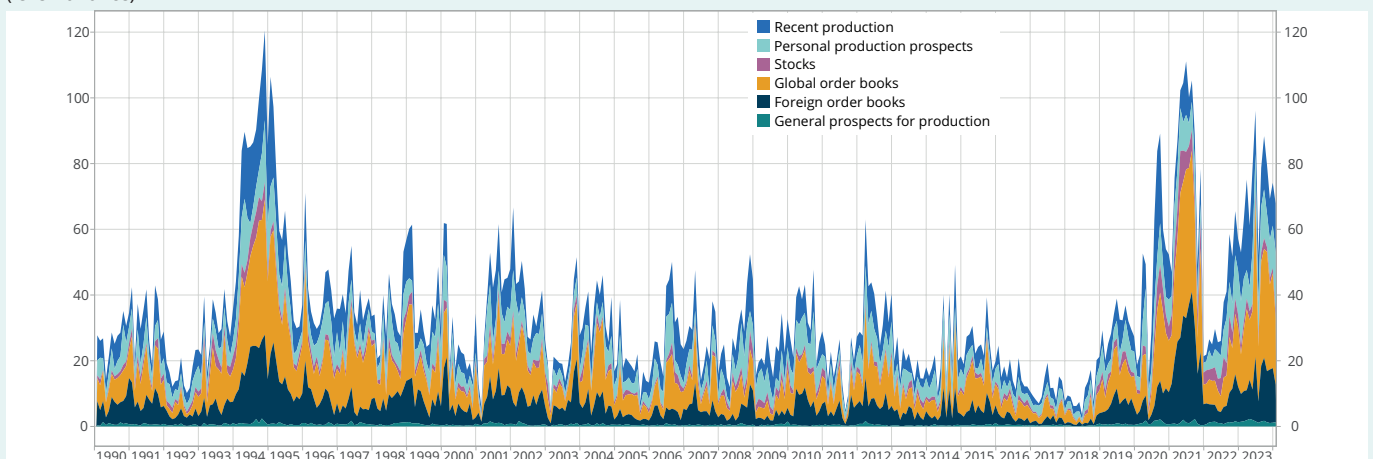
industry, follow a specific cycle with little correlation with the rest of industry.

In addition to these average correlations, the contribution of each sub-sector to the overall dispersion can be calculated each month (► **Methodology box** and ► **Figure 7**). Thus the manufacture of “other transport equipment” makes a recurring contribution to sub-sector divergences: this was particularly the case from mid-2020 when this sector was slow to restart, unlike the rest of industry. During peak volatility in the mid-1990s, agrifood and the energy-intensive branches (rubber/plastic products, chemicals, wood/paper/printing, metallurgy) were also major contributors to the divergence observed between the different sub-sectors of industry.

The current unprecedented situation is due to different cyclical dynamics inherited either from the consequences of the health crisis or from those of the war in Ukraine. The electronic goods and computers sector continues

► 5. Change in weighted variance of each balance over time

(level variance)



Last point: February 2024.

Source: INSEE.

► 6. Correlation coefficients of the different industrial climates to the manufacturing industry climate

(correlations)

Sector (A17)	Sector (A38)	Weight (in %)	Correlation
Agrifood (C1)	Agrifood (C1)	20	0.76
Capital goods (C3)	Computer, electronic, optical equipment (CI)	4	0.77
	Electrical equipment (CJ)	3	0.82
	Machinery and equipment (CK)	5	0.86
Transport equipment (C4)	Automobile (CL1)	9	0.79
	Other transport equipment (CL2)	10	0.51
Other manufacturing industries (C5)	Textile products (CB)	2	0.80
	Wood, paper products, printing (CC)	4	0.83
	Chemical products (CE)	8	0.85
	Rubber (CG)	7	0.92
	Metallurgy (CH)	11	0.91
	Other industries (CM)	10	0.80

Note: correlations, calculated over the period February 1990-February 2024.

Source: INSEE.

French economic outlook

to be stimulated by robust demand, with the health crisis resulting in more electronic communication, thus reinforcing the need for equipment. Aeronautics has still not returned to its pre-health crisis level and is experiencing steady growth (► **Focus aeronautic**). The war in Ukraine has caused sharp increases in commodity prices, with the various sub-sectors of activity exposed differently. On the one hand, energy-intensive branches faced a very negative supply shock with rising electricity and gas prices. On the other hand, food inflation peaked at more than 15% in France at the start of 2023, leading to an unprecedented peacetime decline in the consumption of food products (in France, as in the other Eurozone countries) and a significant decline in the business climate in the agrifood industry.

In Europe, Germany and Spain are also experiencing a strong divergence in short-term situations in the different industrial sectors

Using the tendency surveys in industry collected in all Member States by the European Commission, it is possible to study whether this dispersion phenomenon is specific to France or common to all European countries. From the balances collected, the European Commission constructs a composite indicator (“confidence indicator”) by weighting balances of opinion on order book levels (1/3), inventory of finished products (-1/3) and expected change in production over the coming months (1/3). This indicator is therefore slightly different from that calculated by INSEE.

Thus it is possible to calculate the sectoral dispersion of the European Commission’s confidence indicator in a similar way to that for the business climate in industry in INSEE’s survey (► **Methodology box**): for France in particular, the dispersion indicator in industry calculated from the European Commission’s confidence indicator is very similar to that calculated from INSEE’s business climate (► **Figure 8**).

As in the case of France, the period following the start of the health crisis was characterised in Germany, Italy and Spain by a strong dispersion in short-term situations between the different sub-sectors of industry (► **Figure 9**). This divergence is particularly remarkable in Germany for two reasons: first, the dispersion has been very contained since the early 1990s; second, sectoral volatility appeared, even more so than in France, a little before the pandemic. The divergence was less atypical for Spain, where similar episodes have often been observed, although on a smaller scale, since the beginning of the 2000s. As the health crisis came to an end in autumn 2021, divergence was very much reduced in France and Italy, but remained high in Germany and Spain. It began to increase again in France at the start of 2022 following Russia’s invasion of Ukraine, reflecting the situation in Germany and Spain, whereas it remained relatively contained in Italy.

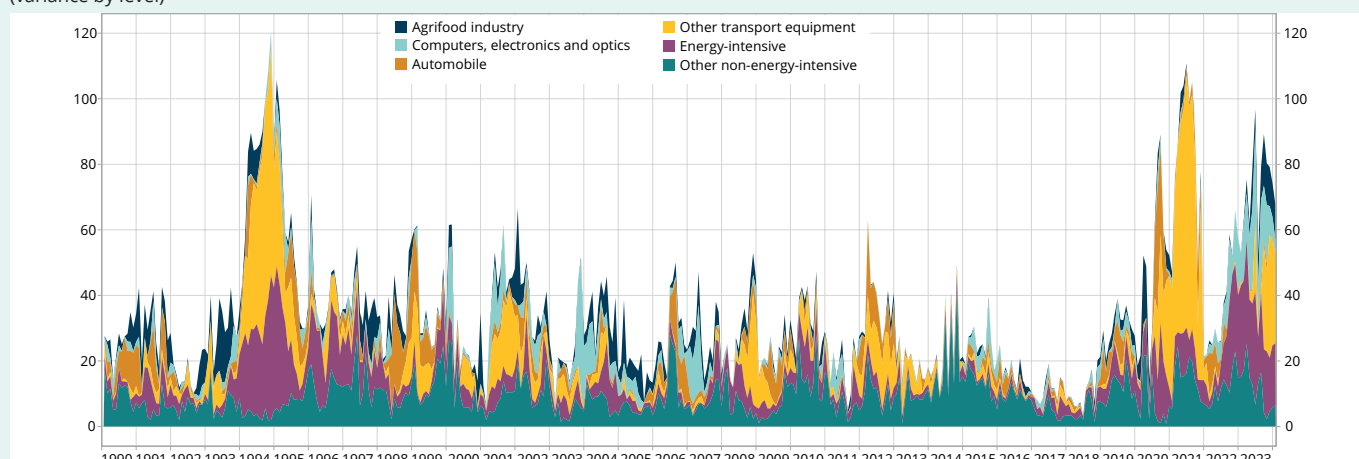
With a similar technique to that used for the business climate in industry for France, the volatility observed in the confidence indicator for the four main Eurozone economies can be broken down by sector (► **Figure 10**).

In Germany, different sectors in turn have contributed to the dispersion of the confidence indicator since the start of the decade: this volatility was first driven by the agrifood industry during the health crisis and even a little before, then by “other transport equipment” (mainly aeronautics) during the post-pandemic recovery. Since the Russian invasion of Ukraine, it has been the energy-intensive branches that have been sources of volatility, then, more recently, “other transport equipment” once again.

In Spain, volatility has been driven since the start of the health crisis by the energy-intensive and agrifood industries. More recently, it is mainly the automotive industry that has contributed to the sectoral divergence in industry, as its confidence indicator increased at the start of 2022.

► 7. Contribution of different sub-sectors to climate variance

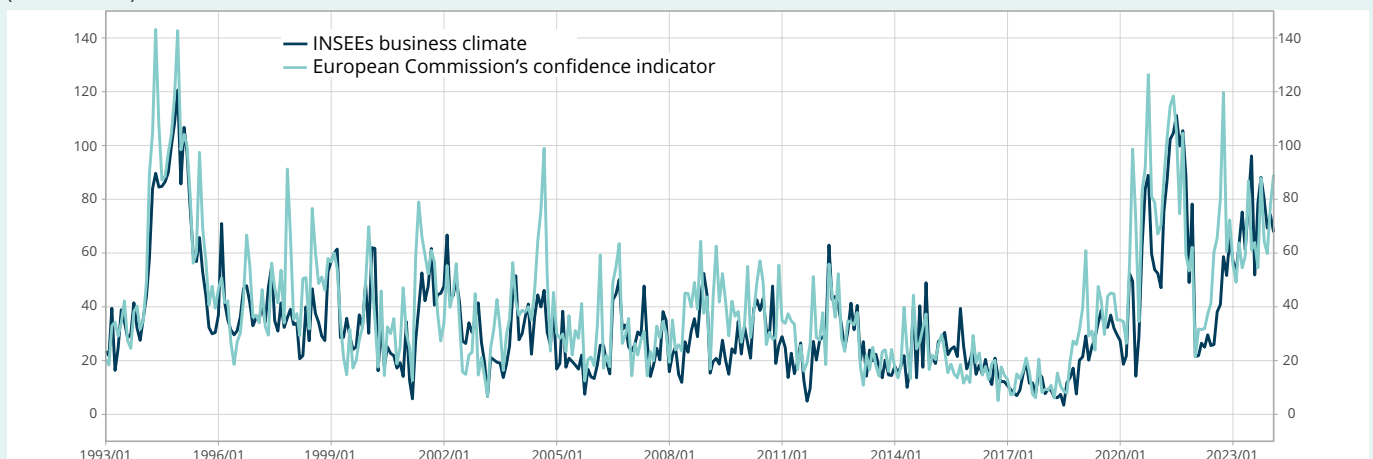
(variance by level)



Source: INSEE.

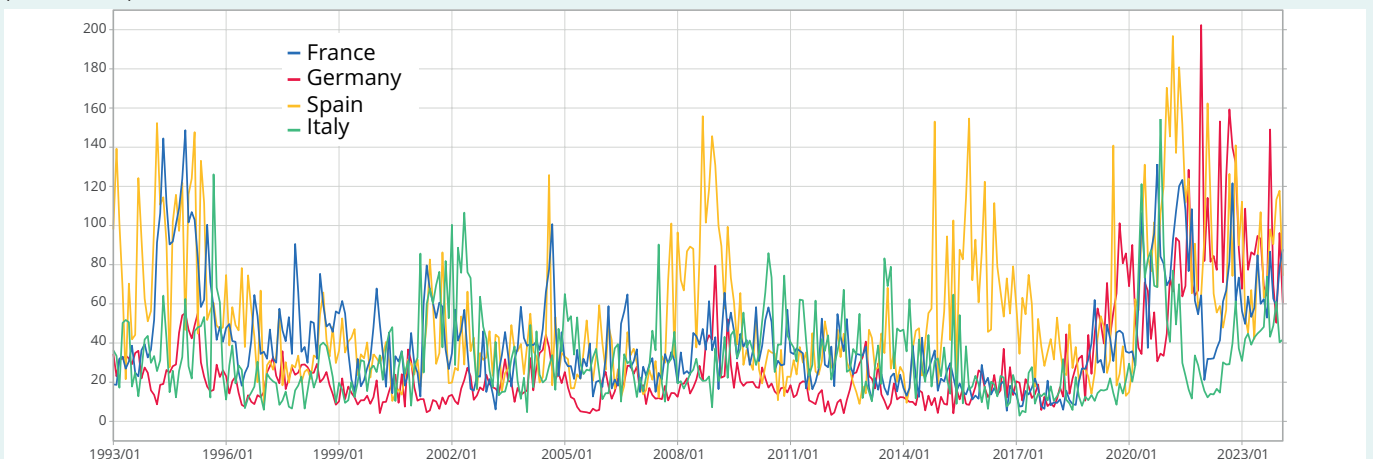
Finally, in Italy, the same branches as mentioned for the other European countries have also contributed to the sectoral volatility of the confidence indicator (especially agrifood, automobiles, “other transport equipment” and energy-intensive industries) but to a less pronounced degree, with the overall dispersion remaining contained in any case. ●

► 8. Comparison of INSEEs business climate dispersions with the European Commission’s confidence indicator (level variance)



Last point: February 2024.
Source: INSEE, DG ECFIN, INSEE calculations.

► 9. Dispersion of the European Commission’s confidence indicator in the main Eurozone economies (level variance)

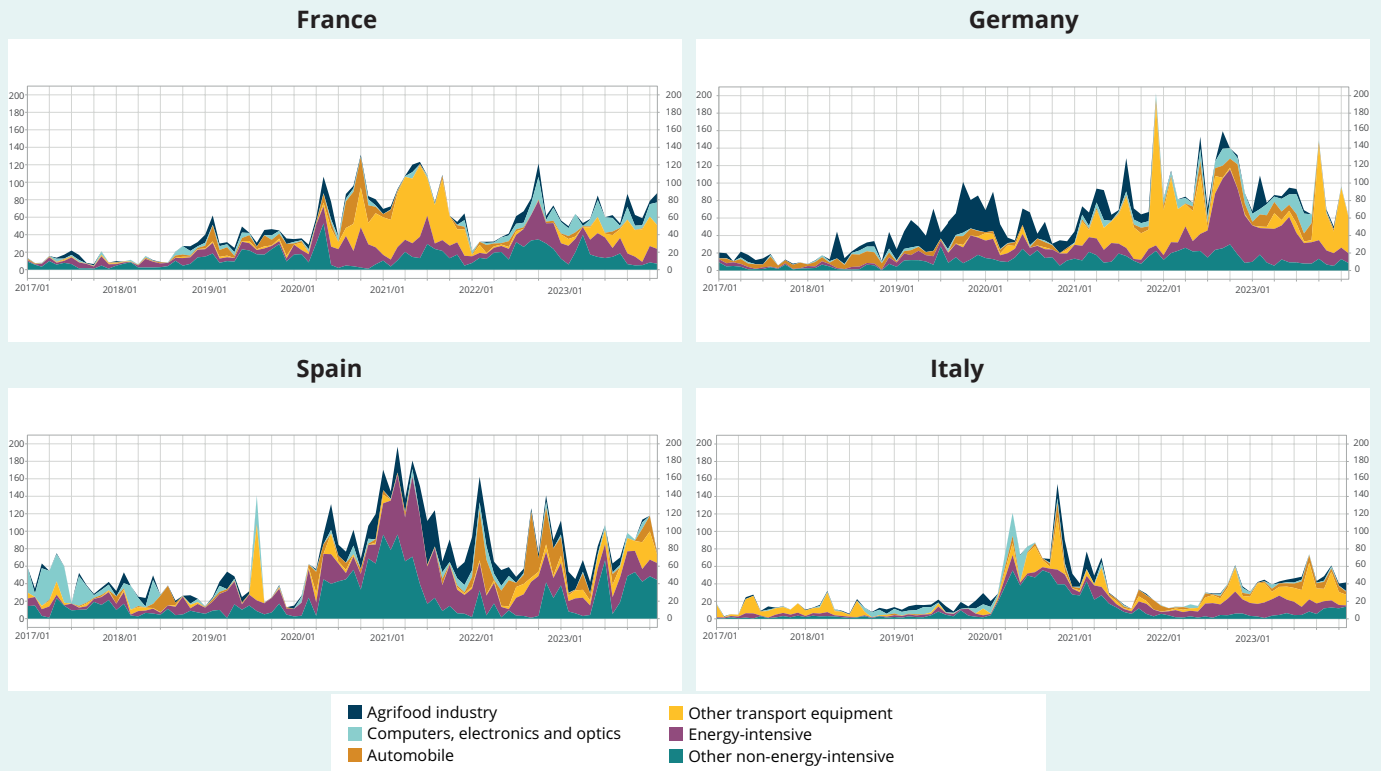


Last point: February 2024.
Source: INSEE, DG ECFIN, INSEE calculations.

French economic outlook

► 10. Contributions of the different branches to variance in the DG ECFIN confidence indicator for the main Eurozone economies

(level variance, contributions in point)



Last point: February 2024.

Source: INSEE, DG ECFIN, INSEE calculations.

Methodology

Measuring sectoral dispersion from climate variance

Dispersion in the business climate in industry is calculated from business climate indicators at a detailed sub-sector level (level A38 in the French classification of activities). Within the manufacturing industry, this corresponds to the twelve sectors presented in ► Figure 6. Manufacture of coke and refined petroleum products (C2) and pharmaceuticals (CF) are excluded from the analysis, in the former for reasons of sample size, and in the latter due to the monthly volatility of the series. For each month from February 1990 to February 2024, the dispersion of the climates is defined as their variance:

$$V = \frac{1}{12} \sum_{i=1}^{12} (x_i - \bar{x})^2$$

x_i corresponds to the climate indicator for sub-sector i

\bar{x} corresponds to the average for the climates of the 12 sub-sectors.

For this definition, the choice was made to give uniform importance to each sector, without weighting them according to their weight within the manufacturing industry: for consistency, x corresponds to an unweighted average of the sectoral climates and not to the business climate in industry, which would be closer to a weighted average of the different sectors. Thus the calculated indicator is an indicator of pure dispersion, where all industrial sectors have the same importance.

To ensure readability, some branches were grouped together to study the contribution of the branches to overall dispersion

This formula includes 12 terms, each corresponding to the specific contribution of a sub-sector. For reasons of readability, certain groupings were made for the purpose of analysing the contribution of the different sectors to overall dispersion (example [Figure 7](#)). In fact, some sub-sectors never exceed 10% of the total variance over the entire period selected. These sub-sectors that contribute little to the total dispersion are grouped by adding them together: manufacture of electrical equipment (CJ), machinery and equipment (CK), manufacture of textile products, clothing and leather products (CB) and “other manufacturing industries” (CM). Similarly, the sub-sectors known as “energy-intensive” are grouped together: wood, paper products and printing (CC), chemicals (CE), rubber and plastics industry (CG), and metallurgy (CH).

In this way, industry was divided into 6 classes: agrifood (C1), manufacture of electronic, computer and optical products (CI), automobiles (CL1), manufacture of “other transport equipment” (CL2), “energy-intensive” sectors and “other non-energy-intensive”. The change in sub-sectoral dispersion of climates over time can thus be monitored with the specific contribution of each of these 6 classes.

The contribution of balances may be approached via the weighted sum of their variance between sectors

While the contribution of the sectors to overall dispersion can be derived directly from the formula for the variance of the climate indicators, the contribution to the dispersion indicator of each of the six balances of opinion used to calculate the business climates can only be approximated.

To do this, a variance between sectors is calculated each month for each of these six balances of opinion, which have been previously centred and reduced. These variances are then added together, weighting them according to the weights of the balances used when constructing the business climate indicator in the entire industry. Finally, each of these terms is modified homothetically, so that the sum of the terms corresponds to the total variance of the indicator calculated in the same month. Using this approach it is thus possible to reconstruct overall variance and from this deduce approximately the contribution of each balance.

A similar methodology was used for each of the four main Eurozone economies on the confidence indicator in industry published by the European Commission

The methodology devised for INSEE’s business climate in industry can be replicated on the confidence indicator in industry, published by the European Commission, for the four main Eurozone economies. As the sub-sectors published by the European Commission are more detailed than those published by INSEE for their business climate, they have been grouped together into twelve branches corresponding to INSEE’s analysis of the business climate, using a weighting based on the turnover of these different branches. ●

Foreign trade

In Q4 2023, imports dropped sharply (-2.3%) while exports remained stable (0.0%), with the result that foreign trade made a major positive contribution to GDP growth (+0.9 points ► [Figure 1](#)), mirroring a pronounced destocking phenomenon (contribution of -0.7 points by inventory change to growth). There was a general decline in imports, but particularly in the area of manufactured goods (-2.7%), and this concerned most products (► [Figure 3](#)). On the export side, foreign sales of manufactured products declined to a lesser extent (-0.4%) but this decline was offset by the sharp increase in electricity exports (► [Figure 2](#)).

After the one-off destocking movement in Q4, imports in Q1 2024, particularly of manufactured products, are expected to return to a level more in line with domestic demand and should bounce back (+1.4% forecast). In Q2, they are expected to improve moderately (+0.7%), bolstered somewhat by the recovery of consumption and exports but held back by sluggish business demand.

In the business surveys of industry, the balance of opinion on the level of foreign order books is much higher than its long-term average (► [Figure 4](#)). In addition, companies believe that their competitiveness is improving on foreign markets (► [Figure 5](#)). However, this positive assessment is based mainly on transport equipment, with foreign order books not as full in the rest of industry. Thus, excluding transport equipment, exports of manufactured goods are expected to increase moderately in H1 2024, at a similar pace to that of world demand for French goods, but this is unlikely to make up for the losses in market share recorded since the health crisis. Aeronautics, on the other hand, looks set to boost French exports, driven by the sharp increase in Airbus delivery targets for 2024 (+9%, i.e. a target of 800 aircraft compared to 735 delivered in 2023, ► [Focus](#) aeronautic activity in France). The profile of large naval contracts is expected to be rather uneven: decline in Q1 after a major delivery in late 2023, then improvement in the spring with a new delivery planned. Exports of services are also expected to follow a relatively upward trend. All in all, the export profile is likely to be uneven because of the major naval contracts (+0.3% forecast in Q1 2024 then +1.4% in Q2) but exports should be more dynamic on average than world demand for French goods in H1, reflecting the gradual catch-up of aeronautical exports.

Foreign trade is therefore expected to make a negative contribution to GDP growth in Q1 2024 (-0.4 points forecast), as a result of the rebound in imports, then a positive contribution in Q2 (+0.3 points). ●

► 1. French foreign trade

(variation in %, volumes of previous year's chained prices, contributions in points)

	Quarterly variations								Annual variations				
	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Exports													
Total	1.7	-1.1	3.3	0.3	-1.8	2.7	-0.7	0.0	0.3	1.4	7.4	1.5	1.7
Manufactured products (66%*)	1.9	-3.1	4.4	-0.7	-2.2	3.8	-1.0	-0.4	0.2	2.0	3.2	0.8	1.8
Imports													
Total	1.5	0.4	4.7	-0.5	-3.1	2.5	-0.4	-2.3	1.4	0.7	8.8	-0.1	0.6
Manufactured products (70%*)	0.2	-0.9	4.5	0.0	-3.2	2.4	-1.6	-2.7	2.3	0.5	4.9	-1.0	0.4
Contribution of foreign trade to GDP	0.0	-0.5	-0.5	0.2	0.6	0.0	-0.1	0.9	-0.4	0.3	-0.6	0.5	0.4

■ Forecast.

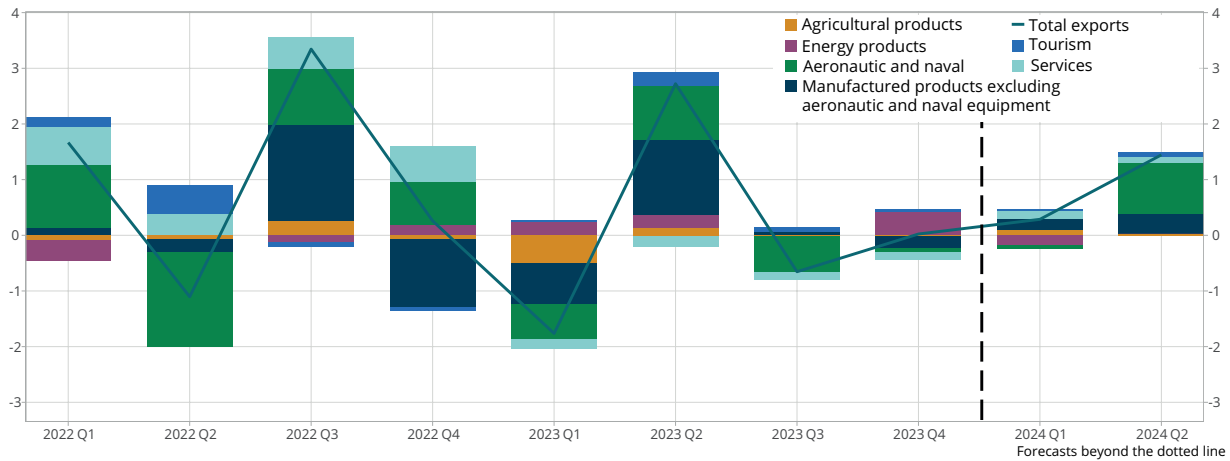
* Share of exports (or imports) of manufactured products in total exports (or imports), in 2021.

How to read it: in Q4 2023, French imports were down by 2.3%.

Source: INSEE.

► 2. Contributions of different products to exports

(quarterly changes in total exports, in %, and contributions of individual products, in points)

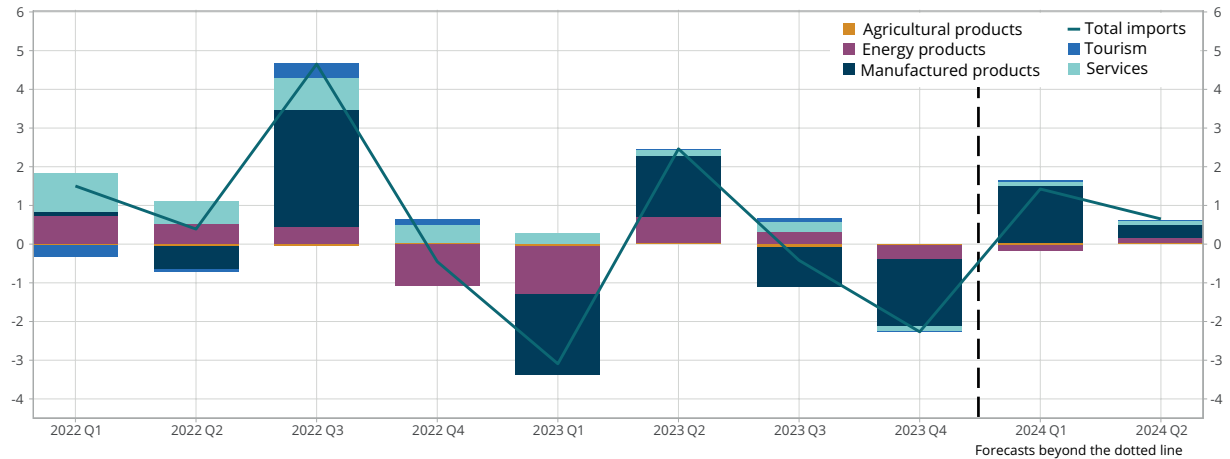


How to read it: French exports stagnated in Q4 2023 (0.0%). Exports of aeronautical and naval equipment contributed by -0.1 points.

Source: INSEE.

► 3. Contributions of different products to imports

(quarterly changes in total imports, in %, and contributions of individual products, in points)

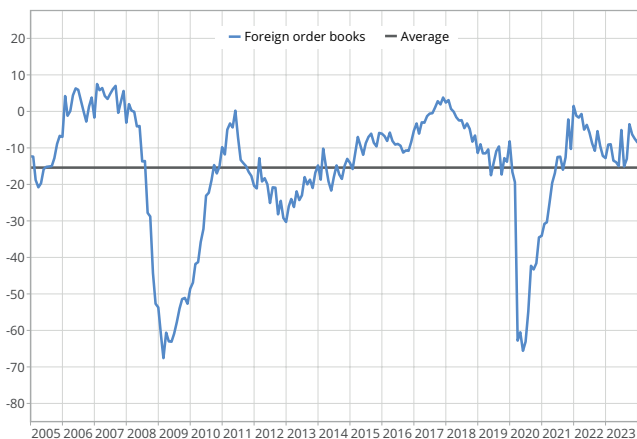


How to read it: French imports fell by 2.3% in Q4 2023. Imports of manufactured goods contributed by -1.7 points.

Source: INSEE.

► 4. Balance of opinion on foreign order books

(balance of opinion, in points, SA data)

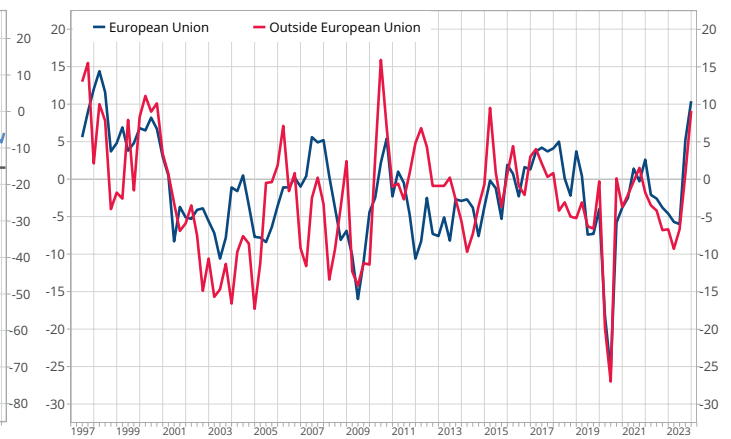


Last point: February 2024.

Source: monthly business survey in industry, INSEE.

► 5. Competitiveness on the European Union market and outside the European Union

(balance of opinion, in points, SA data)



Last point: Q1 2024.

Source: quarterly business survey in industry, INSEE.

Employment

In 2023, payroll employment slowed considerably, increasing by 0.6% year-on-year (i.e. 150,000 net job creations between the end of 2022 and the end of 2023), after +1.5% in 2022 (+390,000 jobs) and +3.2% in 2021 (+815,000 jobs). It stabilised in particular in Q4 2023 (0.0%, or +11,900 payroll jobs): it was virtually stable in the private sector (-0.1%, or -12,600 jobs), and increased by 0.4% in the public sector (i.e. +24,500 jobs), especially in the health sector.

The overall slowdown in payroll employment compared to the previous quarters was due mainly to the market tertiary sector, excluding temporary workers: it was more or less stable in Q4 2023, after increasing by 0.3% on average in each of the first three quarters of 2023 and by 0.9% in each quarter in 2021 and 2022. Payroll employment also declined throughout the year for temporary workers and those in construction. Conversely, industrial employment continued to increase in Q4 2023 (+0.3%).

Responses from business leaders in the business tendency surveys suggest a small increase in their workforce, as the climate in which their responses were analysed is very similar to that of the long-term average. They are more optimistic in industry and remain pessimistic in the temporary sector. In addition, work-study programmes, which made a major contribution to the previous increase (accounting for about one third of the increase between the end of 2019 and the end of 2022) then slowed in 2023, are forecast to stabilise, affecting about 1.1 million young people. Thus, in the private sector, employment should continue to increase moderately in industry and to fall back in construction, in line with the downward trend in activity in this sector. In the market tertiary sector, employment is likely to be almost at a standstill; temporary employment in particular is expected to continue its decline. In the non-market sector, employment is expected to follow an upward trend, driven by the health and medico-social sectors.

Ultimately, when a small increase expected in the self-employed component is also taken into account, employment should increase by about 20,000 per quarter (+0.1%) in H1 2024: by mid-2024, it should rise by 0.4% year-on-year (i.e. +123,000 jobs), a significant slowdown compared to the previous year (+1.1% year-on-year by mid-2023, i.e. +331,000 jobs). Due to the timid restart in activity, apparent labour productivity is expected to increase slightly, while remaining well below its pre-health crisis level at mid-2024. ●

► 1. Change in payroll employment

(in thousand, SA, at the end of the period)

	Change over 3 months										Change over 1 year			
	2022				2023				2024		2021	2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q4	Q4	Q4	Q2
Payroll employment	92	102	110	86	55	22	61	12	15	15	815	390	150	103
	0.3%	0.4%	0.4%	0.3%	0.2%	0.1%	0.2%	0.0%	0.1%	0.1%	3.2%	1.5%	0.6%	0.4%
Agriculture	3	-12	-4	14	-1	0	-2	2	0	0	7	2	-1	-1
Industry	6	12	14	9	8	6	13	9	5	5	41	41	36	32
Construction	5	4	3	3	-2	-5	-1	-4	-5	-5	50	15	-12	-15
Market tertiary	66	93	87	57	42	8	31	-29	5	5	663	303	51	11
<i>of which: temporary work</i>	-9	-14	13	0	-17	-8	-16	-13	-10	-5	89	-11	-54	-44
<i>of which: excluding temporary work</i>	76	107	74	57	58	16	47	-16	15	10	575	313	105	55
Non-market tertiary	12	5	10	3	9	13	22	34	10	10	54	30	76	75
Self-employment	24	24	24	24	5	5	5	5	5	5	160	96	20	20
All	116	125	134	110	61	27	66	17	20	20	975	486	170	123
	0.4%	0.4%	0.4%	0.4%	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	3.4%	1.6%	0.6%	0.4%

■ Forecast.

Note: in this table, temporary workers are counted in the commercial tertiary sector.

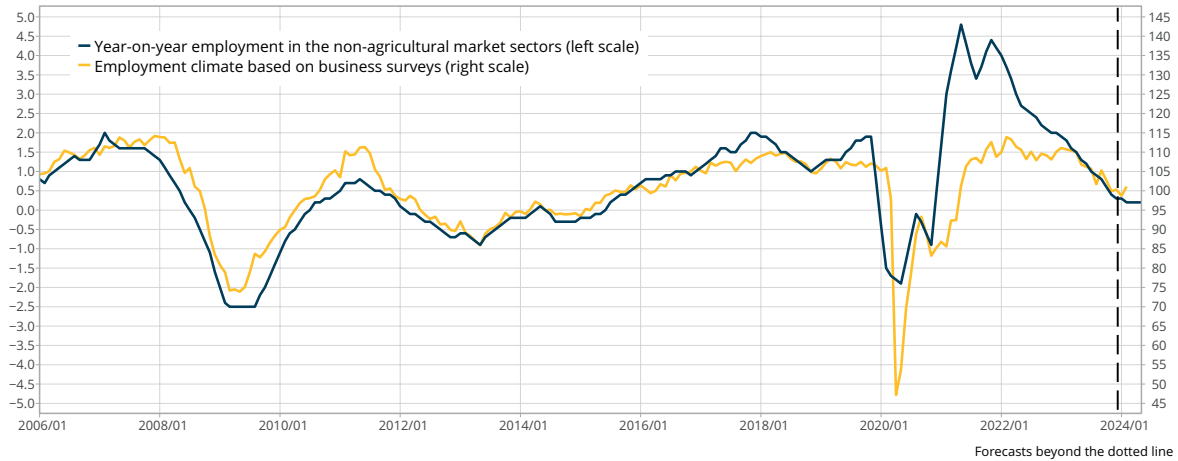
How to read it: in Q4 2023, payroll employment was stable (0.0%), that is 12,000 net new jobs.

Scope: France (excluding Mayotte).

Source: INSEE.

► 2. Employment in non-agricultural market sectors (SMNA) and employment climate

(year-on-year as % for employment, points for climate)



Last point: February 2024 for the employment climate, Q2 2024 for the year-on-year SMNA employment (forecast for the last two points).

How to read it: in February 2024, the employment climate stood at 101 points, above its long-term average (100); in Q4 2023, non-agricultural market sector employment was 0.4% above its level of one year previously.

Source: INSEE, business surveys and quarterly employment estimates, INSEE forecast.

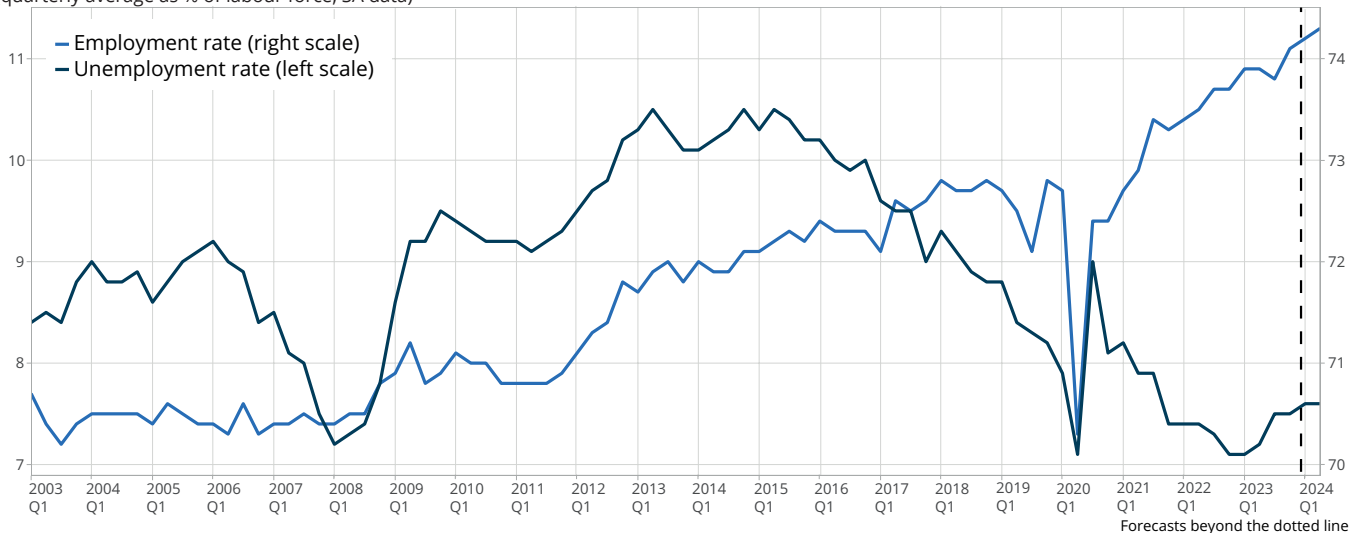
Unemployment

In Q4 2023, the unemployment rate according to the ILO definition stabilised compared to the previous quarter, at 7.5% of the labour force (► **Figure 1**). This rate was 0.4 points above its level at the end of 2022, which had been the lowest since 1982, but remains well below its mid-2015 peak (-3.0 points). The gradual rise in unemployment since the end of 2022 is the result of a slowdown in employment (217,000 net jobs created in 2023 after +501,000 in 2022), while the labour force has remained dynamic (358,000 additional workers in 2023 after +428,000 in 2022). Thus in Q4 2023, the activity rate for 15-64-year-olds reached its highest level since INSEE has been measuring it (1975) at 74.1%. Meanwhile, the share of the halo of unemployment around the 15-64-year-old population stabilised between the end of 2022 and the end of 2023, at a slightly lower level (-0.2 points) than before the health crisis.

In H1 2024, mainly as a result of the pension reform, the labour force should continue to grow, by about 40,000 additional workers per quarter. Employment is expected to increase only half as fast and the unemployment rate is expected to increase by 0.1 points in Q1 2024, to 7.6% of the labour force, then remain at this level during Q2 2024 (► **Figure 2**). It would then be at its highest since Q3 2021. ●

► 1. Unemployment rate and activity rate according to the ILO definition

(quarterly average as % of labour force, SA data)



Scope: France (excluding Mayotte), people aged 15 or over living in ordinary housing for the unemployment rate, people aged 15 to 64 for the activity rate.
Source: INSEE, Labour Force Survey.

► 2. Change in employment, unemployment and the active population

(variation in quarterly average in thousands, SA data)

	Change over 3 months									Change over 1 year				
	2022				2023				2024		2021 Q4	2022 Q4	2023 Q4	2024 Q2
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2				
Employment (1)	129	121	130	122	85	44	46	41	18	20	904	501	217	126
<i>reminder: employment at the end of the period</i>	116	125	134	110	61	27	66	17	20	20	975	486	170	123
Unemployment (2)	-6	12	-35	-45	4	31	78	29	21	20	-157	-74	142	149
Active population = (1) + (2)	123	133	94	77	89	75	124	70	40	40	748	428	358	275
<i>Trend labour force (a)</i>	6	7	8	9	11	9	23	39	38	38	31	30	82	139
<i>Short-term flexion effect (b)</i>	13	12	13	12	9	4	5	4	2	2	90	50	22	13
<i>Effect of work-linked training on youth activity (c)</i>	12	18	33	23	7	12	8	0	0	0	131	86	27	9
<i>Residue (d)</i>	93	96	41	33	63	49	88	27	0	0	495	262	227	115
Variation in unemployment rate	0.0	0.0	-0.1	-0.2	0.0	0.1	0.3	0.0	0.1	0.0	-0.7	-0.3	0.4	0.4
Unemployment rate	7.4	7.4	7.3	7.1	7.1	7.2	7.5	7.5	7.6	7.6				

■ Forecast

Note: employment corresponds here to total employment (payroll employment including sandwich contracts + self-employment), measured as a quarterly average.

(a) Trend based on adjusted 2022 active population projections.

(b) This flexibility effect represents the fact that new workers enter the labour market when the employment situation improves.

(c) Effect based on sandwich contract numbers from DARES, calculations by INSEE.

(d) In 2021, the residue covers the specific effect of the health crisis on activity behaviour.

How to read it: between Q3 2023 and Q4 2023, employment increased by 41,000 on average, unemployment by 29,000 and the labour force by 70,000.

Scope: France (excluding Mayotte), persons aged 15 or over.

Source: INSEE, Labour Force Survey, Quarterly employment estimates.

Consumer prices

After plateauing for almost a year at around +6%, year-on-year consumer prices in France have dropped sharply since spring 2023, mainly because of the slowdown in the prices of food products and manufactured goods (► [Figure 1](#)). In February 2024, year-on-year inflation continued to fall back, standing at +2.9% (according to the provisional estimate) after +3.1% in January 2024 (► [Figure 2](#)), as a result of a further drop in inflation in food and manufactured products. Meanwhile, energy prices are accelerating sharply (+4.4% year-on-year after +1.9% in January 2024), affected by the partial reintroduction of electricity taxes. However, the rise in electricity prices is offset by the drop in gas prices, in the wake of the fall in prices on the European market. Within the meaning of the HICP, the year-on-year price variation in February 2024 stood at +3.1%, according to the provisional estimate.

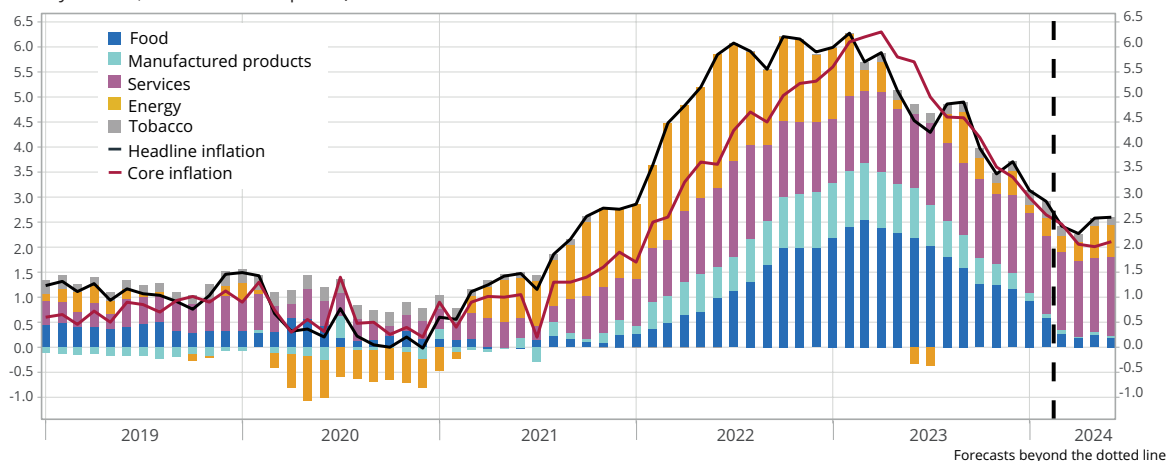
Advance indicators (producer prices, ► [Figure 4](#), business tendency survey balances of opinion, ► [Figure 5](#)) suggest that the variation in consumer prices from month to month would appear to be evening out. Thus, assuming that the price of a barrel of Brent crude remains frozen over the forecasting period at €75, then inflation is expected to continue to decline until April 2024 (+2.3% forecast year-on-year), then increase once again in May (+2.6%) and remain stable in June. This expected rebound in the year-on-year variation in consumer prices in the spring is due mainly to “base effects” linked to the year-on-year variation in the prices of petroleum products. The year-on-year variation in the HICP is expected to reach +2.8% in June 2024: the increase in medical co-payments planned for the spring is expected to contribute 0.1 points to the difference between this year-on-year variation and that of the CPI (+2.6 %), with the rest linked to differences in weighting (► [Focus](#) “By June 2024, the easing of inflation in the main Eurozone countries is likely to be limited with several measures to assist households coming to an end”).

Energy inflation is likely to increase from +4.4% year-on-year in February 2024 to +7.8% in June. From month to month, gas retail prices should fall slightly following on from the downturn in the market price, whereas electricity and fuel prices are expected to remain virtually stable throughout the forecasting period. The year-on-year variation in petroleum product prices is expected to increase nevertheless: this rise is likely to be concentrated mainly in May after some more moderate price rises until April, due to an automatic effect of exiting from the year-on-year figures, the result of price reductions one year earlier (► [Figure 3](#)). May 2023 in particular saw a sharp drop in oil prices, causing a downturn in prices at the pump.

Unusually, food inflation was the main contributor to headline inflation between September 2022 and September 2023. Standing at +3.6% year-on-year in February 2024, it is expected to continue its decline, which began in spring 2023, and looks set to reach +1.2% in June 2024, i.e. the lowest year-on-year variation seen since January 2022. This forecast comes in the wake of a decline in producer prices in the agrifood industries. In particular, the month-by-month variation in the

► 1. Headline inflation and contributions by item

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



Note: for February 2024, headline inflation is a provisional estimate, while core inflation is a forecast
How to read it: in February 2023, according to the provisional estimate, headline inflation stands at +2.9%. Food contributes around +0.6 points to this figure with services contributing +1.6 points.
Source: INSEE.

French economic outlook

prices of food products excluding fresh produce is expected to even out in relation to the inflationary spike of 2022 and 2023. However, the effect of trade negotiations, which may increase in intensity following protests by farmers, is still surrounded by forecasting uncertainty.

Consumer prices of manufactured products, relatively stable year-on-year in February 2024 (+0.3%), are expected to see some changes month by month that are very similar to those of H1 2023: thus the year-on-year variation is expected to remain more or less at zero over the forecasting period (+0.2% forecast in June 2024). Producer prices in industry (excluding agrifood and energy) fell back slightly in 2023 then stabilised at the start of 2024 after increasing sharply over two years. In addition, according to the business survey in industry, the balance of opinion on expected change in selling prices fell back considerably in 2023 and was below its long-term average in February 2024.

Services represent about half of the consumer price index basket; in October 2023 they were once again the foremost contributors to headline inflation and are expected to remain so over the entire forecasting period, contributing around +1.5 points to headline inflation each month. According to the forecast, the prices of services will increase by 3.0% year-on-year in June 2024. Given the weight of wages among the determinants of the prices of services (► **Focus** "Consumer prices for services", *Economic Outlook*, December 2023), the relative dynamism of these prices is likely to derive mainly from wages, which are themselves fuelled by previous inflation (► **Wages sheet**): wage rises are indeed expected to exceed headline inflation. Rents, which are also indexed to previous inflation, are expected to remain fairly dynamic too.

Finally, tobacco inflation reached 18.7% year-on-year in February 2024, following a double increase in taxes on tobacco in a year, first in March 2023 then in January 2024. As a result of the base effect, tobacco inflation year-on-year is expected to fall back in spring 2024, reaching +8.6% year-on-year in June 2024

Like headline inflation, core inflation is expected to fall back by June 2024, reaching +2.1% year-on-year, compared to +3.0% in January 2024. The reason for this decline is that most items included in the core price index, especially food (excluding fresh produce) have themselves declined. In June, core inflation is therefore likely to settle at a lower level than headline inflation, whereas they were moving at more or less the same pace at the start of 2024: in fact, unlike headline inflation, core inflation, which excludes the most volatile components of the index, is unlikely to be affected by the year-on-year rebound in the prices of petroleum products which is expected in May. ●

► 2. Headline inflation, past and forecast

(change in %, contributions in points)

CPI groups* (2024 weightings)	Jan. 2024		Feb. 2024		Mar. 2024		Apr. 2024		May 2024		June 2024		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2022	2023
Food (15.1%)	5.7	0.9	3.6	0.6	1.6	0.3	1.1	0.2	1.5	0.2	1.2	0.2	6.8	11.8
fresh food (1.9%)	7.9	0.2	0.5	0.0	-3.6	-0.1	-1.4	0.0	3.8	0.1	2.3	0.1	7.7	9.6
excluding fresh food (13.2%)	5.3	0.7	4.1	0.6	2.5	0.4	1.5	0.2	1.1	0.2	1.0	0.1	6.6	12.2
Tabacco (1.8%)	16.8	0.3	18.7	0.3	10.6	0.2	8.9	0.2	8.6	0.2	8.6	0.2	0.1	8.0
Manufactured products (23.2%)	0.7	0.2	0.3	0.1	0.3	0.1	0.1	0.0	0.2	0.1	0.2	0.0	3.0	3.5
including: clothing and footwear (3.5%)	0.4	0.0	0.6	0.0	0.7	0.0	0.8	0.0	0.9	0.0	1.0	0.0	2.7	2.5
medical products (4.0%)	-0.9	0.0	-1.3	0.0	-1.4	-0.1	-1.3	-0.1	-1.1	0.0	-1.1	0.0	-1.2	-0.7
other manufactured products (15.8%)	1.1	0.2	0.7	0.1	0.6	0.1	0.3	0.0	0.4	0.1	0.4	0.1	4.1	4.7
Energy (8.3%)	1.9	0.2	4.4	0.4	4.0	0.3	4.7	0.4	7.9	0.7	7.8	0.6	23.1	5.6
including: oil products (4.3%)	-6.7	-0.3	-2.2	-0.1	-1.7	-0.1	-1.1	0.0	5.0	0.2	4.8	0.2	29.0	-1.7
Services (51.6%)	3.2	1.6	3.1	1.6	3.1	1.6	3.0	1.5	2.9	1.5	3.0	1.6	3.0	3.0
rent-water and household refuse collection (8.0%)	3.0	0.2	2.9	0.2	2.9	0.2	2.9	0.2	2.9	0.2	2.9	0.2	2.0	2.8
health services (6.2%)	1.1	0.1	1.4	0.1	1.5	0.1	1.3	0.1	1.3	0.1	1.3	0.1	-0.1	-0.2
transport (2.9%)	3.8	0.1	1.9	0.1	1.7	0.1	2.5	0.1	2.0	0.1	2.1	0.1	10.4	6.3
communications (2.0%)	-5.0	-0.1	-5.0	-0.1	-5.6	-0.1	-5.6	-0.1	-5.8	-0.1	-2.9	-0.1	0.6	-3.6
other services (32.5%)	4.1	1.3	4.1	1.3	4.2	1.3	3.9	1.2	3.8	1.2	3.9	1.3	3.7	3.9
All (100%)	3.1	3.1	2.9	2.9	2.4	2.4	2.3	2.3	2.6	2.6	2.6	2.6	5.2	4.9
<i>All excluding energy (91.7%)</i>	3.3	3.0	2.8	2.5	2.3	2.1	2.1	1.9	2.1	1.9	2.1	2.0	3.6	4.8
<i>All excluding tobacco (98.2%)</i>	2.9	2.8	2.6	2.6	2.3	2.2	2.2	2.1	2.5	2.4	2.5	2.4	5.3	4.8
Core inflation** (62.7%)	3.0	1.8	2.6	1.6	2.5	1.5	2.1	1.2	2.0	1.2	2.1	1.3	4.5	5.0

■ Provisional.

■ Forecast.

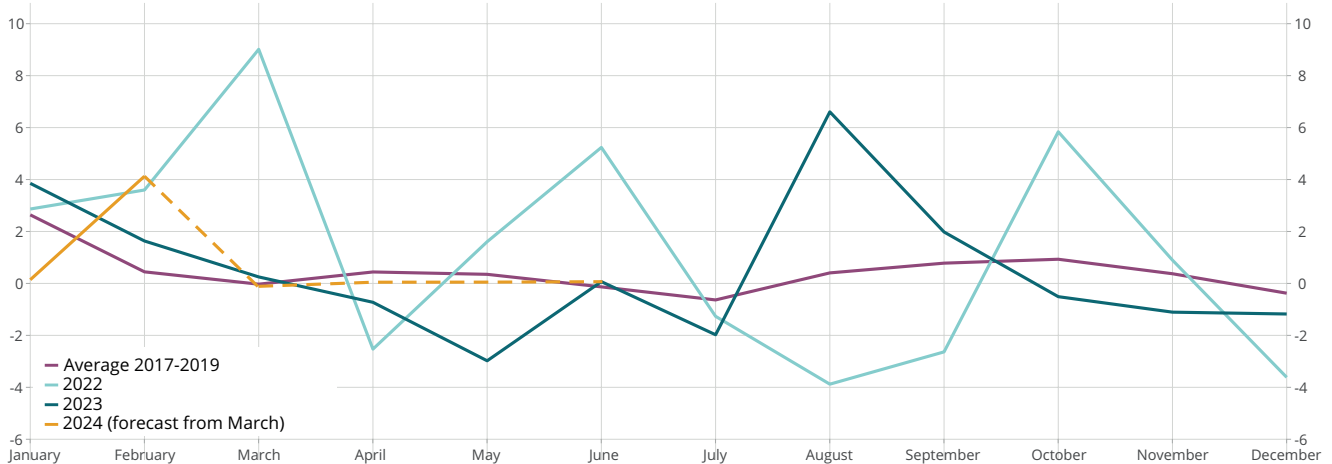
yoy: year-on-year; **cyoy**: contribution to the year-on-year value of the overall index.

* Consumer price index (CPI).

** Index excluding public tariffs and products with volatile prices, corrected for tax measures.

Source: INSEE.

►3. Comparison of monthly variations in energy prices from 2022 to 2024 and the 2017-2019 average (monthly changes in %)

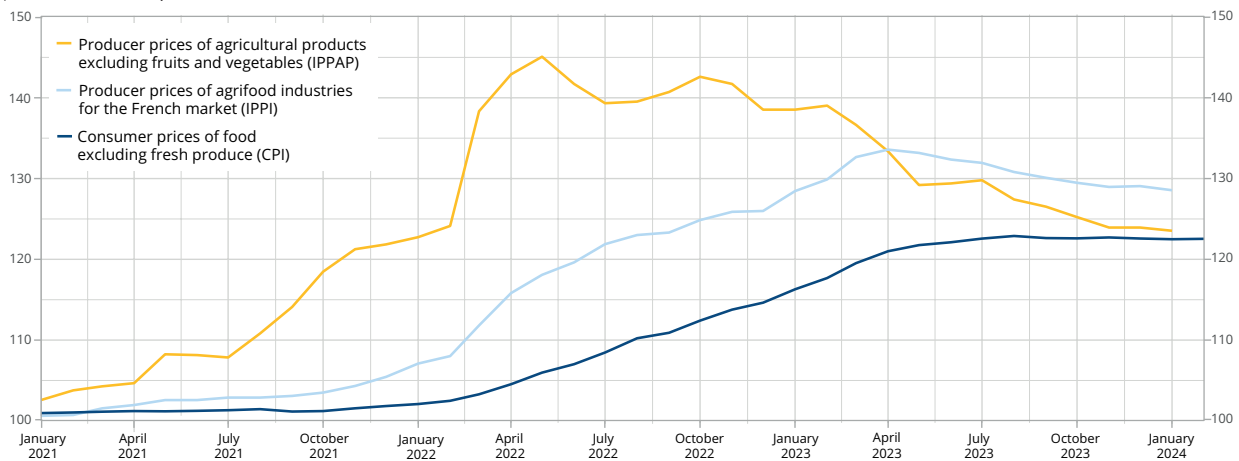


How to read it: in February 2024, energy consumer prices increased by 4.1% compared to the previous month. They rose by 1.6% in February 2023, 3.6% in February 2022 and 0.4% as a February average for 2017-2019.

Source: INSEE.

►4. Variation in prices along the food production chain

(in level, base 100 in 2019)



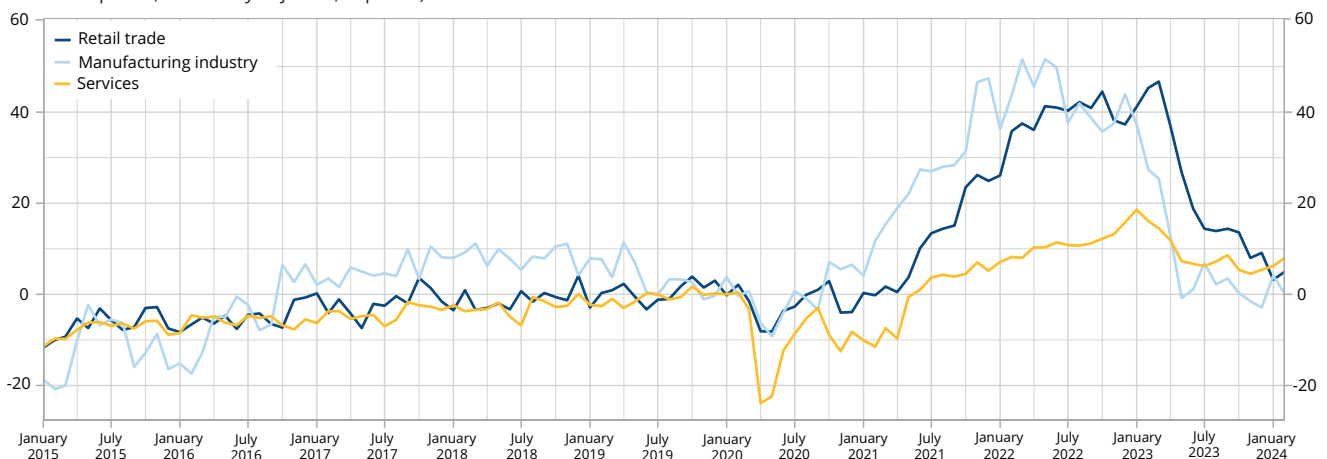
Last point: January 2024 for IPPAP and IPPI, February 2024 for the CPI.

How to read it: in January 2024, compared to their 2019 average, consumer prices of food products excluding fresh produce increased by 22.5%, agrifood industry producer prices for the French market by 28.6% and agricultural producer prices (excluding fruit and vegetables) by 23.5%.

Source: IPPAP, IPPI, IPC, INSEE.

►5. Balances of opinion on variations in selling prices over the next 3 months

(balances of opinion, seasonally adjusted, in points)



Last point: February 2024.

How to read it: in February 2024, the balance of opinion on variations in selling prices was 0.1 in the manufacturing industry, 8 in services and 5 in retail trade.

Source: monthly business surveys, INSEE.

Wages

In H2 2023, the average wage per capita (SMPT) in the non-agricultural market branches continued to rise (+0.4% in Q3 2023 then +0.7% in Q4), but at a less sustained pace than at the start of the year. Year-on-year, it increased by 3.1% at the end of 2023, after +4.7% mid-year. This nominal rise was less than the rise in consumer prices, with the result that real wages decreased by 0.7% year-on-year in Q4 (► [Figures 1 and 2](#)).

This particularly rapid slowdown in wages is observed for the basic monthly wage (SMB¹). This wage did indeed decelerate in H2 2023 (nominal year-on-year variation of +3.8% in Q4 2023, against +4.5% in Q2), due mainly to the decline in inflation and the lack of an automatic increase in the minimum wage over the period; thus the year-on-year variation in the real SMB was zero at the end of 2023. The profile of the SMPT was also affected by payments under the value-sharing bonus scheme (PPV2²): there were indeed massive bonus payouts towards the end of 2023, although less so than at the end of 2022, and this contributed to the slowdown of the SMPT year-on-year.

On average, the SMPT and the SMB were dynamic in nominal terms throughout 2023 (+4.2% and +4.3% respectively) but they again declined in real terms (-0.7% and -0.6% respectively). As in 2022, these unprecedented falls reflect the strong momentum of prices over the recent period. Over two years, the decline in the real SMB was 2.5%.

In Q1 2024, the SMB is expected to accelerate (+1.0% forecast quarter-on-quarter), driven by the fact that previous inflation was taken into account in wage negotiations and the automatic increase in the minimum wage of +1.1% was applied in January. Meanwhile, the SMPT is likely to increase by 0.8% quarter-on-quarter, with fewer PPV payments, since the bonus scheme has become less advantageous (subject to social contributions and income tax from 1st January 2024). In Q2 2024, wages are expected to slow, in line with the slowdown in prices (+0.6% forecast for the SMB and +0.7% for the SMPT). All in all, they should then increase once again year-on-year by mid-2024: +2.8% for the SMB and +2.6% for the SMPT. This pace is consistent with the responses from business leaders in the business tendency surveys: at the beginning of 2024, the balance of opinion on expectations for wages in industry is much lower than a year ago (► [Figure 3](#)).

The slowdown in wages is likely to be a little less than the slowdown in prices, however, with the result that real wages should rise again very slightly over the forecasting period (► [Figure 1](#)): in 2024, the mid-year growth overhang for the real SMPT is expected to be +0.2%, and for the real SMB +0.3%. Gains in the purchasing power of wages that were anticipated for H1 are therefore still expected to be very limited compared to the losses accumulated in 2022 and 2023.

In general government, the nominal SMPT increased by an average of 4.0% in 2023, after +4.3% in 2022, due mainly to payments of the one-off purchasing power bonus, the revision of the index point by 1.5% on 1st July and category-specific measures in favour of teachers. However, this momentum was still less than that in prices, and real wages of government personnel declined in 2023 at a similar pace to the wages of employees in the private sector (-0.8% as an annual average after already experiencing -0.9% in 2022). At the start of 2024, government employees are expected to receive an increase in their index-based wage but this is unlikely to be enough to offset the rise in prices. Unlike the private sector, the real SMPT in general government does not look set to pick up: its mid-year growth overhang is expected to be -0.6%. ●

¹ The SMB corresponds to the core component of the SMPT, alongside the short-term component which was affected mainly by value sharing bonus payouts.

² The PPV scheme allows employers to pay, under certain conditions, 6,000 euros in bonuses per employee per year, exempt from social security contributions and tax-free until the end of 2023 (► [Focus](#) "Value-sharing bonus: massive payouts at the end of 2022, with potential windfall effects", *Economic outlook*, March 2023).

► 1. Variation in the average wage per capita (SMPT) and the basic monthly wage (SMB)

(changes in %, seasonally adjusted data)

	Quarterly change						Year-on-year change						Average annual change		
	2023				2024		2023				2024		2022	2023	2024 (ovhg)
	Q1	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	Q4	Q1	Q2			
Average wage per capita (SMPT) in non-agricultural market branches	1.1	0.8	0.4	0.7	0.8	0.7	4.9	4.7	4.0	3.1	2.7	2.6	5.7	4.2	2.3
Basic monthly wage (SMB)	1.6	0.9	0.7	0.4	1.0	0.6	4.6	4.5	4.2	3.8	3.1	2.8	3.2	4.3	2.4
SMPT in general government													4.3	4.0	1.5
Real SMPT* in the non-agricultural market branches	-0.3	-0.2	-0.4	0.2	0.3	0.0	-1.0	-0.4	-0.7	-0.7	-0.1	0.1	0.4	-0.7	0.2
Real SMB*	0.2	-0.1	0.0	-0.1	0.5	-0.1	-1.3	-0.6	-0.5	0.0	0.3	0.3	-1.9	-0.6	0.3
Real SMPT* in general government													-0.9	-0.8	-0.6

■ Forecast.

* in the sense of the CPI - household consumption price index.

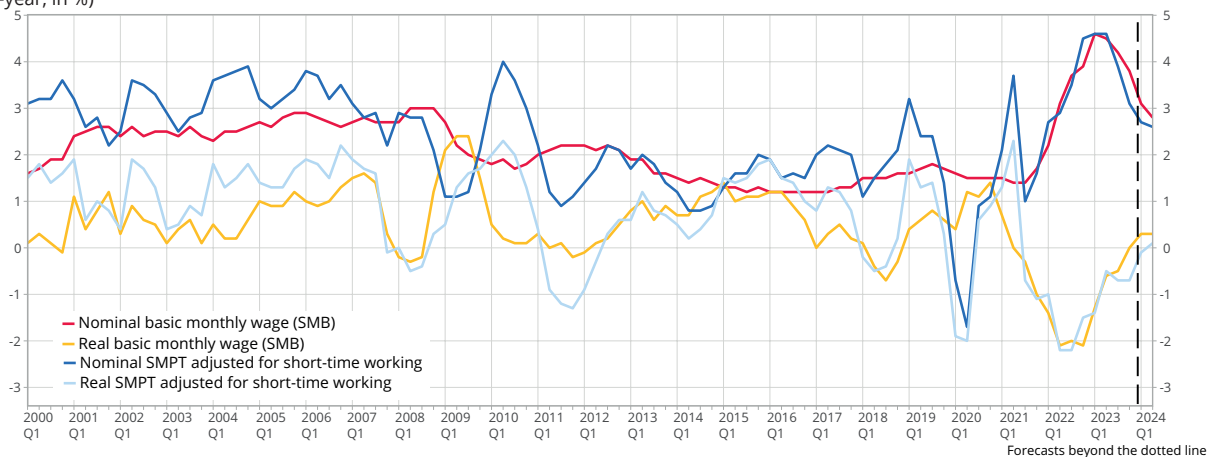
Note: the sharp rise in the SMPT in 2022 was automatic, resulting from the decline in the use of short-term working compared to the still high level in 2021, and these payments were not counted as wages. Excluding this automatic effect, the SMPT fell in 2022 in real terms by 1.8%, a similar decline to the SMB.

How to read it: in Q2 2024, the basic monthly wage (SMB) would grow by 0.6% compared to the previous quarter.

Source: DARES, INSEE.

► 2. Nominal and real changes* in average wage per capita (SMPT) and basic monthly wage (SMB)

(year-on-year, in %)



* in the household consumption price sense (quarterly national accounts).

Note: here, the SMPT is adjusted for short-term working: these payments are not counted as wages, and therefore led to some very wide variations when the SMPT was not adjusted during the health crisis, ► [blog post on wage indicators](#).

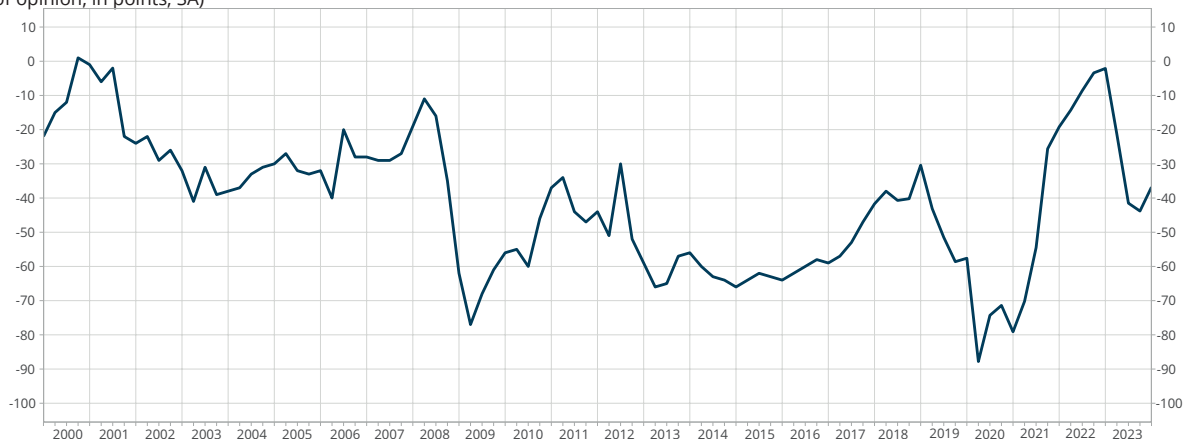
How to read it: in Q2 2024, year-on-year growth in nominal SMPT would be 2.8%.

Scope: non-agricultural market sector.

Source: DARES, INSEE.

► 3. Balance of opinion on general expectations for wages in industry since 2000

(balance of opinion, in points, SA)



Last point: Q1 2024.

How to read it: in Q1 2024, the balance of opinion on general expectations for wages in industry stood at -37 points.

Source: quarterly business survey in industry, INSEE.

Household income

In Q4 2023, growth in household gross disposable income (GDI) was sustained (+1.0% in current euros, as in the previous quarter), while household consumer prices slowed substantially (+0.3% after +1.0% in Q3, ► [Figure 1](#)). Thus the purchasing power of GDI picked up significantly at the end of the year (+0.7% after 0.0% in Q3, ► [Figure 2](#)). Across all of 2023, there were only modest gains in purchasing power (+0.8%), especially when related to consumption units (+0.3%, ► [Figure 3](#)). The purchasing power of GDI was buoyed up mainly by the momentum of wealth income in 2023 (+15.4%), with part of the increase due to the accounting effect of FISIMs (► [Focus](#) "In 2023, wealth income is expected to be dynamic, driven by the rise in interest rates", *Economic Outlook*, December 2023). Without the FISIM effect, wealth income increased less dramatically (+8.5%), but still more than earned income (+5.1%).

In Q1 2024, household GDI should accelerate slightly (+1.2% in current euros), driven by social benefits (+2.5%) which have been boosted mainly by the indexing of basic pensions to inflation in January 2024. Earned income is expected to increase only slightly (+0.3%), due to the downturn in the government payroll. For civil servants, the revision of the index point on 1st January 2024 is unlikely to make up for the after-effects of the one-off purchasing power bonus paid to them at the end of 2023. At the end of 2023, after several very dynamic quarters linked to the rise in interest rates, wealth income¹ was at a standstill, due to the increase in property taxes which reduced the income of home-owning households. At the beginning of 2024, it is expected to increase steadily, although at a slower pace than in 2023. In the case of life insurance there is a delay in passing on interest rates, thus GDI purchasing power per consumption unit should pick up again in Q1 (+0.5%).

In Q2 2024, household GDI is expected to slow (+0.8% in current euros). Earned income should improve moderately, as a result of wage rises (+0.6%) and social benefits are likely to decelerate after their strong growth in the previous quarter. When the buoyancy of consumer prices is taken into account, purchasing power per consumption unit should remain stable in Q2 (0.0%).

For 2024, the mid-year growth overhang for purchasing power (i.e. the annual variation forecast if purchasing power in H2 were to remain fixed at the level forecast for Q2) is expected to be relatively dynamic (+1.2%, i.e. +0.8% per

¹ Wealth income includes income from property (net interest on deposits and loans, dividends and other investment income) and households' real estate income.

► 1. Components of household gross disposable income

(% change)

	Quarterly changes										Annual changes		
	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross disposable income (100%)	-0.6	1.0	3.2	3.2	1.0	1.4	1.0	1.0	1.2	0.8	5.1	7.3	3.4
Earned income (73%)	1.8	1.2	2.4	1.7	1.1	0.7	0.7	1.0	0.3	0.6	7.7	5.1	2.0
Gross wages and salaries (65%)	1.7	1.4	2.3	1.8	1.2	0.8	0.7	1.1	0.2	0.6	8.3	5.4	2.1
GOS of sole proprietors* (8%)	2.8	-0.1	3.0	0.7	0.5	0.4	-0.1	0.1	0.4	0.2	3.3	2.7	0.7
Social benefits in cash (34%)	-2.0	0.0	3.1	0.7	1.0	0.3	0.7	1.2	2.5	1.0	0.4	3.9	4.6
Property income, of which GOS of pure households (20%)	0.8	1.5	3.9	5.8	4.6	3.3	2.1	-0.3	2.3	1.2	7.3	15.4	4.9
of which income from assets excluding FISIM											6.6	8.5	4.3
Social contributions and taxes (-26%)	5.4	0.9	1.2	-2.4	4.1	-0.4	0.5	0.0	1.4	0.8	7.7	3.0	2.1
Household consumer prices**	1.1	1.8	1.7	1.9	2.0	1.4	1.0	0.3	0.5	0.7	4.9	6.4	2.2
Household consumption prices excluding FISIM											4.6	4.8	1.9
Purchasing power of gross disposable income	-1.7	-0.8	1.5	1.3	-0.9	0.0	0.0	0.7	0.6	0.1	0.2	0.8	1.2
Purchasing power per consumption unit	-1.9	-1.0	1.4	1.2	-1.1	-0.1	-0.1	0.6	0.5	0.0	-0.3	0.3	0.8

■ Forecast.

* the gross operating surplus (GOS) of sole proprietors is the balance of the operating account of sole proprietorships. This is mixed income as it remunerates work carried out by the owner of the sole proprietorship, and possibly members of their family, but it also contains profit made as a sole proprietor.

** Since 2022, variations in household consumer prices differ from variations in the Consumer Price Index (CPI) as a result of the accounting effect of the earlier increase in interbank rates (► [Focus](#) "In 2023, wealth income is expected to be dynamic, driven by the rise in interest rates", *Economic Outlook*, December 2023).

Note: figures in brackets give the structure for 2022.

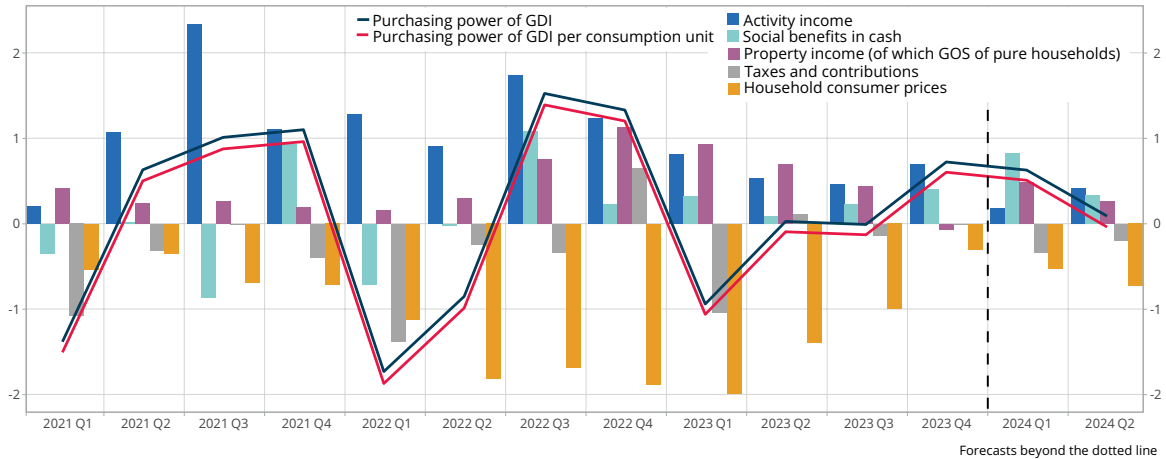
How to read it: after an increase of 1.0% in Q4 2023, household gross disposable income would continue to rise in Q1 2024 (+1.2 %).

Source: INSEE.

consumption unit) compared to GDI growth. This difference mainly reflects the time lag in raising social benefits which are indexed to earlier inflation whereas, on average, prices have slowed compared to 2023. However, this mid-year overhang is not a prediction of change in purchasing power across the whole of 2024 because, by definition, it does not include possible shifts in GDI and consumer prices in H2. ●

► 2. Quarterly variation in purchasing power of household gross disposable income (GDI) and its main contributions

(quarterly changes in %, contributions in points)

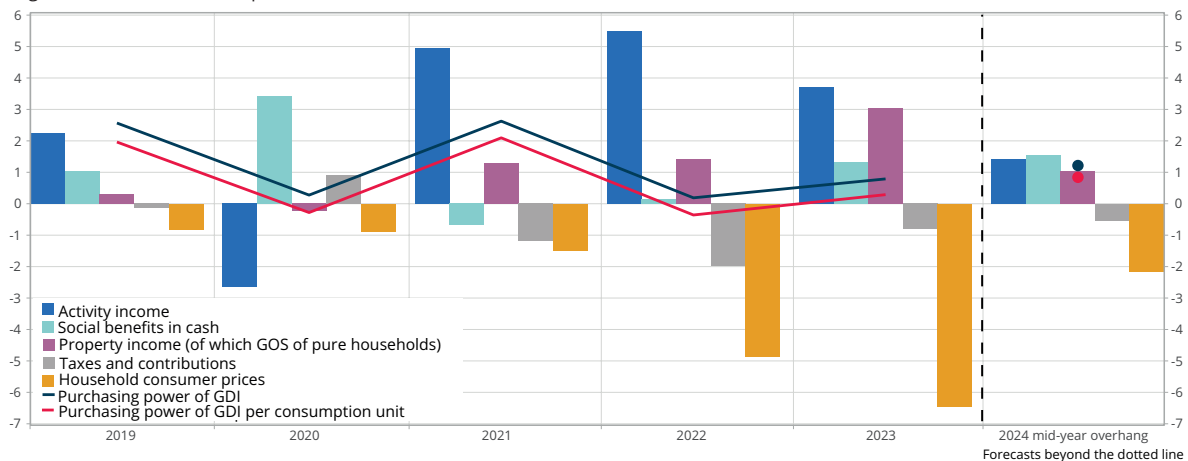


How to read it: the purchasing power of household GDI per consumption unit is expected to rise by 0.5% in Q1 2024. Social benefits are expected to contribute +0.8 points to the increase in household GDI.

Source: INSEE.

► 3. Annual variation in purchasing power of household gross disposable income (GDI) and its main contributions

(annual changes in %, contributions in points)

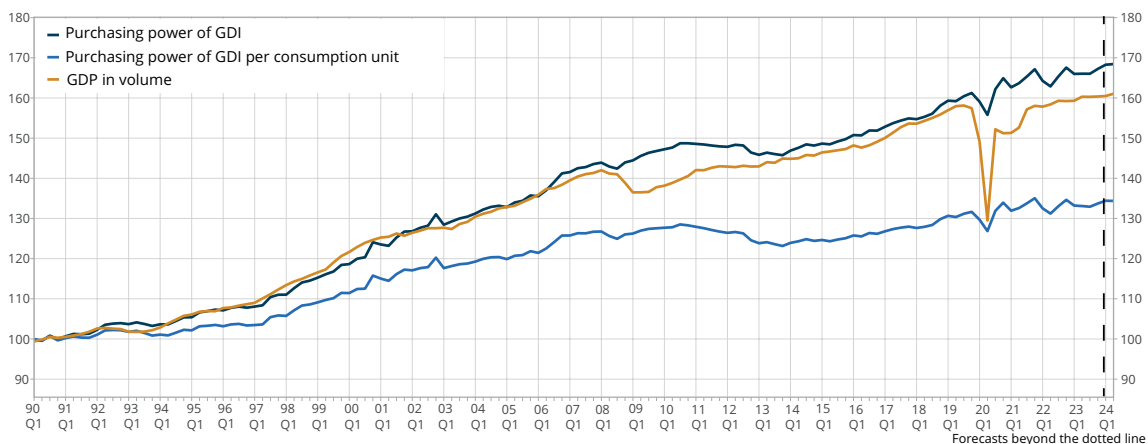


How to read it: the overhang of GDI purchasing power per consumption unit is expected to be +0.8% by mid-2024. Social benefits are expected to contribute +1.5 points to the increase in household GDI.

Source: INSEE.

► 4. Change in purchasing power of household gross disposable income (GDI) and of GDP since 1990

(base 100 in 1990)



Source: INSEE.

Household consumption and investment

After a fairly substantial increase in Q3 2023 (+0.5%, ► [Figure 1](#)), household consumption came to a standstill at the end of the year (0.0% in Q4 2023). Purchases of goods again fell dramatically (-0.6% in Q4 after +0.6% in Q3, ► [Figure 2](#)), especially food consumption (-1.1%), which had experienced a slight rebound in the summer after six consecutive quarters in decline. In addition, spending on electricity and gas fell back sharply (-3.3%): on the one hand, the weather at the beginning of autumn was mild, and on the other hand, households had maintained a degree of austerity behaviour, although less so than the previous year (► [Figure 3](#)). Conversely, automobile purchases increased strongly (+3.1%): the post-Covid catch-up continued and households were also anticipating the introduction at the beginning of 2024 of more restrictive criteria for the “ecological bonus” on the purchase of an electric vehicle. On the services side, household consumption accelerated (+0.6% after +0.3%), especially in non-market services, with the reduction in the rate of reimbursement for dental treatment from mid-October giving rise to an increase in the share included in household consumption.

All in all, consumption slowed markedly in 2023 (+0.6% after +2.1%): on the one hand, the momentum of the post-health crisis catch-up had slowed, especially in transport and accommodation-catering; and on the other hand, food purchases declined considerably for the second year running (-4.7% after -3.6%), with households adjusting their purchases significantly to cope with rising prices.

In H1 2024, household consumption is expected to regain some of its vitality (+0.3% in Q1 then +0.4%) in a context of improved purchasing power, expected particularly in Q1 2024. According to the monthly economic survey of households, their confidence in the economic situation has continued to rebound in recent months, despite a downturn in February. Across the whole of the half-year, consumption is likely to be bolstered by the rebound in spending on electricity and gas. During the winter, outside temperatures are certainly expected to be a little closer to the seasonal norms than in the autumn. In Q1, it is likely that consumption will be temporarily hampered by the decline in automobile purchases, a reaction to the significant increase at the end of 2023. This reaction should only be temporary, however: the automobile market has not yet recovered its pre-health crisis level and vehicle registrations started to rise again in February. Finally, purchases of capital goods are expected to recover a certain buoyancy. Regarding services, consumption is expected to increase at a trend rate.

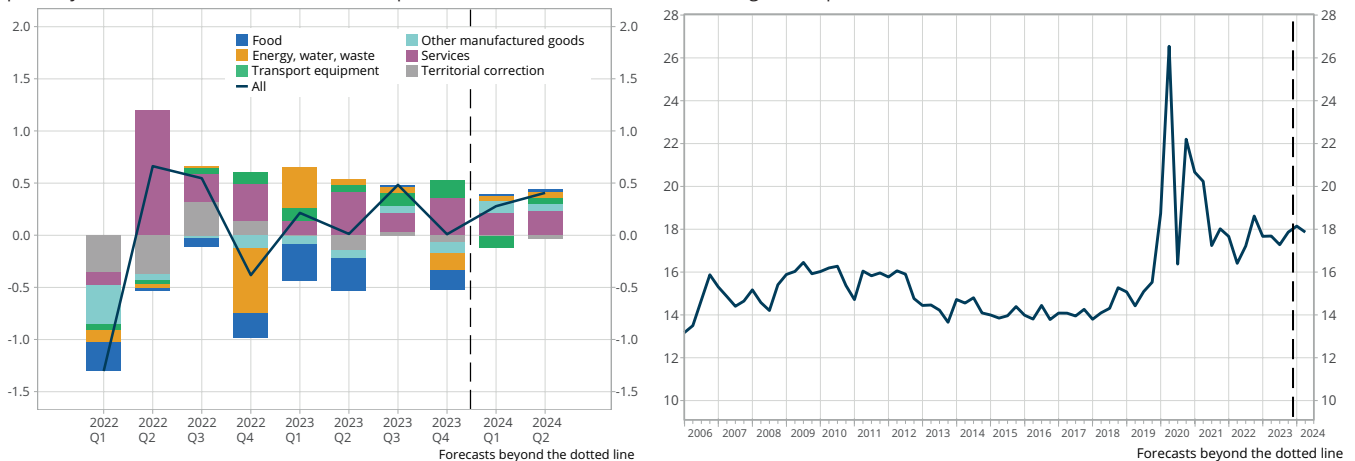
In H1, the rise in consumption is likely to be comparable overall to the increase in purchasing power, and the savings ratio should stabilise at a high level, two to three points above that at the end of 2019 (► [Figure 4](#)). Household opinion on the opportunity to save is still at historically high levels.

Household investment is expected to continue to decline across the whole of H1 2024, in a context where access to credit is still difficult: the construction sector seems likely to continue to be buoyed up a little by maintenance and improvement work, but this will probably not be enough to compensate for the drop in activity around new housing. However, this decline should be slightly less intense than at the end of 2023, given the apparent stabilisation in housing starts for new dwellings over the last few months (► [Figures 5](#)). ●

► 1. Past and expected quarterly consumption (left) and household savings ratio (right)

(quarterly variations in % and contributions in points)

(in % of gross disposable income)



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). The other contributions to household consumption (food, energy, etc.) refer exclusively to consumption in France.

How to read it: in Q1 2024, there is expected to be an upturn in household consumption compared to the previous quarter (+0.3%). Consumption of transport equipment is expected to contribute -0.1 points to variation in consumption. In Q1 2024, the household savings ratio is expected to be 18.1% of their gross disposable income.

Source: INSEE.

► 2. Estimated and projected quarterly household consumption

(quarterly and annual variations, in %, SA-WDA)

Products	weight ⁽¹⁾	2022				2023				2024		2022	2023	2024 ovhg
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
All goods	48%	-1.7	-0.3	-0.1	-1.9	0.2	-0.6	0.6	-0.6	0.2	0.5	-2.6	-1.6	0.2
Food goods	18%	-1.6	-0.2	-0.5	-1.4	-2.0	-1.8	0.2	-1.1	0.2	0.2	-3.6	-4.7	-0.9
Agricultural products	3%	-1.9	-0.8	-0.1	-2.9	-0.2	0.6	0.0	-1.1	-0.4	0.2	-6.1	-2.4	-0.9
Food product	15%	-1.5	-0.1	-0.6	-1.1	-2.3	-2.3	0.2	-1.1	0.3	0.2	-3.1	-5.2	-0.9
Coke and refined petroleum	4%	-2.9	-2.6	1.8	-1.4	0.7	-0.4	-0.7	-1.4	1.5	0.0	-0.8	-1.1	-0.1
Other industrial products	21%	-1.6	0.0	-0.1	0.2	0.1	0.0	1.1	0.6	-0.3	0.7	-1.1	0.9	1.2
Capital goods	3%	0.1	-0.1	0.5	-1.9	0.0	-0.8	3.2	-1.1	0.5	0.6	-3.7	-0.5	1.5
Transport equipment	6%	-1.2	-0.9	1.1	2.2	2.3	1.3	2.3	3.1	-2.0	1.0	-2.8	7.4	2.4
Other industrial products	12%	-2.2	0.4	-0.8	-0.2	-0.9	-0.4	0.1	-0.2	0.4	0.5	0.2	-1.6	0.6
Energy, water, waste	5%	-2.2	-0.6	0.3	-12.9	9.4	1.3	1.1	-3.3	1.0	1.0	-6.5	-0.9	0.1
All services	51%	-0.2	2.2	0.5	0.6	0.3	0.7	0.3	0.6	0.4	0.4	8.5	2.4	1.5
Construction	2%	0.7	0.5	-0.8	-0.2	0.8	-0.3	0.4	1.2	0.0	0.0	2.5	0.7	1.0
Trade ⁽²⁾	1%	-1.3	-0.9	-0.2	1.8	-0.3	-0.2	-1.3	0.2	0.0	0.0	-0.1	0.1	-0.5
Market services excluding trade	46%	-0.3	2.6	0.5	0.7	0.3	0.9	0.4	0.5	0.4	0.4	9.7	2.7	1.5
Transport	4%	-0.4	5.5	1.8	2.0	1.1	2.8	0.4	1.9	-0.3	0.4	29.9	7.8	2.3
Accommodation and food	8%	-2.3	11.8	0.5	1.0	-0.9	1.9	-0.1	-0.1	0.6	0.4	37.1	4.1	1.3
Information-communication	3%	0.1	-0.3	1.3	0.2	1.2	0.1	1.9	1.0	0.1	0.8	3.2	3.3	2.4
Financial services	5%	-0.2	-0.1	0.1	0.3	0.4	0.5	0.4	0.4	0.5	0.4	0.3	1.4	1.5
Real estate services	19%	0.3	0.3	0.2	0.5	0.2	0.4	0.4	0.2	0.4	0.3	1.3	1.3	1.1
Business services	2%	0.9	0.0	0.9	0.9	0.3	0.2	0.6	1.5	0.7	0.3	8.6	2.3	2.4
Household services	4%	-0.7	2.3	1.1	0.8	1.0	0.8	-0.5	0.9	0.8	0.4	19.2	3.3	1.8
Non-market services	5%	0.3	-0.1	0.6	0.3	0.0	0.2	0.4	1.8	0.2	0.9	2.8	1.3	2.4
Territorial correction	-1%	25.2	21.6	-15.4	-7.5	0.0	8.4	-1.7	3.4	-0.1	1.9	149.0	-3.6	5.1
Imports of tourism services		-6.9	-2.0	10.6	3.4	0.4	0.9	3.1	-1.0	1.0	0.5	20.7	9.8	2.4
Exports of tourism services		3.9	7.6	-1.3	-0.9	0.3	3.7	1.3	0.7	0.6	1.0	52.6	4.3	3.4
Total	100%	-1.3	0.7	0.6	-0.4	0.2	0.0	0.5	0.0	0.3	0.4	2.1	0.6	0.8

■ Forecast.

(1) weight in household final consumption expenditure in current euros in Q4 2019.

(2) this item corresponds to sale and repair of motor vehicles and motorbikes. Expenditure in retail trade excluding motor vehicles and motorbikes is allocated to the corresponding products.

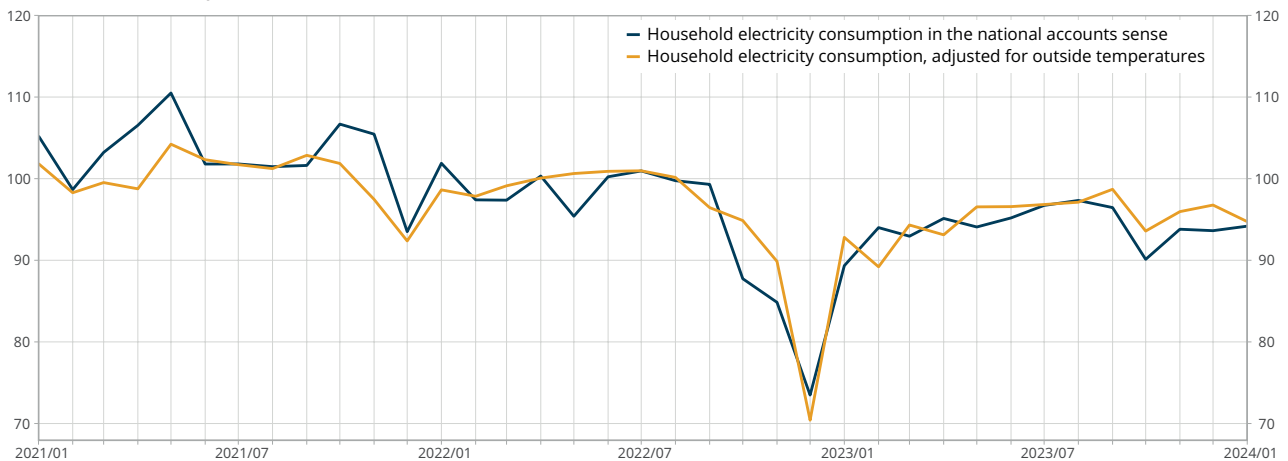
How to read it: in Q1 2024, household consumption of energy, water and waste would increase by 1.0% compared to the previous quarter.

Source: INSEE.

French economic outlook

► 3. Monthly household electricity consumption, with and without correction for outside temperatures

(SA-WDA data, base 100 in Q3 2022)



Last point: January 2024.

How to read it: in December 2023, household electricity consumption was 6% less than its average level in Q3 2022. Adjusted for the effects of weather conditions (slightly milder than seasonal norms), consumption would have been 3% lower than in the Q3 2022.

Source: INSEE.

► 4. Household consumption, investment and savings ratio

(quarterly changes and difference to Q4 2019, in %, SA-WDA data)

	2022				2023				2024		2022*	2023*	2024* ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Consumption: quarterly changes	-1.3	0.7	0.5	-0.4	0.2	0.0	0.5	0.0	0.3	0.4	2.1	0.6	0.9
<i>difference to Q4 2019</i>	-0.7	0.0	0.5	0.1	0.3	0.3	0.8	0.8	1.1	1.5	0.1	0.7	1.6
Savings ratio: as % of gross disposable income	17.7	16.4	17.2	18.6	17.7	17.7	17.3	17.9	18.1	17.9	17.5	17.6	17.9
<i>difference in points to Q4 2019</i>	2.1	0.9	1.7	3.1	2.1	2.2	1.8	2.3	2.6	2.3	2.0	2.1	2.4
Investment: quarterly changes	-1.9	1.2	-1.4	-1.0	-2.0	-1.5	-1.1	-1.4	-1.0	-0.5	-1.3	-5.1	-3.2
<i>difference to Q4 2019</i>	3.0	4.2	2.7	1.7	-0.4	-1.8	-2.9	-4.2	-5.2	-5.6	3.7	-1.5	-4.7

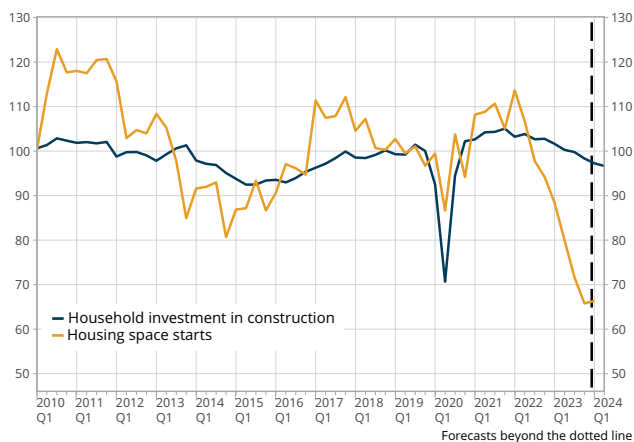
■ Forecast.

* annual variations for the last three columns (apart from the annual average for savings ratio).

Source: INSEE.

► 5a. Household investment in construction and housing starts

(base 100 in 2019, SA-WDA data)



Last point: Q2 2024.

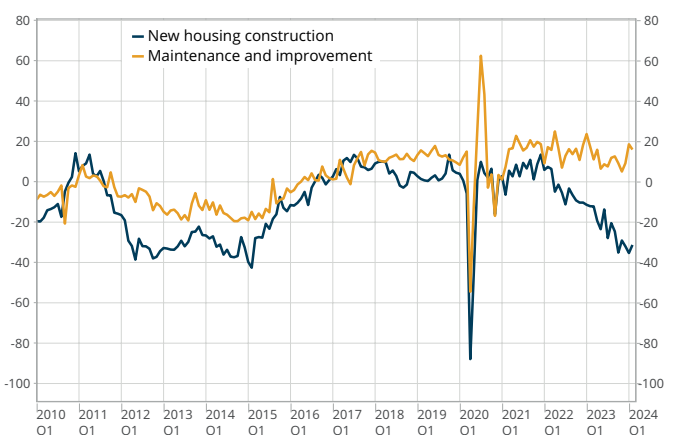
Note: for housing starts, the point at Q1 2024 corresponds to data for January only.

How to read it: in Q1 2024, household investment in construction – expressed as base 100 in 2019 – is expected to be 97.3.

Source: INSEE and SDES.

► 5b. Balances of opinion on expectations for activity in the next three months in new housing construction and maintenance-improvements

(balances of opinion, SA data)



Last point: February 2024.

How to read it: in February 2024, the balance of opinion on expectations for activity in the next three months in new housing construction stands at -31 points.

Source: monthly business survey of the construction industry, INSEE.

Entreprises' earnings

In Q4 2023, the margin rate of non-financial corporations (NFCs) remained stable at 32.9%. On the one hand, it was adversely affected by increases in the real cost of labour per capita and the property tax on professional buildings, and by a slight drop in productivity. On the other hand, domestic terms of trade improved for resident companies, mainly as a result of the decline in oil and gas prices. Across 2023 as a whole, despite a drop in productivity, the margin rate of non-financial corporations (NFCs) increased by 1.0 point, due to the decline in real wages and, to a lesser extent, the improvement in domestic terms of trade. It is therefore above its pre-health crisis average (31.5% in 2018¹): it is well above in the case of energy but below in services, where companies are slow to pass on any increase in their costs (► **Focus** on consumer prices for services, *Economic outlook*, December 2023). Corporate finance costs are going up and ultimately companies' savings (which take into account corporate tax and operating result) represented 22.2% of their value added in 2023, very close to the 2018 level.

The NFC margin rate is expected to increase slightly in Q1 2024 to 33.1%, mainly as a result of the new measure to reduce the business value-added contribution (CVAE) and to decrease property tax payments on professional buildings compared to the end of 2023. Real wages are again expected to hamper the margin rate a little but this small increase should be offset by slight gains in productivity. In Q2, the margin rate will probably continue to increase, in the wake of the upturn in productivity. ●

¹ 2018 can be considered as a suitable reference year for margin rate. From 2019 to 2021, margin rate experienced some upheavals due to the simultaneous accounting of the Competitiveness and Employment Tax Credit (CICE) and the reduction in social contributions in 2019. The following years were affected by the health crisis.

► 1. Decomposition of margin rate of non-financial corporations (NFC)

(margin rate in %, variation and contributions in points)

	2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2			
Margin rate	31.8	33.3	32.9	32.9	33.1	33.3	31.7	32.7	33.3
Variation in margin rate*	0.2	1.4	-0.3	0.0	0.2	0.2	-2.2	1.0	0.5
Productivity (+)	-0.5	0.4	-0.1	-0.1	0.1	0.2	-0.1	-0.8	0.2
Real per capita labour cost (-)	0.4	0.3	0.3	-0.1	-0.1	0.0	-0.2	1.4	0.1
Of which real wages per head(-)	0.5	0.3	0.4	-0.2	-0.1	0.0	-0.7	1.2	0.1
Of which Employer's contribution rate(-)	-0.1	0.0	-0.1	0.1	0.0	0.0	0.5	0.1	0.0
VA price/consumer price ratio (+)	0.1	0.8	-0.5	0.4	0.0	0.0	0.0	0.5	0.3
Other items	0.3	0.0	-0.1	-0.1	0.2	0.0	-1.9	-0.1	0.0

■ Forecast.

* The variation shown here is a difference calculated before rounding.

Note: the margin rate (MR) measures the share of value added that remunerates the capital.

This variation can be broken down additionally into:

- changes in productivity (Y/L), where Y is value added and L is employment, and in the ratio of the price of value added to consumer prices, or terms of trade (Pva/Pc), which have a positive effect;
- changes in the real cost of labour (W/Pc, where W represents the cost of labour per capita), which have a negative effect on the margin rate;
- other factors: these are mainly taxes on production net of subsidies, including the Solidarity Fund.

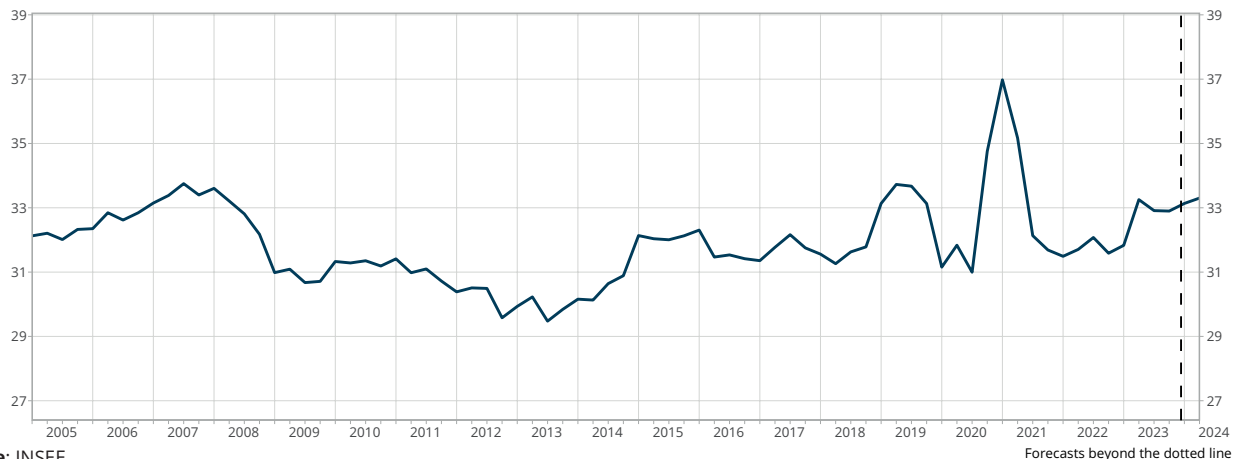
This breakdown can be synthesised in the equation:

$$TM = \frac{GOS}{VA} \approx 1 - \frac{WL}{Y P_{va}} + other\ factors = 1 - \frac{L}{Y} \frac{W}{P_c} \frac{P_c}{P_{va}} + other\ factors$$

Source: INSEE.

► 2. Margin rate of non-financial corporations (NFC)

(in % of value added)



Source: INSEE.

Corporate investment

Investment by non-financial enterprises (NFEs) fell back sharply in Q4 2023 (-0.9% after +0.3% in Q3, ► [Figure 1](#)). All the components of investment contributed to this downturn. Investment in manufactured products contracted (-1.1%), especially investment in automobiles (company fleets in particular contributed to this decline) after two very dynamic quarters (► [Figure 2](#)). Despite increasing steadily since the end of the health crisis, investment in services also declined, especially investment in information-communication services, which fell back for the first time since 2020. Lastly, investment in construction continued its decline, begun in 2022, although it fell back a little less markedly than in the previous quarter (-1.3%, after -2.1%). All in all over the year, investment by NFEs resisted monetary tightening well: in fact, it grew by 2.7% in 2023 (after +3.8% in 2022), driven as much by investment in manufactured products (+4.7% after +1.4%) as by investment in services (+4.7% after +7.5%). Only investment in construction fell sharply (-3.7%) after an already sluggish 2022 (+0.2%).

For the coming quarters, business leaders remain cautious about their investment prospects, according to the latest business tendency surveys. The balance of opinion on expected investment by services sector companies dropped below its long-term average in October 2023 and continued to decline at the start of 2024 (► [Figure 3a](#)). In industry, this balance is also on a downward trend. Given that there is unlikely to be a reduction in the ECB's base interest rate before the spring, the cost of capital is expected to hamper companies' productive investment: in industry, the share of companies that believe that financing conditions are a stimulus for investment is at its lowest for more than 20 years (► [Figure 3b](#)).

In this unfavourable context, investment by NFEs is expected to remain sluggish throughout H1 2024 (-0.1% forecast in Q1 then 0.0% in Q2) and with negative mid-year growth overhang (-0.4%). On the one hand, investment in services, especially in information-communication, should recover some of its momentum (+0.6% per quarter) after the slump in Q4. But conversely, investment in manufactured products, notably capital goods, looks set to continue its decline (-0.8% per quarter). In construction, the decline is expected to continue, but at a more and more moderate pace (-0.6% in Q1, then -0.2% in Q2), with non-residential building starts having stabilised over recent months. ●

► 1. Investment by non-financial enterprise (NFEs)

(quarterly and annual changes, in %, seasonally and working day adjusted)

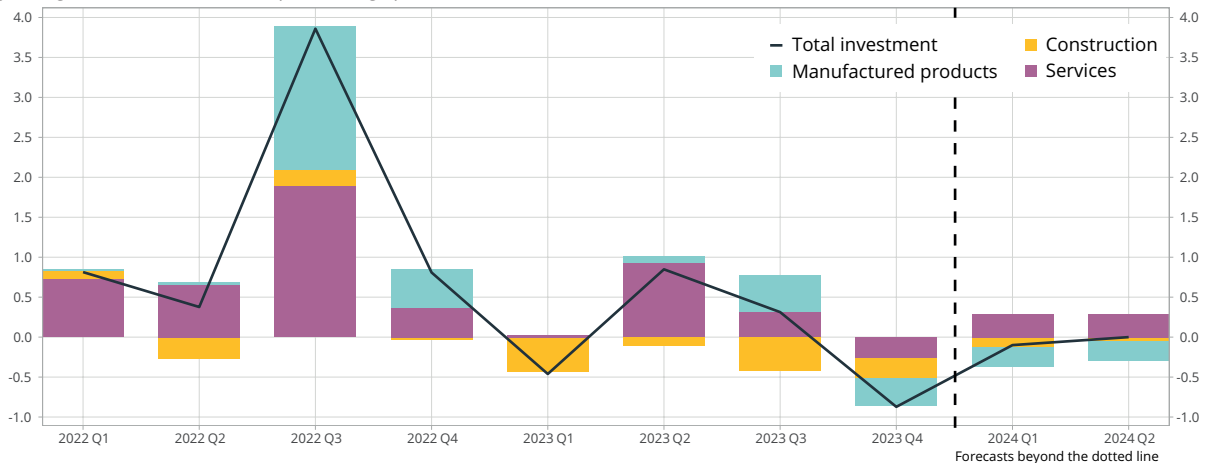
	Quaterly changes												Annual changes		
	2022				2023				2024		2022	2023	2024 ovhg		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2					
Manufactured product (32%)	0.1	0.1	5.7	1.5	0.0	0.3	1.5	-1.1	-0.8	-0.8	1.4	4.7	-1.4		
Construction (23%)	0.5	-1.2	0.9	-0.2	-2.0	-0.5	-2.1	-1.3	-0.6	-0.2	0.2	-3.7	-2.9		
Services excl. construction (45%)	1.6	1.4	4.0	0.8	0.1	1.9	0.6	-0.5	0.6	0.6	7.5	4.7	1.5		
All products (100%)	0.8	0.4	3.9	0.8	-0.5	0.8	0.3	-0.9	-0.1	0.0	3.8	2.7	-0.4		

■ Forecast.

Source: INSEE.

► 2. Investment of non-financial enterprises by product

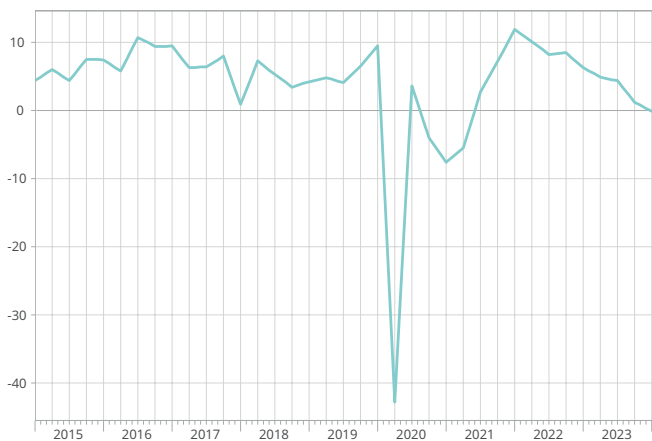
(quarterly changes in %, contributions in percentage points)



Source: INSEE.

► 3a. Expected investment in services

(balance of opinion, SA, in points)



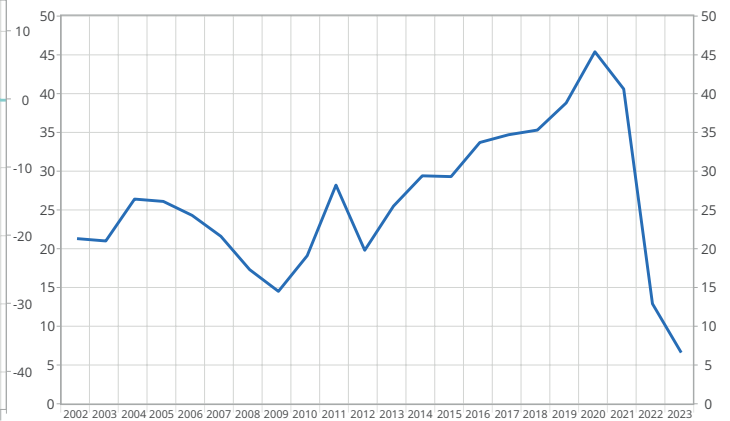
Last point: January 2024.

How to read it: in January 2024, the balance of opinion on expected investment in services stood at 0 points.

Source: INSEE, business surveys.

► 3b. Effect of financing conditions on expected investment in the manufacturing industry

(% of companies concerned)



Last point: October 2023.

Note: companies are surveyed in October of every year on their expectations for the coming year.

How to read it: in October 2023, 7% of manufacturing industry companies reported that financing conditions will stimulate their investment in the coming year.

Source: INSEE, quarterly business survey for industry.

International economic outlook



International synthesis

At the end of 2023, the disparity between the economic situation in the United States and the different European economies (Eurozone and United Kingdom) was confirmed. Activity had stagnated in the Eurozone: the engine of the German economy had stalled (-0.3% in Q4 2023), while, in contrast, the catch-up by the Spanish economy was continuing its momentum (+0.6%). Meanwhile, the economic situation in France and Italy was similar to that of the Eurozone as a whole (growth of +0.1% and +0.2% respectively). The UK economy entered recession, with activity falling back 0.3% after -0.1% in Q3 2023.

The difficulties that the Old World economies are experiencing are in sharp contrast to the way the economy across the Atlantic is holding up. In Q4, the United States saw some solid growth (+0.8%). This good performance in comparison with the European economies is due to very buoyant private consumption and some powerful public support measures.

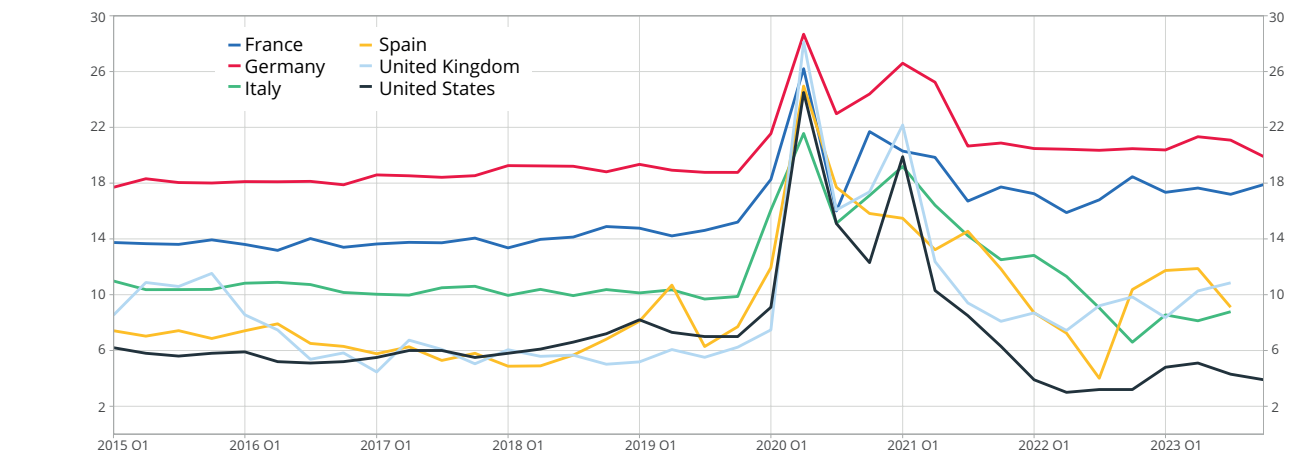
Inflation has continued to decline on both sides of the Atlantic and wages have been dynamic overall, thus bolstering purchasing power. This common disinflation trend is the result of falling commodity prices which have significantly cooled inflation in energy, food and manufactured products. Core inflation has fallen less: through the “second round” effect, prices continue to increase in services, with companies passing on increases in their wage costs (► **Focus** international inflation).

However, these gains in purchasing power have not always resulted in very dynamic household consumption. While American households have consumed, Europeans have been more cautious (► **Figure 1**): the savings ratio is still higher than its pre-pandemic level in Germany, France and the United Kingdom, whereas it is significantly lower in the United States.

Meanwhile, investment is still handicapped by the increasing cost of capital, with no sign of the central banks bringing down their interest rates before mid-2024. Investment has slowed or slipped back in most of the major western economies: household investment is therefore in decline in most economies and the construction sector is suffering in the United States, the United Kingdom, France and Germany. In Italy and Spain, however, construction is driven by public support measures (► **Focus** construction in the Eurozone). Corporate investment has been fairly resistant on average across the year, although some signs of weakness emerged at the end of the year in the Eurozone.

Elsewhere in the world, the Chinese economy grew in Q4 2023 (+1.0%). However, this increase in activity in China is still below its pre-pandemic trend, while several factors continue to give rise to concern: the real estate crisis, trade tensions and the fragility of the financial sector (► **Focus** China). In contrast to the major advanced economies, China faces an increasingly serious risk of deflation.

► 1. Savings ratio in the Eurozone, United Kingdom and United States



Last point: Q3 2023 from Italy, Spain and United Kingdom; Q4 2023 from France, Germany and the United States

How to read it: in France, the savings ratio was 17.9% in Q4 2023.

Source: INSEE, Destatis, Istat, INE, ONS, BEA.

International economic outlook

Against this backdrop, world trade grew moderately in 2023 (+1.0%), falling back slightly at the end of the year (► **Figure 2**). In particular, imports by the advanced economies have slipped back continuously over the last five quarters.

At the start of 2024, the business tendency surveys reported a slight improvement in Europe, however, the economic disparity with the United States looks set to continue, as confirmed by the recent change in the PMIs (► **Figure 3**). In H1 2024, the USA economy is expected to continue to grow at a steady pace (+0.5% per quarter), still driven by expanding public spending (► **Figure 4**). Economic activity in the UK should start to take off again due to domestic demand (+0.3% per quarter). Recovery is likely to be more gradual in the Eurozone: activity is expected to continue to struggle in Q1 2024 (+0.1%) before making better progress in the spring (+0.3%). Within the Eurozone, economic disparities are expected to continue into Q1, then begin to decline in the spring. The start of the year is likely to be sluggish for Germany: activity is expected to shrink at first (-0.1%) for the second consecutive quarter, with the German economy not expected to recover until Q2 2024 (+0.2%). In Italy, growth looks set to continue at a moderate pace (+0.2% per quarter). Growth should remain solid in Spain, with the support of the recovery plan and the potential for post-pandemic catch-up, which is likely to start to run down a little in spring 2024 (+0.6% then +0.5% in Q1 and Q2 2024).

In China, activity is likely to struggle to return to its pre-health crisis level of growth (+1.1% per quarter), as it is affected by the continuing real estate crisis. Given this context, world trade should regain some momentum in H1 (+0.5% then +0.7%). Meanwhile, growth in world demand for French products is expected to be a little less buoyant (+0.4% then +0.5%), as French exporters are hampered because of their geographical focus on the European economies and especially Germany. ●

► 2. World trade grew modestly in 2023, and should regain a little vitality in early 2024

(Levels, quarterly variations in %; annual variations in % for the last three columns)

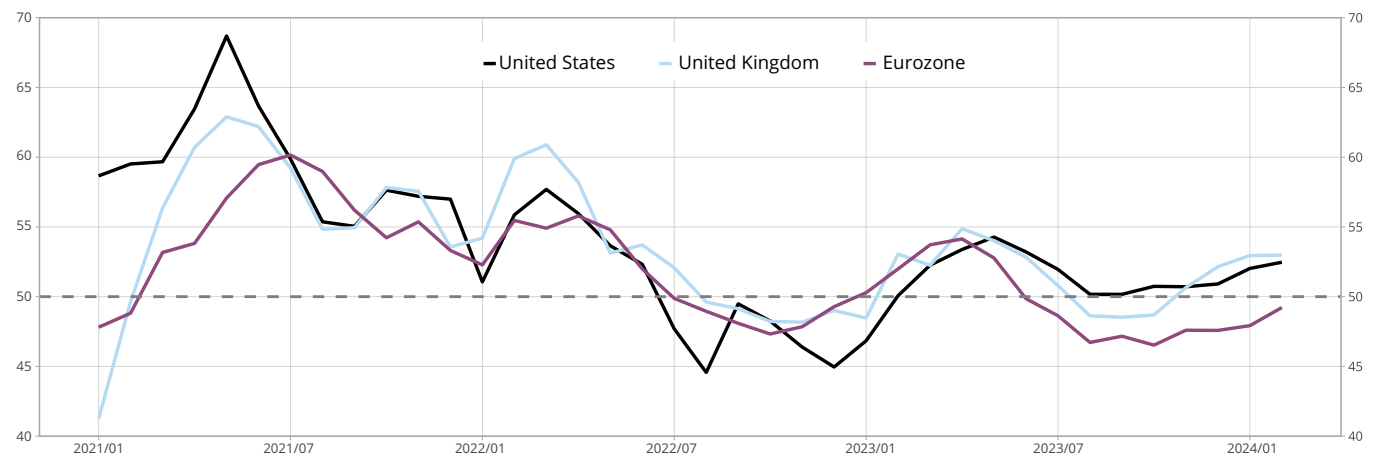
	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Euro-dollar exchange rate	1.12	1.06	1.01	1.02	1.07	1.09	1.09	1.08	1.09	1.09	1.05	1.08	1.09
Barrel of Brent (in dollars)	100.8	113.6	100.6	88.6	81.2	78.1	86.6	84.0	81.7	82.0	100.9	82.5	81.9
Barrel of Brent (in euros)	89.9	106.8	100.0	86.8	75.6	71.7	79.5	78.1	75.2	75.2	95.7	76.2	75.2
World trade (variations)	1.2	1.1	1.5	-0.8	-0.1	0.7	0.2	-0.2	0.5	0.7	6.3	1.0	1.3
Imports by advanced economies	2.4	1.4	1.0	-1.0	-0.3	-0.9	-0.3	-0.1	0.5	0.8	7.8	-1.0	0.6
Imports by emerging economies	-1.9	0.4	2.7	-0.1	0.5	4.8	1.6	-0.5	0.7	0.7	2.5	6.3	2.8
World demand for French products (variations)	1.6	1.1	1.1	-0.8	-0.1	0.0	-0.7	-0.3	0.4	0.5	6.7	-0.3	0.2

■ Forecast.

Source: Commodity Research Bureau, IHS Markit, Statistiques équilibrées du commerce (OCDE), CHELEM – Commerce international (CEPII), INSEE calculations.

► 3. Variation in the composite PMI in the United States, United Kingdom and Eurozone

(PMI index)



Last point: February 2024.

How to read it: the composite PMI was 53 in the United Kingdom in February 2024 against 49 for the Eurozone.

Source: S&P.

► 4. Past and forecast GDP growth in the main western economies

(in %)

	2022				2023				2024		2022	2023	2024 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
France	-0.1	0.3	0.6	0.0	0.0	0.6	0.0	0.1	0.0	0.3	2.5	0.9	0.5
Germany	1.0	-0.1	0.4	-0.4	0.1	0.0	0.0	-0.3	-0.1	0.2	1.9	-0.1	-0.2
Italy	0.1	1.4	0.3	0.0	0.5	-0.2	0.2	0.2	0.2	0.2	4.1	1.0	0.5
Spain	0.3	2.5	0.5	0.5	0.5	0.5	0.4	0.6	0.6	0.5	5.8	2.5	1.8
United Kingdom	0.5	0.1	-0.1	0.1	0.2	0.0	-0.1	-0.3	0.3	0.3	4.3	0.1	0.2
United States	-0.5	-0.1	0.7	0.6	0.6	0.5	1.2	0.8	0.5	0.5	1.9	2.5	2.2
China	0.6	-2.1	4.0	0.6	2.1	0.6	1.5	1.0	1.1	1.1	3.0	5.2	3.6
Eurozone	0.6	0.8	0.5	0.0	0.0	0.1	-0.1	0.0	0.1	0.3	3.4	0.5	0.3

■ Forecast.

Source: INSEE, Destatis, Istat, INE, ONS, BEA, NBSC, INSEE forecast.

International economic outlook

A negative shock for Chinese domestic demand is expected to have limited effects on French GDP

Since 2021, the slowdown in the Chinese economy compared to its pace of growth before the pandemic has been confirmed: activity grew by 5.2% in 2023 and the IMF is expecting growth of 4.6% in 2024 against +7.7% per year on average in the 2010s. This slowdown is partly structural, linked to the ageing population and the catch-up dynamic that is losing momentum. In addition, China is suffering from some more short-term factors affecting growth, such as the real estate crisis, trade risks and even financial risks. This Chinese slowdown may have differing effects on its partner economies. On the one hand, a slowdown in Chinese domestic demand would negatively affect growth in the rest of the world, via the trade channel: this would be of particular concern to countries with strong commercial dependence on China, starting with the Asian economies. Conversely, such a slowdown would result in a decline in global demand for commodities and especially petroleum products, which would lower prices: this effect would benefit other economies importing petroleum products, especially European economies.

The transmission of the shock via the trade channel is analysed using an OECD Inter-Country Input-Output (ICIO) Table. This study shows that the effects of the slowdown in Chinese domestic demand vary depending on the products concerned: as long as the negative demand shock remains confined to the construction sector, its effect on China's partners is likely to be limited. An investment shock, which would have the effect of reducing Chinese demand for manufactured products, could have more serious consequences. Irrespective of the shock considered, the Asian economies would be the first to be affected, due to their degree of dependence on the Chinese economy. As for the main European economies, a 5% shock on Chinese domestic demand would cost France between 0.1 and 0.2 points of GDP via the trade channel alone, and twice that for Germany. This effect would therefore be contained.

By taking the commodities channel into account these effects can be further qualified because the Chinese slowdown would generate a drop in prices, particularly oil prices, which would in turn have a positive effect on French growth. A 5% shock on Chinese demand via a combination of the trade channel and the commodities channel would thus have a weak and ambiguous effect on France: depending on the assumptions made for each of these two channels, the net effect would either be slightly positive, or slightly negative. These simulations do not take into account a possible financial channel: the direct exposure of the French economy to the Chinese financial sector appears limited and an indirect effect routed through an uncertainty shock seems difficult to quantify.

Raphaele Adjerad, Mathilde Niay with the contribution of Alexandre Wukovits

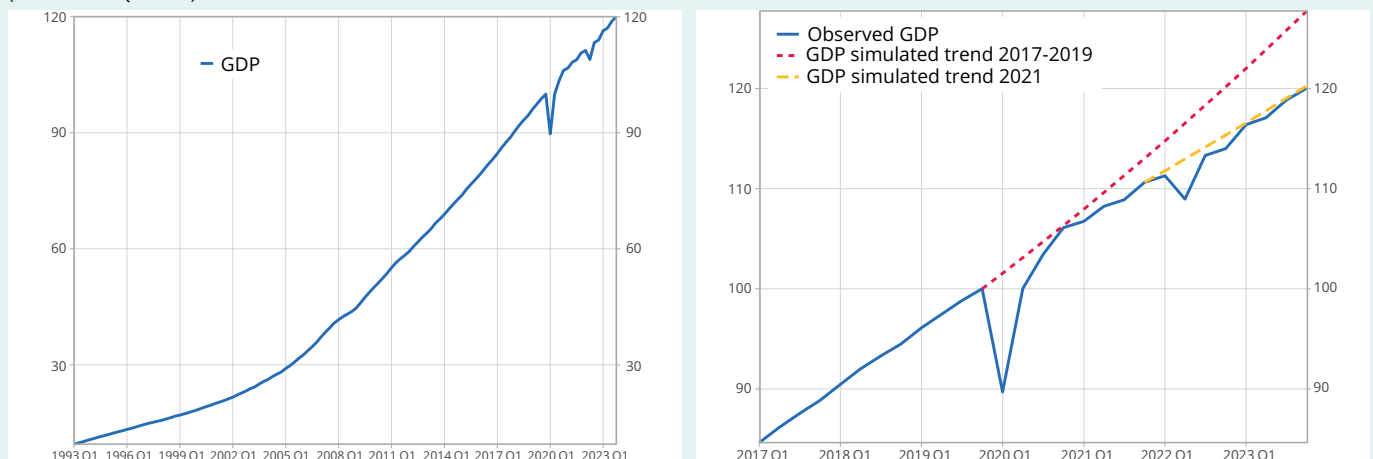
Since 2021, Chinese growth has settled into a slower pace than before the pandemic, partly due to structural factors

Despite the lifting of health restrictions in China at the end of 2022, which could in theory have offered catch-up potential for the Chinese economy, the growth in activity in

China remains below its pre-pandemic trend (► **Figure 1**). While the Chinese economy grew at an average pace of 10.6% from 1990 to 2010 then by 7.7% in the 2010s, growth stood at +5.2% in 2023 after +3.0% in 2022. The IMF forecasts a slowdown in Chinese growth to +4.6% in 2024 (as in ► **OECD, 2023**) and expects growth to slow to +3.4% in 2028 (► **IMF, 2024**).

► 1. Growth of activity in China remains below its pre-pandemic trend

(base 100 in Q4 2019)



Last point: Q4 2023.

Note: data used up to and including 2010 are calculated from the year-on-year non-seasonally adjusted variation published by the NBSC, which is then seasonally adjusted. From 2011, GDP is calculated from the quarterly seasonally adjusted variation published by the NBSC.

How to read it: in Q4 2023, GDP was 20% higher than its level in Q4 2019.

Source: National Bureau of Statistics of China, INSEE calculations.

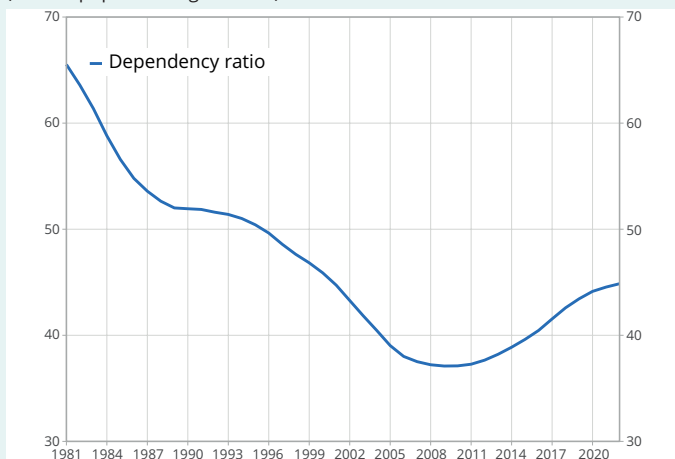
There are several major structural factors that can account for this slowdown, which are holding back the Chinese economy, notably the ageing population. Until 2011, China benefited from a “demographic dividend”: restrictions on the birth rate resulted in a sharp drop in the dependency ratio making it possible to finance investment (► **Figure 2**, left). Since 2011, due to the ageing of the population, the dependency ratio has started to rise again and, since 2016, the working-age population has been decreasing (► **Figure 2**, right), thus weighing on growth potential. These demographic challenges would also seem to be aggravated by poor social protection safety nets, holding back private consumption by reducing household confidence. The savings ratio, which was already high

before the pandemic, would appear to have increased, reaching 33% of disposable income, according to the ► **World Bank, 2023**.

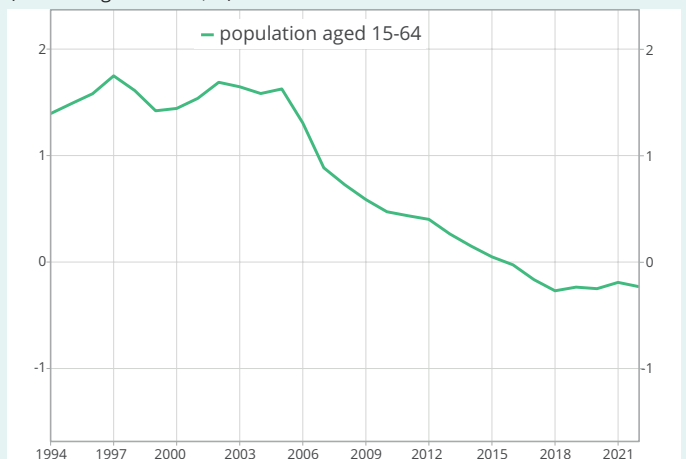
In addition, the sources of Chinese growth have evolved. Until 2012, activity was supported by the increase in industrial capacity: since then, the share of manufacturing activity in the GDP and industrial investment has seen a regular decline (► **World Bank, 2023**). From this date, activity has been driven mainly by construction, of which the share in value added increased gradually until the health crisis. However, this share has since decreased, and has now returned to its level of the early 2010s (► **Figure 3**). Thus activity since the health crisis is now

► 2. The working-age population has declined since 2016

(as % of population aged 15-64)



(in annual growth rate, %)



Last point: 2022.

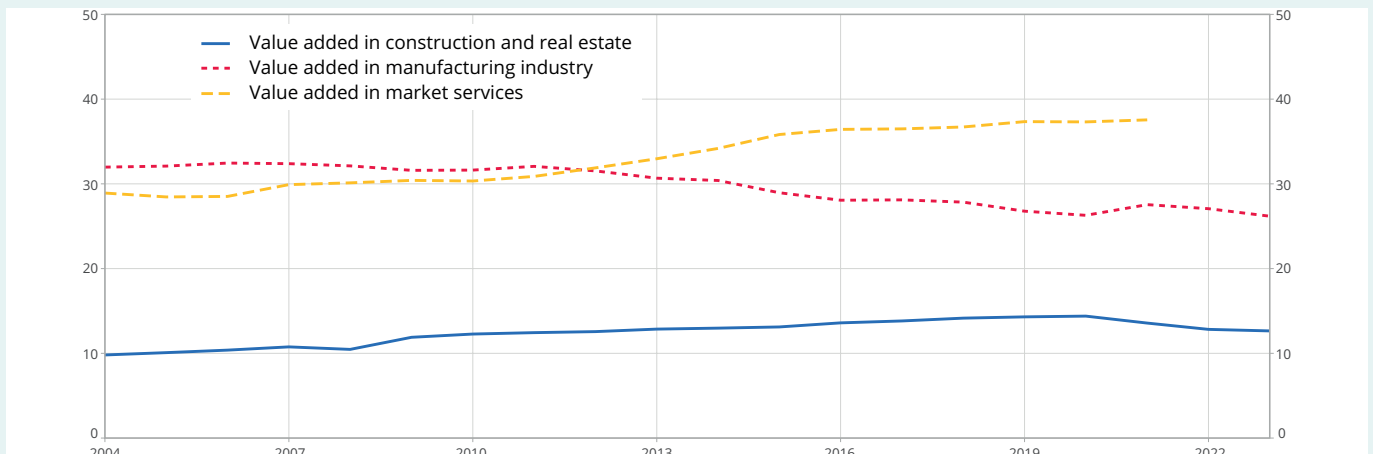
Note: here, the dependency ratio corresponds to the ratio of people under 15 and over 64 to people aged 15 to 64. The population between 15 and 64 refers to the entire resident population regardless of legal status or citizenship.

How to read it: in 2022, the Chinese dependency ratio was 44.9% and the population aged 15 to 64 decreased by 0.2% compared to 2021.

Source: World Bank.

► 3. Value added in construction, industry and services

(as % of GDP)



Last point: 2023 for manufacturing industry and construction, 2021 for market services.

Note: value added in construction and real estate includes the activities “construction” and “real estate”.

How to read it: in 2023, the share in GDP of the value added from construction and real estate was 13%.

Source: National Bureau of Statistics of China, INSEE calculations.

International economic outlook

mainly driven by services as well as by those industrial segments where China is at the technological forefront (electric vehicles, renewable energy); these segments require significant intangible investment and generate less in productivity gains than during the catch-up phase. In addition, since the health crisis, the share of private investment has declined, crowded out by the increase in investment by State-owned companies, which may be less efficient (► [Huang and Veron, 2024](#)).

Certain short-term factors are also hampering Chinese growth, such as the real estate crisis and trading risks

The current real estate crisis is also likely to intensify the slowdown. The construction and real estate sector, which represented about 14.3% of GDP in 2019 (against 12.7% in 2023), is raising concerns, mainly due to the financial difficulties encountered by large developers such as Country Garden or Evergrande (the latter was placed into compulsory liquidation by a Hong Kong court in January 2024) and potential contagion effects weighing down the rest of the economy via balance sheet or wealth effect channels. In fact, since 2021, real estate transactions have continued to fall: in December 2023, they had dropped to around 55% below their pre-pandemic level (► [Figure 4](#)). Yet real estate is estimated to represent 65% of the wealth of Chinese households (► [IMF, 2020](#)) and “shadow banking” (non-bank financial intermediaries) is very exposed to this sector. Financial risks are thus increasing, according to the IMF (► [Article IV IMF, 2024](#)), as shown by the payment incidents involving certain large trust companies (such as Zhongrong Trust or Zhongzhi), even if they still remain contained, since the debt is mainly financed by domestic savings and the banking system supported by the authorities. In addition to households, the crisis in the

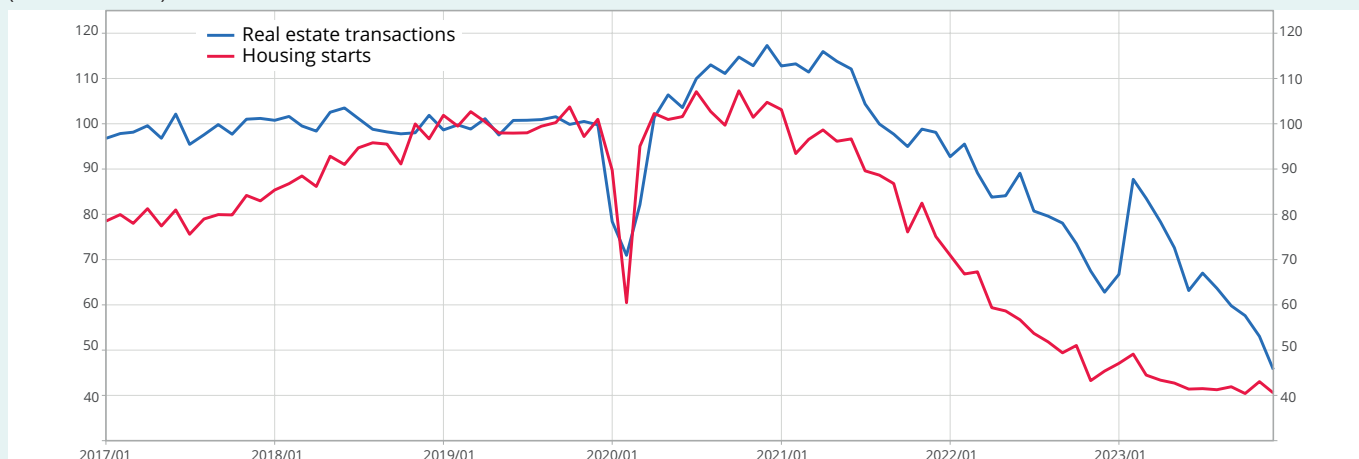
real estate sector particularly affects the Chinese provinces, mainly because of their excessive indebtedness and their high exposure to this sector: they would appear to have accumulated off-balance sheet debts, mainly to finance infrastructure construction.

These difficulties have prompted the Chinese government to introduce support measures to stimulate this sector. At the end of 2023, the People’s Bank of China increased its support for the economy by mobilising loans through strategic banks for the construction of affordable housing, urban renovation and public infrastructure. At the same time, measures to ease property purchases were taken by the cities of Beijing and Shanghai, such as reducing down payment requirements and extending loan maturities.

Among the drivers of the Chinese growth model, exports are also under threat from increasing trade tensions (► [Alonso et al., 2023](#)). The trade and technology war between China and the United States has impacted international trade in recent years. Since the Trump administration came to power in the United States, the two countries have gradually increased their customs tariffs on a series of products, and the change in political power experienced by the United States in 2021 did not fundamentally change this state of affairs. In 2023, despite attempts to ease relations, some of this trade is still subject to significant amounts of customs duty. These tensions have had a significant effect on bilateral trade. Trade relations with the European Union have also often been tense, as can be seen, for example, in the persistent concerns about China’s trade practices (product dumping, restrictions on access to the Chinese market, subsidies to companies). Thus the rate of trade openness in the Chinese economy is tending to decline: imports of goods fell in 2022 (-5.5%) and rebounded moderately in 2023 (+2.9% ► [Figure 5](#)).

► 4. Weakness of the real estate market

(base 100 in 2019)



Last point: December 2023.

How to read it: in December 2023, real estate transactions were almost 55% below their pre-pandemic level.

Source: National Bureau of Statistics of China, INSEE Calculations.

The slowdown in Chinese domestic demand is likely to affect the rest of the global economy via several channels

According to ► [Alonso et al., 2023](#), due to its weight in the global economy, a slowdown in China affects the activity of European economies via three main channels.

First, a negative effect via the trade channel: a reduction in Chinese demand reduces partner countries' exports to China. Due to the size of the Chinese economy and its integration into world trade, the economic slowdown in China is likely to affect all economies, to a greater or lesser extent. The Asian countries that are most firmly integrated into the region's value chains as well as those that have invested hugely in the "New Silk Road" programme are the most likely to be affected. The countries of South-East Asia play a major role in serving Chinese final demand, in addition to their place in regional value chains and their share in the Chinese economy's "processing trade" (► [IMF, 2023](#)). More generally, most of the world's economies are concerned by the slowdown in Chinese domestic demand, either directly, or indirectly, for those economies that are not exposed to China directly (or only slightly) but whose exports are oriented towards countries that are themselves directly affected by the Chinese slowdown.

Second, a positive effect via the commodities channel: China is one of the main consumers of many commodities, especially oil. As the supply of commodities is relatively inelastic in the short term, a negative shock to activity in China leads to a drop in prices, which translates on average into an improvement in the terms of trade for Europe.

Finally, a financial channel, both direct (which depends on the degree of exposure of the European financial system to China) and indirect (via uncertainty and the flight to quality that a Chinese slowdown can cause). This channel is not dealt with here: the direct channel is negligible, as the Chinese financial system is relatively compartmentalised. The indirect channel is difficult to quantify: on the one hand, a rise in interest rates has a negative impact on activity, and on the other hand, European countries could conversely benefit from a flight to quality and distrust investments in the emerging economies.

The OECD highlights the risk that the Chinese slowdown represents for global growth (► [OECD, 2023](#)): a drop of 3 percentage points in the growth of Chinese demand is likely to result in a drop of 0.6 points in global growth and up to 1.1 growth points in the case of contagion effects on international financial markets. For the European economies, however, the net effect is not obvious: they are less connected via trade to the Chinese economy and they would certainly benefit from a drop in commodity prices.

Trade links between the Chinese economy and other countries can be explored using data from an Inter-Country Input-Output Table

The scale and nature of trade links between the Chinese economy and other countries can be explored using data from the OECD's Inter-Country Input-Output Table (ICIO, ► [Method box](#)), based on 2019. It shows that South Korea was China's leading supplier in 2019, with South Korean products accounting for 8.9% of Chinese imports. It was closely followed by the United States, with 8.5% of Chinese

► 5. Chinese imports of goods

(year-on-year change, in %)



Last point: Q4 2023.

Note: the import series is derived from Chinese customs data deflated with the import price index for goods produced by the Netherlands Bureau for Economic Policy (CPB) and seasonally adjusted.

How to read it: in Q4 2023, according to Chinese customs, imports of goods increased by 3.7% year-on-year.

Source: National Bureau of Statistics of China, Netherlands Bureau for Economic Policy Analysis (CPB), INSEE Calculations.

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imports and Japan, whose products represented 7.9% of Chinese imports (► [Figure 6](#)). Among European countries, Germany stood out as China’s most important partner country: in 2019, German products represented 5.0% of Chinese imports, with France at 2.1%.

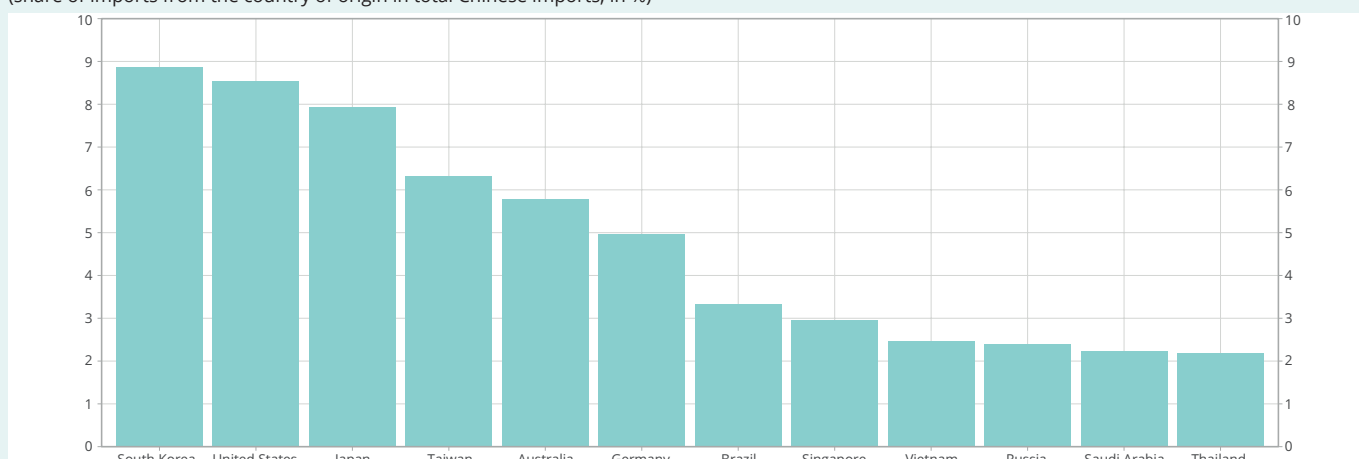
By comparing with several years of customs data published by the National Bureau of Statistics of China, which only present trade in goods, the robustness of the ICIO data can be verified (► [Figure 7](#)). These data can also be used to check whether China’s main partners remain relatively stable over time: this is indeed the case, although some changes can be observed, mainly due to recent trade tensions. The decline in the United States’ share between 2014 and 2023 is an example of this, as is the increase in some Asian economies such as Vietnam and Indonesia, or even partners such as Russia and Brazil. These

developments also reflect the geographic refocusing reflected in particular by the “New Silk Roads” initiative. According to ► [Bertrand, Villani, 2024](#), trade relations with Asian countries should be strengthened even further in the next few years with the Regional Comprehensive Economic Partnership, a free-trade agreement that came into force in 2022. Other differences emerge between the OECD’s ICIO 2019 and the customs data: Singapore thus appears to be one of the main countries of origin for products imported into China for goods and services, but is less predominant for goods only.

Using the OECD ICIO data it is also possible to construct a breakdown by product for each country of origin of Chinese imports (► [Figure 8](#)). Overall, Chinese imports consist mainly of manufactured products and services. The main exporters to China, namely South Korea, the United

► 6. Chinese imports (goods and services) by country of origin in 2019

(share of imports from the country of origin in total Chinese imports, in %)



How to read it: South Korea represented 8.9% of Chinese imports of goods and services in 2019.

Source: OECD 2019, INSEE calculations.

► 7. Chinese imports (of goods) by country of origin in 2014, 2019 and 2023

(share of imports from the country of origin in total Chinese imports, in %)



Note: only the top 10 countries in Chinese imports for the year considered are shown in this graph.

How to read it: South Korea represented 6.4% of Chinese imports of goods in 2023.

Source: National Bureau of Statistics of China, INSEE calculations.

States and Japan (► **Figure 6**), are differentiated by the profile of their exported products: South Korea and Japan export mainly manufactured goods to China. On the other hand, the United States exports mainly services. In Europe, France and Germany have quite different export profiles: Germany exports mainly manufactured goods, in similar proportions to Japan, whereas the products exported from France have a fairly similar profile to imports from the United States, with a majority of services.

Exports to China play a major role in the economies of several countries that are strongly integrated into Asian value chains. Economies such as Taiwan, Vietnam, Singapore, South Korea, Hong Kong, Australia and Thailand rely heavily on exports to China, which is reflected in

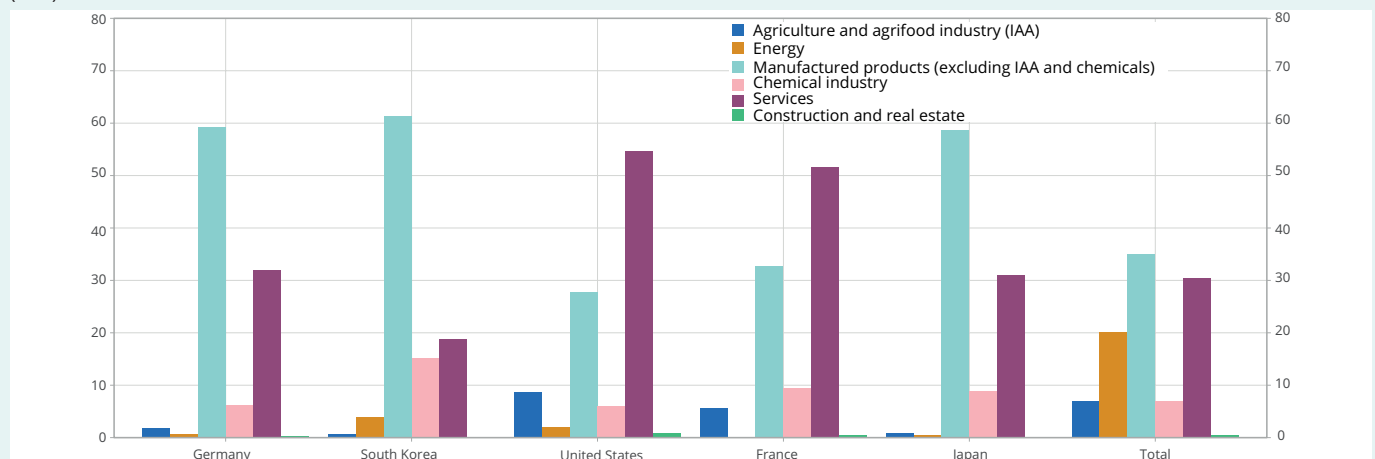
the significant weight of these exports in their GDP (► **Figure 9**). Conversely, for the United States, which is nevertheless one of the leading countries of origin for Chinese imports, exports to China have a relatively low weight in its GDP (1% in 2019). For Germany, this weight is almost 4% while for France, it is around 2% of GDP.

Via the trade channel, a -5% shock in domestic demand in China, depending on its composition, would have an impact of between -0.1 points and -0.2 points on change in French GDP

To go further, the OECD ICIO tables can also be used to measure the impact of a slowdown in Chinese final domestic demand on the main world economies. The estimation method proposed here (► **Method box**) to

► 8. Chinese imports by product and by country of origin

(in %)

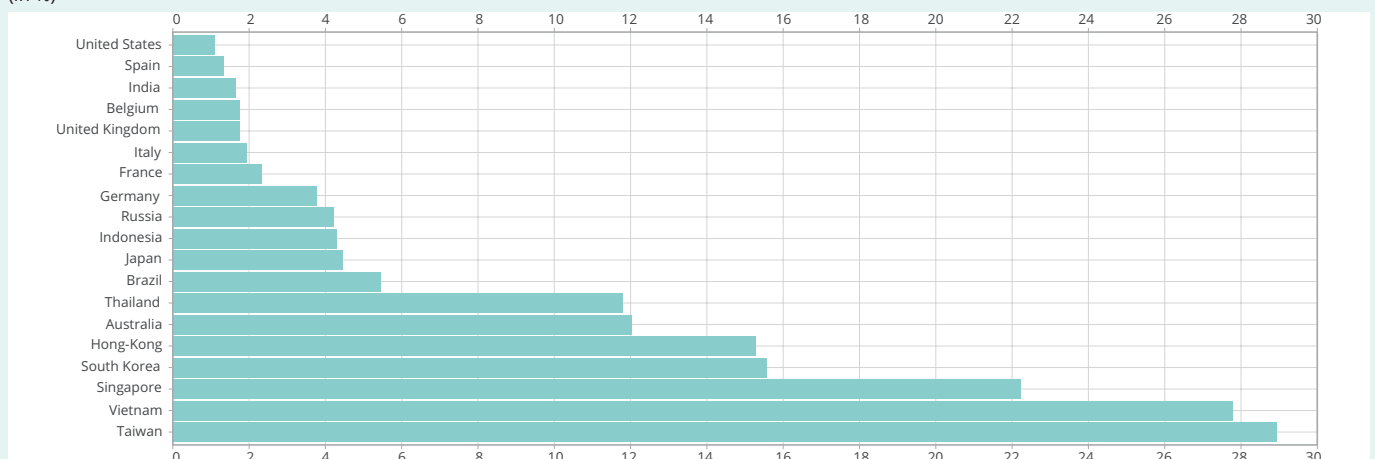


How to read it: for all countries, total Chinese imports of goods and services in 2019 consisted of 7% of agricultural and agrifood products, 20% of energy sector products, 35% of manufactured products (excluding agrifood products and chemicals), 7% of chemicals sector products, 0.4% of construction and real estate products and 30% of services. Imports from Germany consisted of 59% manufactured products.

Source: OECD 2019, INSEE calculations.

► 9. Share of exports to China in the GDP of the country of origin in 2019

(in %)



Note: by approximation, GDP is calculated as the sum of the value added of the different sectors. Vietnam has a higher ratio with the OECD data than when taking GDP from the IMF source.

How to read it: exports of goods and services from Australia to China represented 12% of Australian GDP in 2019.

Source: OECD 2019, INSEE calculations.

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simulate a Chinese final domestic demand shock on its trading partners can identify transmission of shocks by country and by product along the value chains.

The richness of the ICIO table means that it can be used to study the effects of the slowdown in Chinese final domestic demand depending on the products concerned. The impact of this slowdown on China's main partners will not be the same if it is only a shock on construction (which at first will mainly affect the national economy, with limited transmission via the trade channel to the rest of the world) or on investment, which mainly concerns final demand for manufactured products, or even if there is a general slowdown in final domestic demand. Three scenarios are therefore studied in this analysis: a uniform drop in Chinese final domestic demand in all sectors, a drop in Chinese final domestic demand only in the construction and real estate sector, and finally a drop in Chinese final domestic demand in the manufacturing sector. In order to compare these three shocks as they are transmitted to the rest of the world economy, they are all assumed to be of a similar size, corresponding to 5% of Chinese final domestic demand. The impacts of the Chinese slowdown on the rest of the world economy measured here can however be considered as lower bounds: in fact, the methodology used suggests that a shock in activity in China results in a contraction of imports with unitary elasticity. In the short term, however, elasticity of imports to GDP may be higher: this is the case, for example, for France in the Mésange model (► Bardaji et al., 2017), where imports of goods overreact in the short term to a variation in domestic demand. However, the OECD ICIO is available for 45 products only and has been simplified to 6 products for the purposes of this analysis. Thus for certain products, the methodology cannot be used to make a fine distinction between imports intended to serve Chinese domestic demand and those intended for assembly and

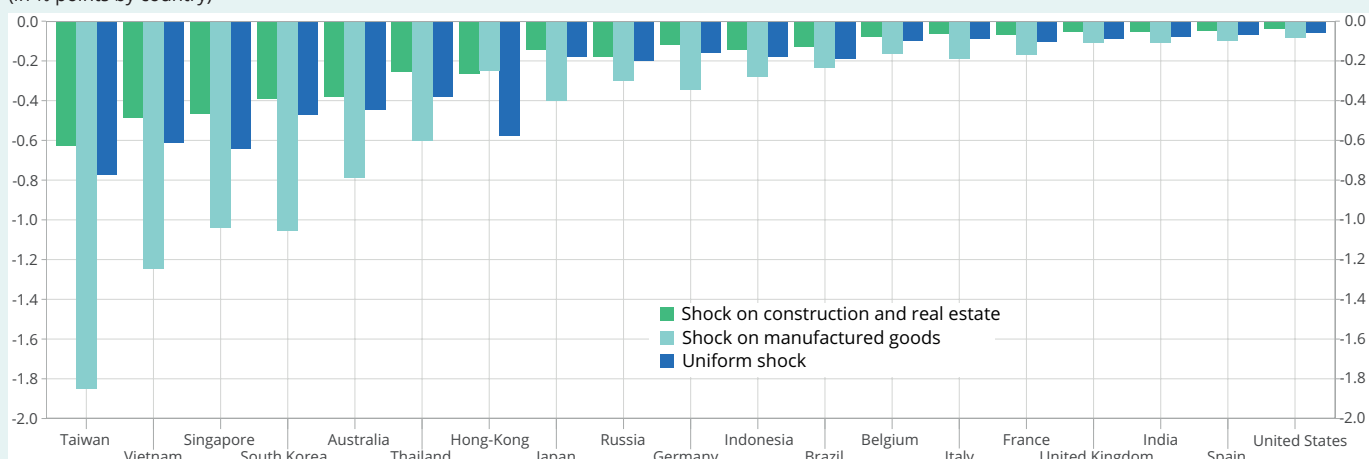
re-export ("processing trade"): as a result, the impact of the slowdown in Chinese domestic demand on Asian economies could be slightly overestimated.

If this shock were concentrated in the construction and real estate sector, final domestic demand in this sector would decrease by 16.2%: in fact it represented around 30% of total Chinese final domestic demand in 2019. Given the decline in real estate transactions and building starts (of the order of 50%), a decline of this magnitude is not excluded. Such a shock would have a limited impact on the rest of the world economy: in fact, it is primarily a domestic sector, and does not give rise to significant direct trade flows (► Figure 8). This shock would therefore have a much greater effect on Chinese GDP (-4.4 points) and little effect on its trading partners, even taking into account imported inputs from the sector (► Figure 10). In Europe, the impact would be -0.1 points on change in the German GDP and lower than this threshold for the other countries, including France. The economies most affected would be those that are most integrated into Asian value chains: Taiwan with -0.6 points of GDP, Vietnam or Singapore with -0.5 points of GDP. The direct diffusion effects of a Chinese real estate crisis would therefore be contained, if this crisis remains confined to the construction sector with no transmission to other components of the Chinese economy.

The contagion effects of a crisis in Chinese final domestic demand could be greater for the rest of the world in general and for European countries in particular if the real estate crisis in China were to lead to an investment shock that could be modelled as a negative shock of Chinese demand on manufactured products. A shock on the same scale, but concentrated on demand for manufactured products (i.e. around -30% on these products), would have much more pronounced effects for China's trading partners. This shock would result in a drop in Chinese GDP of 3.7 points (► Figure 10). Germany would be the western country most

► 10. Effect of a Chinese domestic demand shock (-5 %) on change in GDP in the partner countries, according to three scenarios

(in % points by country)



Note: by approximation, GDP is calculated as the sum of value added across all sectors of a country.

How to read it: a uniform shock of -5% on Chinese final demand would ultimately result in a 0.8 point drop in GDP growth for Taiwan.

Source: OECD 2019, INSEE calculations.

affected (-0.35 points of GDP), with an effect double that of France. Japan (-0.4 points) and South Korea (-1.1 points), which are mainly exporters of products manufactured in China, would also be affected.

Finally, a shock uniformly affecting the entire Chinese final domestic demand of -5% for all products would be equivalent to a drop of 4.3 points in Chinese GDP. The partner economy most affected would be Taiwan, with a drop of 0.8 points in its GDP, followed by Vietnam, Hong Kong and Singapore (-0.6 GDP points), South Korea and Australia (-0.5 GDP points) and Thailand (-0.4 GDP points). This result is consistent with the observation by ▶ [Bertrand, Villani, 2023](#) on the dependency of Asian economies on Chinese growth. In addition, exporters of commodities to China, such as Australia (-0.4 points) would be significantly affected. For other countries, especially in Europe, the scale of the shock would be less. The effect on Germany (-0.2 GDP points) would be almost twice as great as for France (-0.1 GDP points).

Thus, depending on its composition, a decline in Chinese final domestic demand of 5%, via the trade channel alone, would have a limited impact on change in French GDP, of between -0.1 and -0.2 points. This order of magnitude is lower than that presented in ▶ [Alhenc-Gelas, 2014](#), which estimated that a 1% drop in activity in all the emerging countries (i.e. an impact of approximately half that estimated here) had an impact of -0.2 points in the long term on French GDP. There are several factors that can account for this difference in magnitude: on the one hand, in this earlier study, the elasticity of imports to GDP was assumed to be equal to two, whereas a unitary reaction is assumed here (which tends to lessen the impact of the Chinese slowdown on the rest of the world economy via the trade channel). On the other hand, China's openness rate has decreased since 2014, going from 22% to 17% in 2021 (according to the OECD).

The decline in the price of oil caused by a drop in Chinese final domestic demand would benefit the French economy and compensate for the negative effect of the trade channel

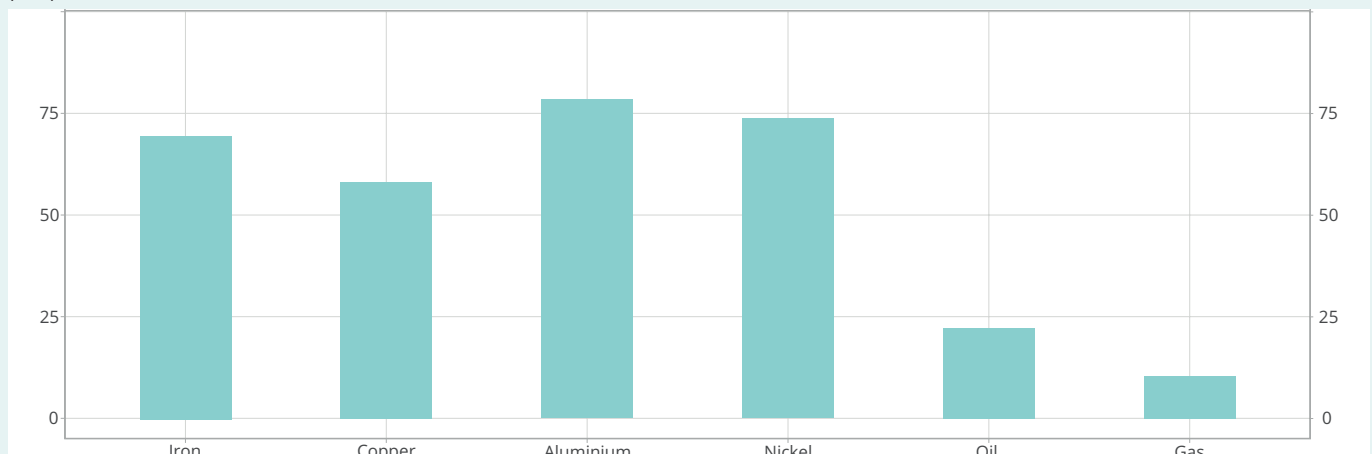
For a fuller assessment of the impact of a Chinese slowdown on the French economy, we must also take into account its effect on commodity prices, especially oil. A decline in Chinese GDP growth could bring prices down, which in turn would have effects on China's economic partners and especially on France.

In fact, oil consumption in China has increased sharply for several decades (▶ [Du et al., 2010](#)). China is the main player in many of the commodities markets. In 2022, it represented 55% of global coal consumption (▶ [GSA, 2023](#)), 80% of aluminium ore imports, around 70% of nickel and iron imports, and 58% of copper (▶ [Figure 11](#)). China is also the second largest consumer of oil in the world, after the United States, and its consumption is constantly increasing: in 2023 it represented 16.1% of global oil consumption. For simplification, this study focuses on the effect of Chinese growth on the price of oil, as in macroeconomic models it is often thought to represent commodity prices in the broad sense.

Due to the weight of the price of oil, several articles highlight a positive elasticity between it and Chinese growth, but its extent is debated (▶ [Figure 12](#)). According to ▶ [Bernard et al., 2013](#), in the short term, a drop in global activity of 0.5% would reduce the price of oil by about 3%. Since China represents between 16% and 17% of the world economy (▶ [IMF, 2023](#)), a 0.5% drop in global activity would therefore be equivalent to a 3% drop in activity in China, i.e. an elasticity of the price of oil to Chinese activity of 1. However, this first analysis does not take into account the particularly strong Chinese activity in

▶ 11. China's share in world imports of commodities by value in 2022

(in %)



How to read it: in 2022, Chinese iron imports represented 68.9% of world iron imports.

Source: Trademap.

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commodities, especially oil. According to ► [Roache, 2012](#), the elasticity of the price of oil to Chinese activity is likely to be a little over 2, whereas according to ► [Cashin et al., 2017](#), it is 2.8. In a recent simulation exercise using the Nigem macroeconomic model, ► [Alonso et al., 2023](#) used an elasticity of 9 for the price of oil to Chinese GDP. ► [Kolerus et al., 2016](#) obtained an oil price elasticity to Chinese industrial production of around 7 (and 5 to 7 for metal prices). Conversely, some articles show up no effects of Chinese growth on oil prices ► [Mu and Ye, 2011](#), ► [Ahuja and Nabar, 2012](#), ► [Hongzhi, 2016](#) and ► [Ghoshray and Pundit, 2020](#).

By assuming an elasticity of the price of oil to Chinese activity of around 3, a drop of 5 points in Chinese domestic demand would correspond to a decline of 15% in the price of a barrel of oil, or around 12 dollars at the current price (for a price of 82 dollars a barrel). In France, the Mésange model ► [Bardaji et al., 2017](#) is able to quantify the effect of such a drop in the price of oil on activity: it would result in an increase of 0.1 points of GDP in one year and 0.3 points of GDP in two years.

Thus, if we combine the effects of a 5% drop in Chinese final demand via the trade channel and via the commodities channel, the Chinese slowdown would have a weak and ambiguous effect for France. Depending on the assumptions made for each of these two channels, this net effect would be either slightly positive or slightly negative. If we assume that Chinese imports react in the short term with supra-unitary elasticity to a contraction in Chinese domestic demand, then the negative impact of the Chinese slowdown via the trade channel would be more significant for France and could surpass the positive effect via the price of commodities. Conversely, this price could be revised upwards if a value greater than three were chosen for oil price elasticity to Chinese demand (some articles highlight values of up to 7 or 9): with such an assumption, the impact of the Chinese slowdown on France could even be slightly positive.

This result is similar to that obtained by ► [Alonso et al., 2023](#): according to these authors, for the Eurozone countries, the favourable effects of the slowdown in the Chinese economy on the decline in commodity prices outweigh the unfavourable effects via the trade channels. ●

► 12. Elasticity of the price of oil to Chinese activity (in %)

Bibliography	Elasticity of the price of oil to Chinese activity (in %)
IMF (2011)	6
Roache (2012)	2
Bernard et al. (2013)	1
Roache and Rosset (2015)	7-9
Kolerus et al. (2016)	7
IMF (2016)	7.5
Alonso et al. (2023)	9
Mu and Ye (2011)	not significant
Ahuja and Nabar (2012)	not significant
Hongzhi (2016)	not significant
Ghoshray and Pundit (2020)	not significant

Source: INSEE.

Method: Modelling from the Inter-Country Input-Output Tables

The OECD Inter-Country Input-Output (ICIO) Tables are a database covering production in 77 countries of 45 types of product, their resources and their intermediate and final use. The year used for this Focus is 2019.

Each row describes the possible uses of a (product x country) pair, i.e. a product manufactured in a country. The ICIO is composed mainly of the Inter-Country Table of Intermediate Inputs (ICII), which describes the intermediate uses of the $77 \times 45 = 3465$ (countries x products) pairs in the production of these 3465 pairs of (countries x products), and a matrix of 77 columns describing final demand in each country for each of these 3465 pairs (with each pair on a separate row). Thus, imports and exports do not appear directly in the ICIO for each country x product pair, as these flows are processed “transparently”: a country’s production of a product is directly linked to the use (final or intermediate) of this product, within the national economy or abroad. It is nevertheless possible to reconstitute net exports for a country x product pair, from the sum of uses abroad.

The ICIO originally contained 77 countries and 45 products, but is here reduced to 21 countries and 6 products/sectors, i.e. 126 (country x product) pairs. The 21 selected countries are China, its main trading partners and the main advanced economies: Australia, Belgium, Brazil, Germany, Spain, France, United Kingdom, Hong Kong, Indonesia, India, Italy, Japan, South Korea, Russia, Singapore, Thailand, Taiwan, United States, Vietnam and the rest of the world. The 6 sectors considered are the following: agriculture and agrifood industry, energy, chemicals, manufacturing (excluding agrifood and chemicals), construction and real estate and, finally, the rest of services.

The OECD ICIO Tables can be used to measure the impact of a slowdown in Chinese domestic demand on the main global economies using a methodology similar to [► Cornuet F. et al., 2019](#) : this estimate is carried out with the structure of world trade unchanged, as in [► Cornuet F. et al., 2019](#), as the drop in Chinese final demand does not take into account possible reorganisations of production chains and demand for goods and services.

The resources-uses balance of a (country x product) pair i is therefore written as equality of production of i with the sum of its final uses (denoted EF_i) and its intermediate uses. We can rewrite the sum of intermediate uses using production X and technical production coefficients (contained in a matrix denoted A):

$$X = EF + A.X, \text{ i.e. } X = (Id - A)^{-1}EF$$

X is the 126x1 column vector of productions for each (country x product) pair;

A is the 126x126 square matrix of technical coefficients;

EF is a 126x1 column vector, where each row corresponds to final demand, all countries combined, for each country x product pair. This vector may be interpreted as the product of the 126x21 matrix of final demands in the 21 countries, multiplied (on the right) by a 21x1 column vector filled with 1.

To assess the effect of a drop in Chinese final demand on production in the partner countries, the equality above is rearranged as follows:

$$X = (Id - A)^{-1}EF$$

To move from production to value added, it is possible to rewrite: $VA = V(Id - A)^{-1}EF$

or $V = VA/X$, is a diagonal matrix of size 126x126 containing the value added/production ratios of each country x product pair.

$$\Delta VA = V(Id - A)^{-1}\Delta EF$$

Thus to obtain the effect of a drop in Chinese final demand on a country’s GDP, take the sum of the resulting variations in value added across all sectors.

Three shock scenarios are simulated for Chinese domestic demand to estimate their impact on the main world economies: (i) a homogeneous shock of -5% on Chinese final demand, obtained by applying a drop of -5% to all of Chinese final demand (one of the 21 columns in the matrix of final demand); (ii) a shock to Chinese domestic demand in construction and real estate, and (iii) a shock to Chinese domestic demand in manufactured products. The last two shocks were obtained by applying a reduction to Chinese final demand, but only in the sectors considered (i.e. only certain rows in the column associated with China in the final demand matrix, corresponding for all countries of origin to country x construction and country x manufactured products pairs respectively), by calibrating this drop so that it is the same size as a 5% shock on all domestic demand. ●

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Energy and commodities

After a substantial decline between mid-2022 and mid-2023, world energy and commodity prices have generally stabilised, for the most part at higher levels than those of 2019. However, some food commodity prices are still very much affected by climatic uncertainties and have once again increased in recent months.

The price of oil (Brent) was \$82.5 on average in 2023 (\$84 in Q4) and since the beginning of 2024 it has been around \$80 (► [Figure 1](#)). On the supply side, the announcements of successive reductions in OPEP+ production quotas, those of Saudi Arabia in particular, have been offset by other producers, notably the United States (more than 13.2 million barrels of crude oil were being produced there every day in late 2023, ► [Figure 2](#)). The major upheavals in the Middle East also pose risks to supply chains and are fuelling price volatility. On the demand side, the International Energy Agency is expecting more sluggish consumption in 2024, particularly in Europe and especially in China (+1.2 million barrels per day against +2.3 million barrels per day in 2023). Over the forecasting period (to mid-2024), it is assumed that the price of oil will remain constant, at \$82 per barrel (or €75 assuming a euro-dollar exchange rate of 1.09 dollars for 1 euro).

The price of gas on the European market (TTF) rebounded to €43.2/MWh on average in Q4 2023 (► [Figure 3](#)) following the outbreak of the Israel-Hamas conflict, with the fear that it could spread throughout the Middle East pushing prices upwards. Since then, the price of gas has fallen back and at the beginning of 2024 was below €30/MWh. This is still about 50% above the pre-pandemic level and significantly higher than the price of gas on the North American market (Henry Hub), where the price is below \$10/MWh. On the demand side, temperatures are unseasonably high in Europe, curbing the consumption of natural gas, and inventory in the European Union is close to its highest level reached in the last five winters, which is fuelling price reductions.

The price of carbon dioxide (CO₂) on the European Union Trading Emissions System was €83.6 per tonne on average in 2023, but fell back sharply in early 2024 against a backdrop of sluggish industrial activity throughout the European Union, especially in Germany (► [Figure 4](#)).

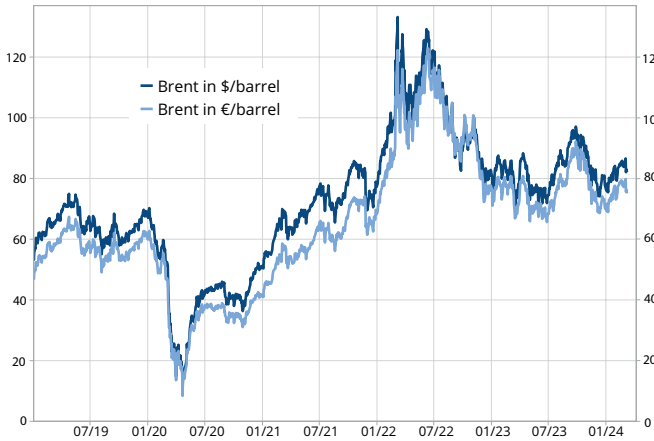
Non-energy commodity prices have returned overall to their mid-2021 levels, especially those of minerals and agro-industrial materials, such as nickel or lumber (► [Figure 5](#)). The increased demand observed after the global health crisis now seems to have been absorbed, including in China. Prices are nevertheless still 15% to 50% higher than before the health crisis.

Lastly, food commodity prices, which are strongly affected by climate hazards, follow much more contrasting trends. While prices of the main products affected by the Russian invasion of Ukraine (wheat, maize, sunflower oil, etc.) have largely eased back, other prices, like those of sugar, cocoa and olive oil, increased substantially in 2023 and early 2024 (► [Figure 6](#)) due to extreme climate events (El Niño phenomenon in the South Pacific, heavy rains in West Africa, prolonged drought in Spain, etc.). ●

International economic outlook

► 1. Price of oil (Brent) in dollars and euros

(daily values)



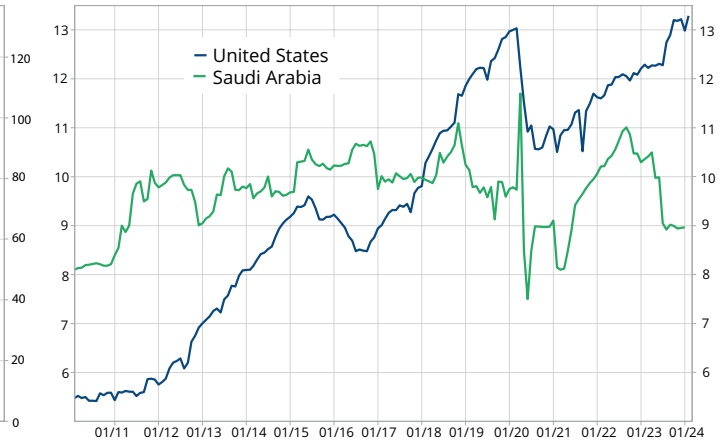
Last point: 8 March 2024.

How to read it: on 8 March 2024, the price of a barrel of Brent was \$82,1.

Source: Commodity Research Bureau.

► 2. Production of crude oil in the United States and Saudi Arabia

(monthly values, in millions of barrels per day)



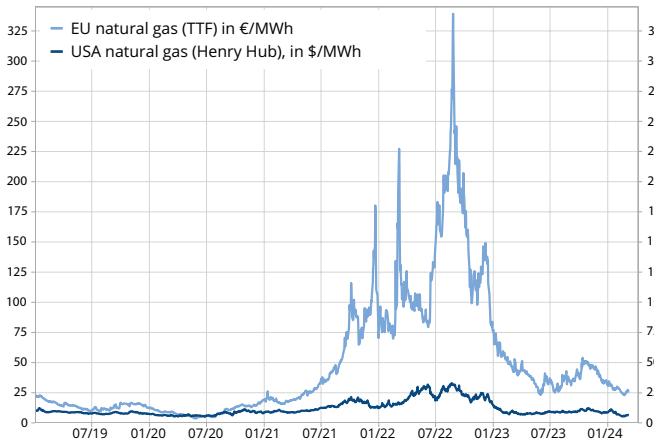
Last point: February 2024 for United States, January 2024 for Saudi Arabia.

How to read it: in February 2024, production of crude oil in the United States was 13.3 million barrels per day.

Source: Energy Information Administration (EIA), OPEP.

► 3. Natural gas prices in Europe and in the United States

(daily values)



Last point: 8 March 2024.

How to read it: on 8 March 2024, the value of natural gas futures contracts at the next expiry date in the Netherlands (TTF) was €26.4 per megawatt-hour.

Source: ICE Futures Europe, New York Mercantile Exchange.

► 4. Price of a tonne of CO₂ on the European Union Emissions Trading System

(daily values, in euros)



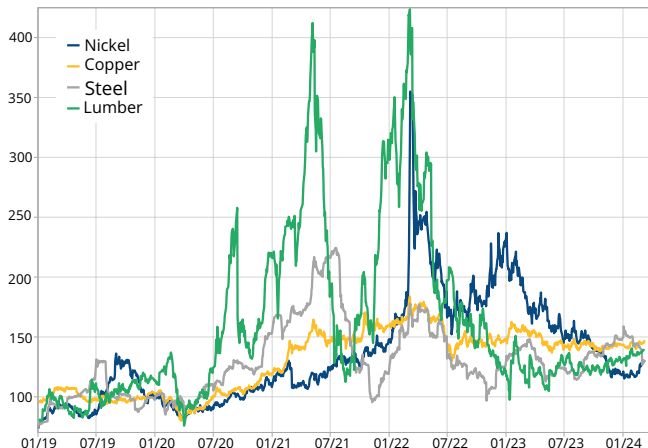
Last point: 8 March 2024.

How to read it: on 8 March 2024, the price of a tonne of CO₂ on the European Union Emissions Trading System was €56.6.

Source: ICE Futures Europe.

► 5. Prices of nickel, copper, steel and lumber

(daily index – base 100=2019)



Last point: 8 March 2024.

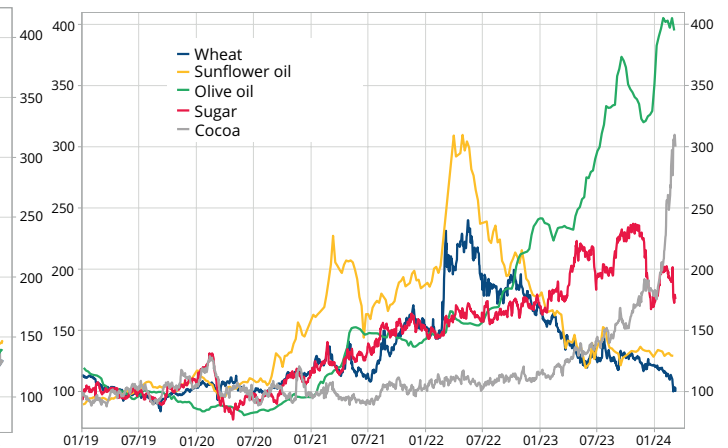
Note: the indices measure price changes in euros.

How to read it: on 8 March 2024, the price of copper in euros was 46% above its 2019 average.

Source: London Metal Exchange, Chicago Mercantile Exchange, New York Mercantile Exchange.

► 6. Prices of wheat, sunflower oil, olive oil, sugar and cocoa

(daily index - base 100=2019)



Last point: 8 March 2024.

Note: the indices measure price changes in euros.

How to read it: on 8 March 2024, the price of cocoa in euros was 200% above its 2019 average.

Source: Euronext Paris, APK-Inform, Spanish agriculture ministry, ICE Futures US.

Eurozone

In Q4 2023, the main Eurozone economies continued to advance at different rates

In Q4 2023, activity was again at a standstill in the Eurozone: this was the fifth consecutive quarter of virtually zero growth for the monetary zone. On average in 2023, activity slowed significantly (+0.5% after +3.4% in 2022): the buoyancy of the post-health crisis catch-up had run its course while the effects of inflation and monetary tightening were being felt, especially in household investment. Meanwhile, corporate investment resisted fairly well on average throughout the year, although some signs of weakness emerged towards the end.

Among the main Eurozone economies, the dynamics of growth in France and Italy were generally quite similar in 2023 (+0.9% in France and +1.0% in Italy), as they had been in Q4 2023 (+0.2% in Italy ► **Figure 1** and +0.1% in France). In both countries, foreign trade bolstered growth towards the end of the year (due to dynamic exports in Italy and a sharp decline in imports in France) and domestic demand fell back. In France, investment, both by businesses and households, held back growth. Conversely, investment was vigorous in Italy, especially investment in construction, which continues to be driven by powerful public support measures (► **Focus** construction in Eurozone). However, private consumption has fallen significantly.

The German engine, in contrast, has collapsed. Activity declined in Q4 2023 (-0.3%) as it had done throughout the year (-0.1% in WDA data in 2023). Domestic demand contracted in Q4 2023: it was boosted slightly by household and government consumption (+0.2% and +0.3% respectively), but was heavily penalised by investment (-1.9%). This decline occurred not only in investment in construction, but also in investment in equipment. In a context of stagnating world trade, the two components of foreign trade declined in similar proportions, -1.6% for exports and -1.7% for imports, with

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

(quarterly variations in % and contributions in points)



How to read it: in France, in Q4 2023, GDP increased by 0.1% and the foreign trade contributed around +0.9 points.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

International economic outlook

zero effect on growth. As a result, German exports fell back for the fifth consecutive quarter, giving rise to a continuous loss of market share.

Meanwhile, the Spanish economy continues with its catch-up: activity increased by 0.6% in Q4 2023 and by 2.5% on average in 2023. In contrast to Germany, Spanish exports are growing faster than world demand, thus the Spanish economy is gaining market share: foreign trade contributed significantly to growth in 2023 (+0.8 points). Purchasing power is solid, driven by a steady increase in employment and real wage gains, resulting in a more marked increase in consumption than in the other major Eurozone countries.

Cyclical divergences are likely to continue into Q1 2024 then lessen by mid-year

Business tendency surveys in the four main Eurozone economies suggest that the divergence observed at the end of 2023 is expected to continue at the beginning of 2024 (► **Figure 2**). It is likely that Spain will continue its catch-up momentum in Q1 (+0.6%, ► **Figure 3**), and this will then slow somewhat (+0.5% in Q2). The confidence indicator is close to average in Italy, where growth is expected to continue at a moderate pace (+0.2% in both quarters). In France, Q1 is likely to be adversely affected with industrial production in difficulty and investment in housing still in decline: activity is expected to stagnate before rebounding in Q2 (+0.3%), as restrictions are eased a little. In contrast, the business tendency surveys are still very much in decline in Germany and in Q1 it is likely that the country will see GDP fall again (-0.1% after -0.3%), before returning to moderate growth in Q2 (+0.2%), driven by household consumption.

After exceeding 10% at the end of 2022, inflation in the Eurozone fell back throughout 2023, dropping to 2.6% in February 2024. However, from January 2024, the withdrawal by governments of price moderation measures, especially for energy, is likely to limit any further decline in inflation in the coming months (► **Focus** inflation in Eurozone).

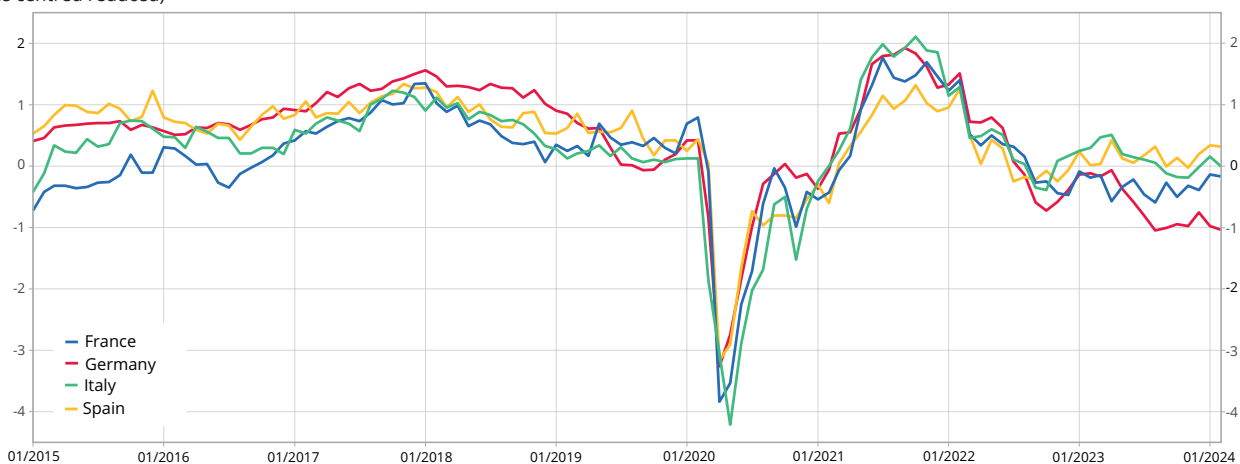
Purchasing power is expected to improve, driven by wages, which are still buoyant. In Spain and Germany, Q1 will see sizeable increases in the minimum wage (+5% and +3.4% respectively). In Q2, several pay rises will come into force in Germany, negotiated through collective bargaining agreements. In Italy, wages continue, slowly, to catch up with inflation. These increases in purchasing power should therefore boost private consumption in the Eurozone countries, although in Germany purchasing power is unlikely to improve until Q2.

With base interest rates being held at their high levels, investment will continue to be affected in the Eurozone, especially in construction. In Germany, as in France, activity in this sector looks set to decline further (► **Focus** construction in Eurozone) although the pace of decline is gradually easing. In Italy and Spain, the introduction of recovery plans, including major packages for the energy renovation of buildings and the development of infrastructure, is expected to offset the negative effect of monetary tightening and investment should be able to hold out.

Regarding foreign trade, exports in the main Eurozone economies should increase again in Q1 2024, following the pattern of world trade (► **Figure 4**). On average across the quarter, due to cyclical differences, it is likely that the contribution of foreign trade in Spain will no longer be positive; in Germany it should be slightly positive and in Italy it is expected

► 2. At the beginning of 2024, the business climate improved slightly in the main Eurozone economies, except in Germany

(climate centred reduced)



Last point: February 2024.

How to read it: in Spain, in February 2024, the general business climate was standard deviation 0.3 above its long-term average (average over the period January 2005 to February 2024).

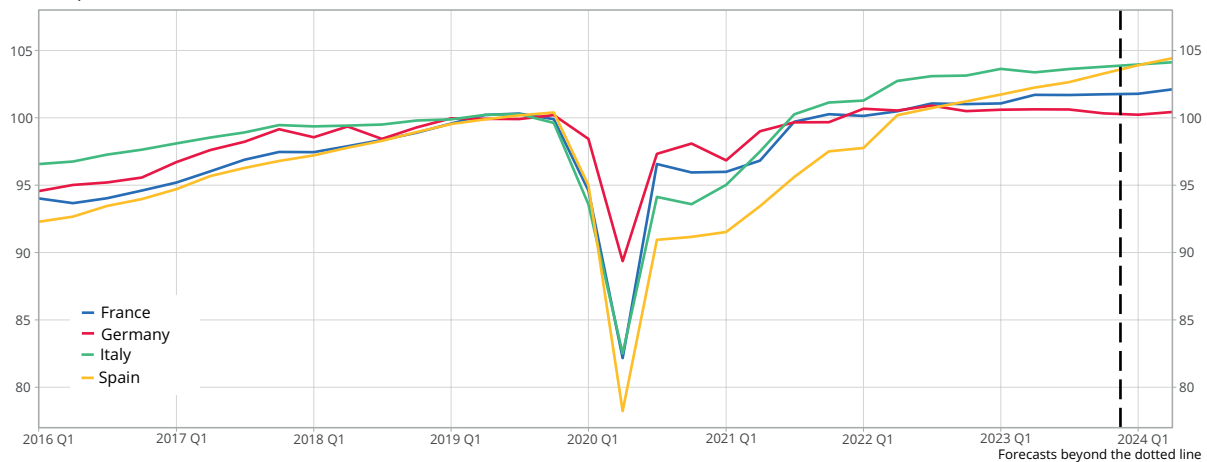
Source: DG ECFIN surveys.

to be zero. In France, foreign trade is expected to hamper growth in Q1 2024 as inventories are built up again after the extensive destocking process that occurred at the end of 2023; it should then support growth in Q2, with some large aeronautical and naval deliveries.

Overall, the Eurozone should expect to see another quarter of almost zero growth at the start of 2024 (+0.1%), but it should then bounce back (+0.3% of growth in Q2 2024) in the wake of the French and German economies. In these two countries, this rebound is expected to be driven by a smaller decline in investment in construction and a moderate upswing in consumption. ●

► 3. Past and forecast changes in GDP

(base 100 in 2019)



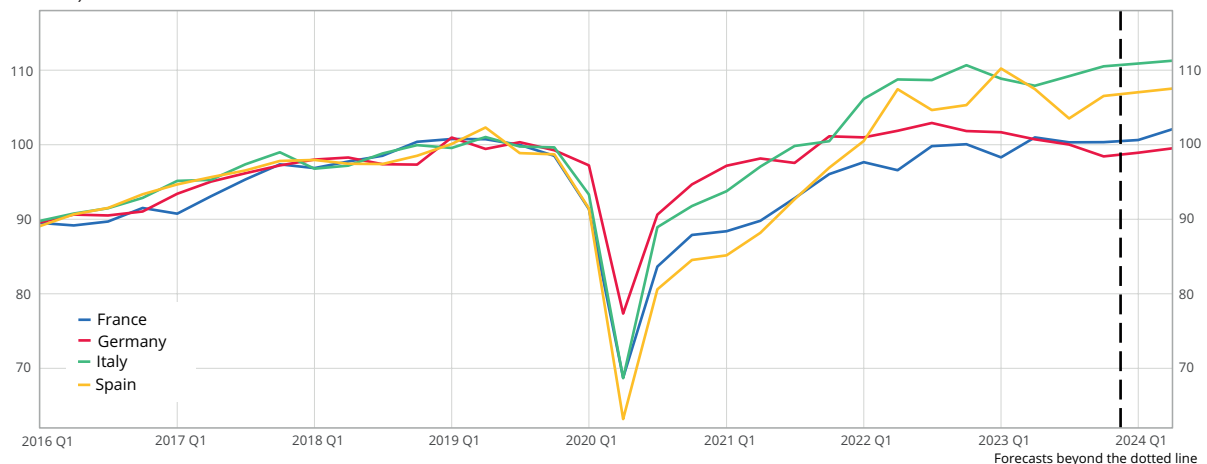
Last point: Q2 2024.

How to read it: in Q4 2023, GDP in volume in Germany was 0.4% above its 2019 average.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

► 4. Past and forecast changes in exports

(base 100 in 2019)



Last point: Q2 2024.

How to read it: in Q4 2023, exports in volume in Spain were 7.6% above their 2019 average.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

International economic outlook

By June 2024, the easing of inflation in the main Eurozone countries is likely to be limited with several measures to assist households coming to an end

At the start of 2024, the year-on-year variation in consumer prices (within the meaning of the Harmonised Index of Consumer Prices, HICP) fell back in the four main Eurozone economies in varying degrees. In all countries, this slowdown was driven by the prices of food and manufactured goods, however the situation was much more varied regarding energy prices: overall in recent months these have made a negative contribution to HICP in Italy and also, to a lesser extent, in Germany and Spain, while in France they are a little higher than a year ago. However, in terms of comparisons with before the health crisis, Italy and Germany have seen a more pronounced increase in energy prices, with Italian consumers hit by electricity price hikes, and Germans by gas price hikes. Conversely, in Spain energy prices have increased least compared to before the crisis, with the situation there more favourable both for gas and electricity, while France is in an intermediate position.

In H1 2024, governments' withdrawal of price moderation measures, particularly energy prices, is likely to check the decline in inflation in all countries. In June 2024, inflation within the meaning of HICP is expected to be around 3.5% in Spain, 3% in Germany and 2% in Italy, with inflation in France a little below that of Germany. Inflation in Germany and Spain is likely to be around the same as at the beginning of the year, with the rise in energy inflation offset by the fall in other components. Inflation is expected to fall back in France, as the slowdown in food prices is more pronounced than elsewhere, while inflation in Italy is expected to rise, and move nearer to the level in other countries. It is still likely to remain below these levels, however, mainly because core inflation is more moderate, reflecting differences in wage dynamics.

Narjis Benchekara, Gabriele Carboni, Meryam Zaiem

At the start of 2024, inflation continues to decline in the main European economies

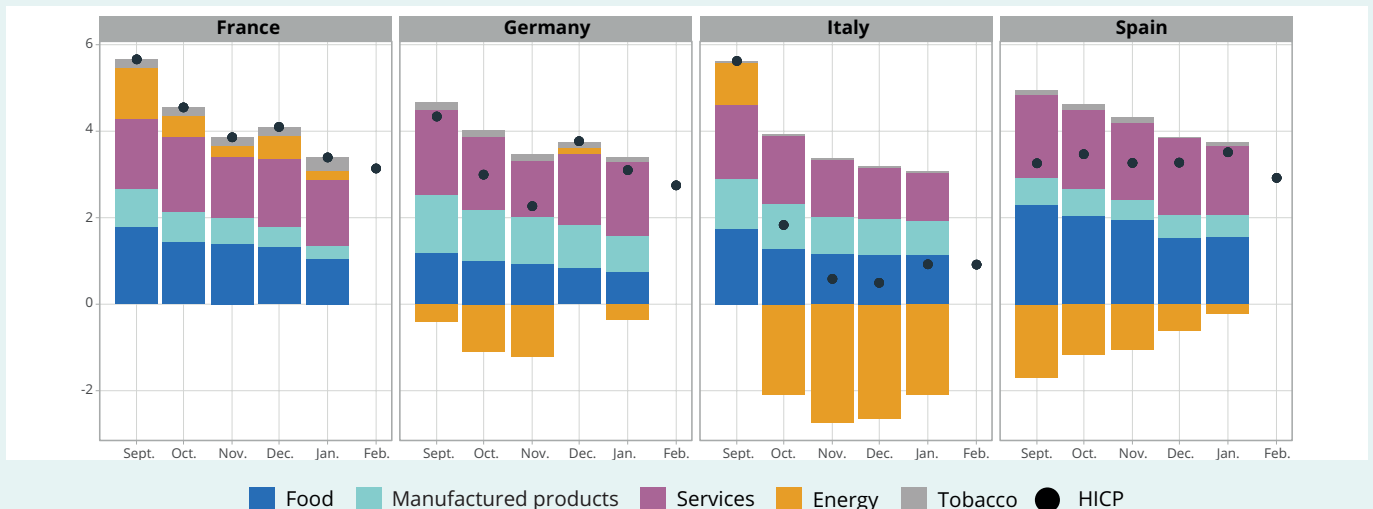
In January 2024 (last month for which detailed indices are available), consumer prices within the meaning of the Harmonised Index of Consumer Prices (HICP, ► **Methodology box** on the difference in year-on-year variation in France between the CPI and the HICP) slowed year-on-year in France (+3.4% after +4.1% in December 2023) and Germany (+3.1% after +3.8%); on the other hand they accelerated in Italy (+0.9% after +0.5%) and Spain (+3.5% after +3.3%). More generally, inflation continued to decline in the main Eurozone economies towards the end of 2023 and the beginning of 2024

(► **Figure 1**) in varying proportions: the drop in inflation was very pronounced in Italy, more gradual in France and Germany, and less in Spain. This observation is confirmed overall by the provisional estimates for February 2024 (for which the different components are not yet known for all countries): the year-on-year variation in the HICP decreased in France (+3.1%), Germany (+2.7%) and Spain (+2.9%), but remained stable in Italy (+0.9%).

In all countries, this trend of slowing prices is driven by the contributions of food and manufactured goods. For energy prices, the situations are more varied. In France, energy prices are a little higher than a year ago and energy inflation has therefore contributed positively to headline

► 1. Inflation (within the meaning of the HICP) and contributions by item

(year-on-year change in the HICP in % and contribution of items in points)



Last point: February 2024 (for which contributions were not yet available at the time of going to press).

How to read it: in France, in January 2024, the Harmonised Index of Consumer Prices increased by 3.4% year-on-year, with a contribution of +1.5 points for services.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

inflation. Conversely, in Germany, Italy and Spain, energy has made a negative contribution to the HICP overall in recent months. This is especially the case in Italy, as a result of the very high prices seen a year ago. This is also the case in Germany, although to a lesser extent, with the exception of December 2023 when energy prices accelerated, due to the low prices seen a year earlier, as a result of a one-off government payout to cover part of household gas bills at the end of 2022. Finally, in Spain, energy prices contributed negatively to headline inflation, but to a lesser and lesser degree, as they are converging towards prices of a year ago.

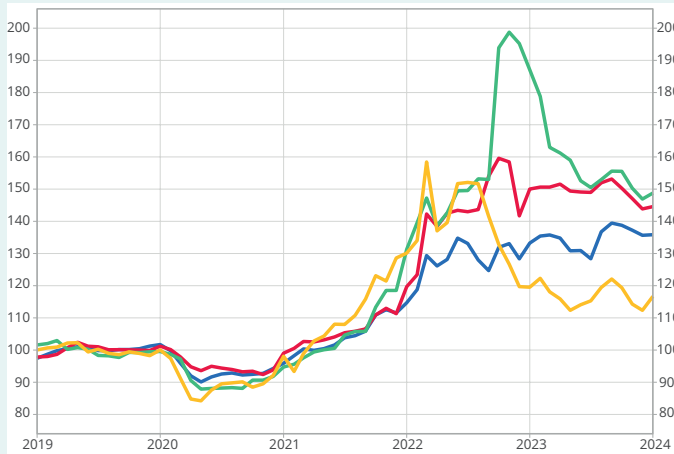
Since the health crisis, gas and electricity prices have risen less in Spain than elsewhere in the Eurozone

Comparing levels before the health crisis, it is in Spain that energy prices have risen least: in January 2024 they were 17% above those seen in 2019 (► **Figure 2a**). Next comes France, which has experienced a 36% increase in energy prices compared to 2019. Finally, prices are generally higher in Germany (+45% compared to 2019) and Italy (+49%). In Italy, prices reached a significant peak between the end of 2022 and the beginning of 2023 because of the combined increase in both gas and electricity prices over this period.

► 2. Harmonised Indices of Consumer Prices in the main Eurozone economies

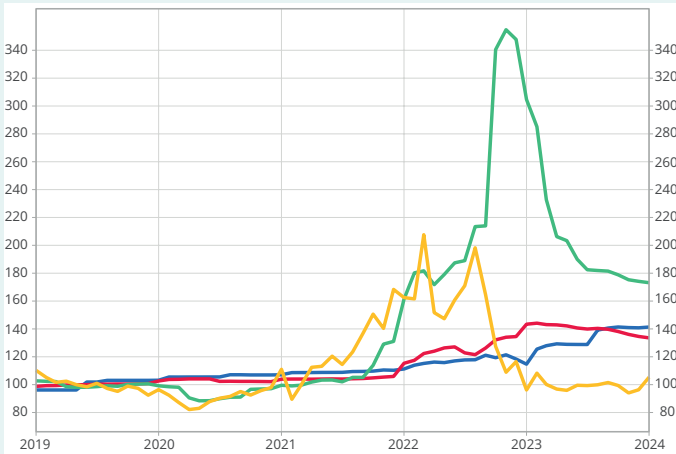
(HICP level, base 100 in 2019)

2a. Energy



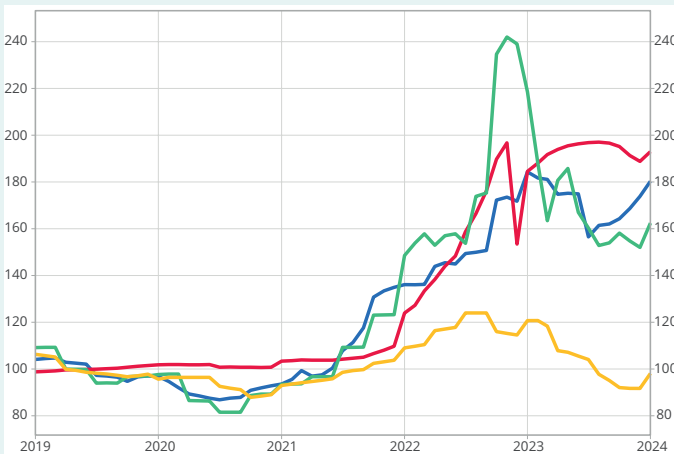
Last point: January 2024.
How to read it: in January 2024, in Spain, energy prices were 16.7% above their 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

2b. Electricity



Last point: January 2024.
How to read it: in January 2024, in Spain, electricity prices were 5.4% above their 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

2c. Gas



Last point: January 2024.
How to read it: in January 2024, in Spain, gas prices were 1.9% below their 2019 level.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.



International economic outlook

Regarding electricity prices specifically, they started to diverge in the Eurozone from summer 2021 (► [Figure 2b](#)). The post-Covid recovery of the economies boosted demand for energy products even though production capacities were still limited. Until mid-2022, it was in Spain and Italy, where electricity contracts are more often indexed to market prices, that the increase in prices was most pronounced. However, from this time onwards, their trajectory diverged completely: with the activation of the “Iberian Mechanism” (MIBEL), electricity prices fell dramatically in Spain from autumn 2022. Today, they are at the same level as in 2019. In Italy, in contrast, electricity prices initially increased sharply, and were more than three and a half times higher than prices before the crisis. They have come down since, but today they are still 73% above their 2019 level. In France and Germany, the increase was more gradual, especially with the introduction of the tariff shield in France: in these two countries, electricity prices are 34% and 41% respectively above their 2019 level.

Regarding gas prices (► [Figure 2c](#)) the invasion of Ukraine by Russia at the beginning of 2022 led to a divergence between the situation in Spain on the one hand and that in the other three major Eurozone countries on the other. Gas prices increased all at once in Germany, France and Italy throughout the period: in January 2024, prices in these countries were 93%, 80% and 62% respectively above their pre-crisis level, reflecting the persistent tensions surrounding supply chain. Prices in Italy even hit a peak of 142% above their 2019 level in autumn 2022, before dropping back. In Spain, however, prices remained consistently closer to their 2019 level than elsewhere in Europe and in January 2024 they were at the same level as pre-crisis.

In H1 2024, the end of several consumer protection measures is expected to slow the decline in inflation in the main Eurozone economies

To mitigate the effect of prices on household purchasing power, each country put measures in place from mid-2022. With the standardisation of market prices, governments are now expected to gradually bring these protection mechanisms to an end during H1 2024, which is expected to slow the decline in inflation during this period.

In January 2024, VAT on gas was increased again in Italy and Spain. In France, excise duty on natural gas increased and in Germany, the price of a tonne of carbon (which affects consumer prices of gas and also fuel) was also revised upwards by 50%. This resulted everywhere in an increase in the price of gas (► [Figure 2c](#)), and this was despite a drop in gas prices on the European market. Other measures to increase VAT on gas are planned during H1, in Germany (increase from 7% to 19% in March) and in Spain (increase from 10% to 21% in Q2).

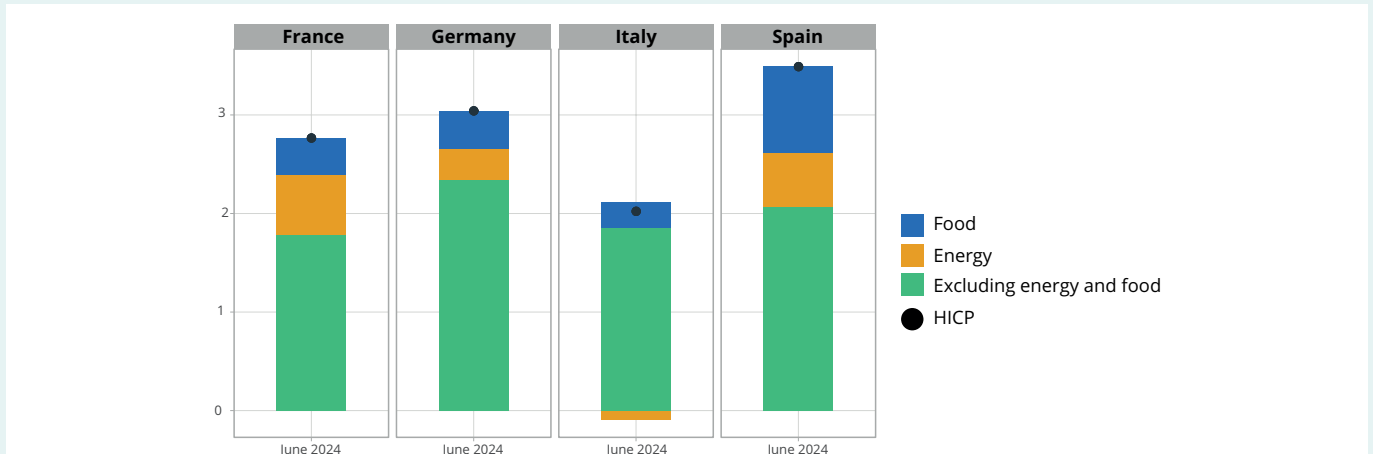
Concerning electricity, VAT in Spain was raised from 5% to 10% in January 2024. Excise duty will also be gradually restored during H1, until it returns to its pre-crisis level in July. In France, as part of the exit from the tariff shield, excise duty on electricity was also partially restored in February. Finally, in Germany, electricity prices are expected to be revised upwards in April by some operators due to the increase in transport costs, with the federal government having put an end to subsidies on the network following the November ruling by the Constitutional Court in Karlsruhe. In its December 2023 forecasts, the European Central Bank estimated that withdrawing energy support measures would result in an increase of around 0.4 percentage points in headline inflation in the Eurozone for 2024.

In June 2024, inflation in Italy is expected to edge closer to that of the other Eurozone economies

Inflation in June 2024 within the meaning of the HICP is expected to be +3.5% in Spain, +3.1% in Germany, +2.8% in France and +2.0% in Italy (► [Figure 3](#)). In Spain and Germany, inflation should therefore be close to its January 2024 level, with the rise in energy inflation offsetting price drops in other components. In France, inflation should fall back a little, as the decline in food prices is expected to be more pronounced than elsewhere. In Italy, on the other hand, inflation is expected to increase to converge with the level of the other Eurozone economies: although Italian inflation is currently still very far from that of other countries (+0.9% year-on-year in January), mainly due to the strong contribution to the fall in energy prices, this effect will probably no longer be seen in June.

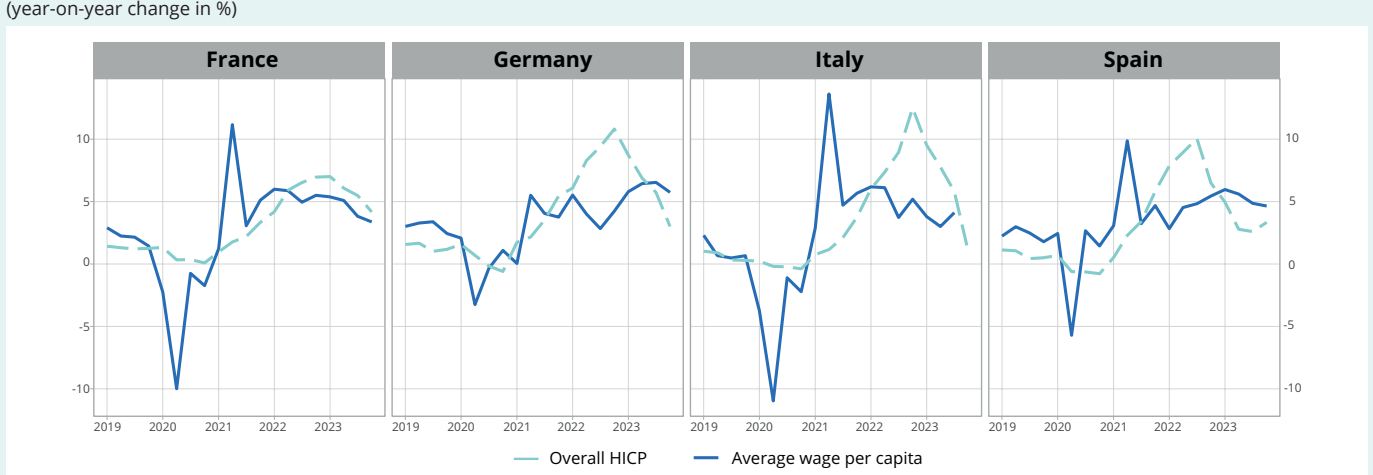
In Italy and France, however, inflation is expected to remain lower than in Germany and Spain, since core inflation is less dynamic, and wages are growing less rapidly in these two countries (► [Figure 4](#)). In Germany, the core index has also been boosted by the increase in VAT in catering from 7% to 19% in January 2024. In France, energy prices are expected to make a more substantial contribution to headline inflation than in Italy, with the result that it is expected to be higher than the variation in prices in Italy. ●

► 3. Headline inflation forecasts (within the meaning of the HICP) and contributions by item for June 2024 (year-on-year change in the HICP in % and contribution of items in points)



How to read it: in June 2024, in France, inflation within the meaning of the HICP is expected to be 2.8%, with food contributing 0.4 points.
Source: INSEE, Destatis, Istat, INE, INSEE calculations.

► 4. Average wage per capita and headline inflation (within the meaning of the HICP) in the main Eurozone economies (year-on-year change in %)



Last point: Q4 2023.

How to read it: in Q4 2023, in Spain, the average wage per capita increased from 4.6% year-on-year, i.e. less quickly than the Harmonised Index of Consumer Prices, which increased by 3.3% year-on-year.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

Methodology: difference in year-on-year variation in France between the CPI and the HICP

In France, the Consumer Price Index (CPI) and the Harmonised Index of Consumer Prices (HICP) differ in their construction. For example, in January 2024, prices within the meaning of the HICP were more dynamic year-on-year (+3.4%) than the year-on-year variation in the CPI (+3.1%). It is mainly the processing of health products and services in the two indices that accounts for this difference: the HICP takes into account the outstanding balance paid by households whereas the CPI measures variation in prices, including Social Security reimbursements. This has two consequences: first, the prices of health services and products are more dynamic within the meaning of the HICP (+2.5% and +0.7% year-on-year respectively in January 2024) than in the CPI (+1.1% and -0.9% respectively). Second, the weight of these two categories within the index as a whole is less in the HICP than in the CPI. However, the prices of health services and products are traditionally less dynamic than other prices: thus the year-on-year variation in the HICP is often higher than that in the CPI, all other things being equal.

For France, forecasts for the Harmonised Index of Consumer Prices (HICP) are based on that for the CPI (► [Consumer prices sheet](#)), while taking into account the specific features of the HICP, which results in some slightly different variations. Thus, in June 2024, the year-on-year variation in the HICP is expected to reach +2.8% compared to +2.6% for the CPI. The increase in medical deductibles planned for the spring is likely to contribute 0.1 points to this difference, with the rest linked to differences in weighting. ●

Construction in France and Germany is expected to be penalised by a lack of demand, but should be bolstered by recovery plans in Italy and Spain

Since the health crisis, investment in construction has developed in some widely differing ways in the main Eurozone economies. The sector recovered quickly post-health crisis in France and Germany, but has fallen back since the beginning of 2022, mainly due to its residential component. In Spain, conversely, the sector still had catch-up potential at the start of 2022 and its non-residential component also benefited from funds from the European recovery plan. The situation in Italy is very unusual: investment in construction has grown by almost 45% since the end of 2019, as the result of a double budgetary stimulus combining the European recovery plan and the “Superbonus” scheme for housing renovation. In the coming quarters, the business tendency surveys suggest that these short-term differences are likely to continue between France and Germany on the one hand, where investment in building construction is likely to continue to fall back, affected by the increase in interest rates, and on the other hand between Italy and Spain, where the sector looks set to continue to be bolstered by the European recovery plan.

Gabriele Carboni, Meryam Zaiem

Since the crisis, investment in construction has risen by almost 45% in Italy due to government aid

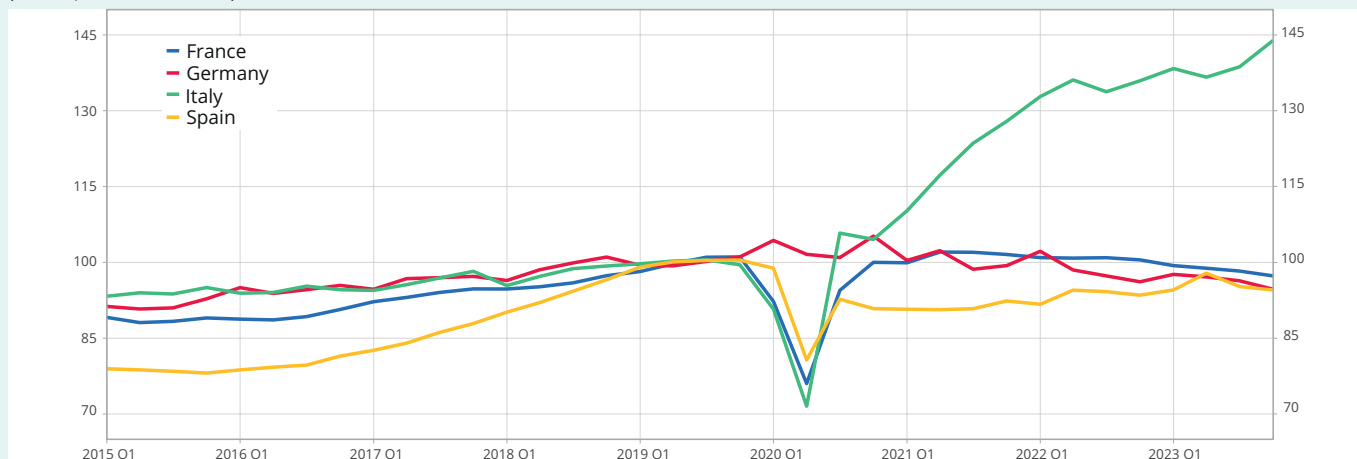
Since the start of the decade, investment in construction has experienced some contrasting developments in the main Eurozone economies (► **Figure 1**). It fell sharply everywhere during the pandemic, except in Germany where construction activity continued despite the 2020 lockdowns. Coming out of the crisis, construction trends in France and Germany were fairly similar, immediately returning to levels comparable to those of 2019, but then they gradually slipped back from early 2022, affected especially by increases in property loan rates. In Spain, from the end of 2020 to the beginning of 2022, the sector stabilised at a level significantly lower than before the crisis and has since benefited from a catch-up dynamic. In Italy, it saw a spectacular rise in 2021 and early 2022, and has continued to increase since then, although less rapidly, exceeding its 2019 level by almost 45% at the end of 2023.

Investment in construction is made up of two main components: residential investment, which corresponds mainly to household investment¹ (bringing together the construction of new homes and major maintenance of second-hand dwellings), and non-residential investment, which tends to concern companies and general government, and corresponds to the construction and maintenance of non-residential buildings (offices, businesses, warehouses, etc.) and civil engineering works. Over the recent period, investment in construction in France and Germany has been mainly hit through residential investment and by non-residential investment to a lesser extent (► **Figures 2a** and **2b**). In Spain, the increases in investment that occurred in 2022 and 2023 came from non-residential investment, whereas residential investment has been virtually stable since the end of 2020 and is around 7% below its pre-health crisis level. Italy is in an unusual situation: residential investment increased

¹ The breakdown by product given here does not correspond exactly to that usually used in the *Economic outlook* by institutional sector. In fact, part of the investment in housing comes from businesses (in France, especially when the owner is a social housing landlord), and conversely, part of household investment is in services (in particular costs linked to the purchase of housing in the second-hand sector).

► 1. Investment in construction in the main Eurozone economies

(in level, base 100 in 2019)



Last point: Q4 2023.

How to read it: in Q4 2023, in Italy, investment in construction was 43.9% above its 2019 level.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

very significantly in 2021 and at the beginning of 2022 was almost 60% above its pre-health crisis level. It stabilised in 2022 before increasing again in 2023. At the end of 2023, it stood at about 70% above the pre-crisis level. Non-residential investment grew more steadily and at the end of 2023 it stood at 16% above its level at the end of 2019.

The dynamism of residential investment in Italy derives from renovation work, which since mid-2020 has benefited from the introduction of the housing renovation scheme called the “Superbonus”. Although the terms of this aid have recently been modified to make it less attractive, until the beginning of 2023, under the scheme the government covered 110% of spending on renovation work. The total cost of the scheme is expected to be in excess of €140 billion by the end of 2023 (of which approximately half in 2023) and it has largely contributed to putting considerable strain on the Italian public debt over the recent period (in 2023 this debt stood at 7.2% of GDP after 8.6% in 2022).

For the coming quarters, the business tendency surveys suggest a relatively good performance of the sector in Italy and Spain, but the decline is expected to continue in Germany and France

For the coming quarters, the business tendency surveys suggest that the economic divide in the construction sector is likely to continue: the business climate is certainly much more favourable in Italy and Spain than in France and Germany. It is well above its long-term average in Spain and even more so in Italy, whereas it has been falling for over a year in France and Germany, and has deteriorated

particularly in the latter (► **Figure 3**). In Italy, in addition to government aid for renovation which, although it has been tightened, has been maintained, the southern European economies are expected to benefit from substantial European funding from the recovery plan (excluding loans, the amounts for these two countries stand at €72 billion for Italy and €80 billion for Spain²), only part of which has so far been distributed by the European Commission. This funding is partly directed towards infrastructure projects (development of public transport networks and electrical infrastructure in particular).

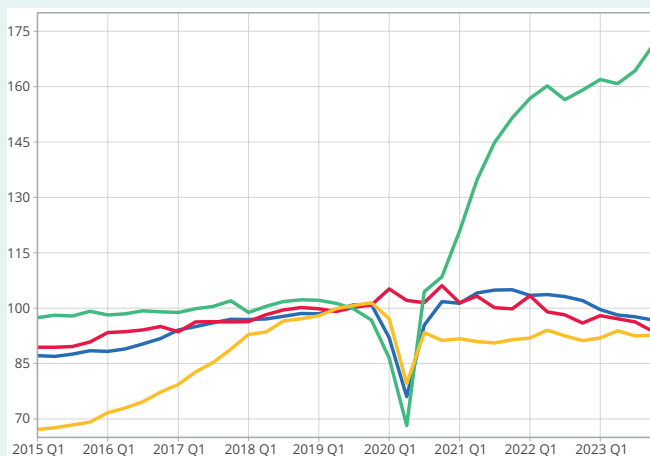
From the business tendency surveys it is also possible to study those factors that are limiting the activity of companies in the sector in the different countries.

Thus in France and Germany and even more so in Spain, the lack of demand for new housing is hampering activity in the sector (► **Figure 4a**). Conversely, more and more Italian companies are citing the lack of labour force as a limiting factor (► **Figure 4b**). In contrast, the number of Italian companies reporting a lack of equipment as a limiting factor is declining, as it is elsewhere in Europe, although still at a higher level (► **Figure 4c**). More generally, the share of companies experiencing supply difficulties is declining in France and Germany but remains high or is increasing in Italy, where the sector is visibly having difficulty keeping up with demand, in a context where investment in construction has increased by almost half since before the crisis. French companies report limitations with labour force more often than companies elsewhere. ●

² Mid-term evaluation of the [Recovery and Resilience Facility \(RRF\)](#), the EU's recovery instrument, centrepiece of the [NextGenerationEU plan](#).

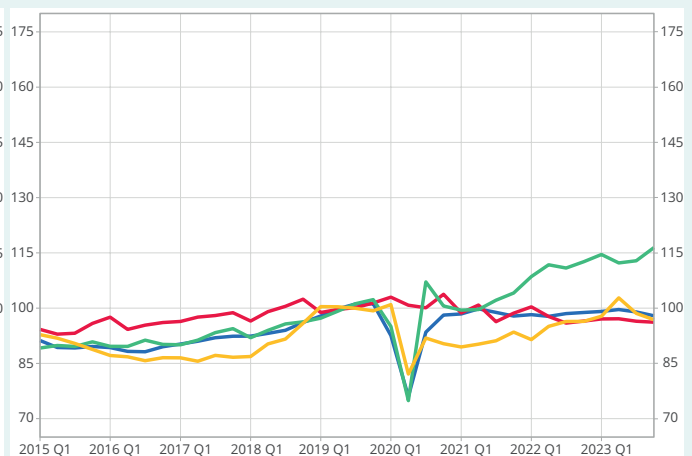
► 2a. Investment in construction: residential component

(in level, base 100 in 2019)



► 2b. Investment in construction: non-residential component

(in level, base 100 in 2019)



— France — Germany — Italy — Spain

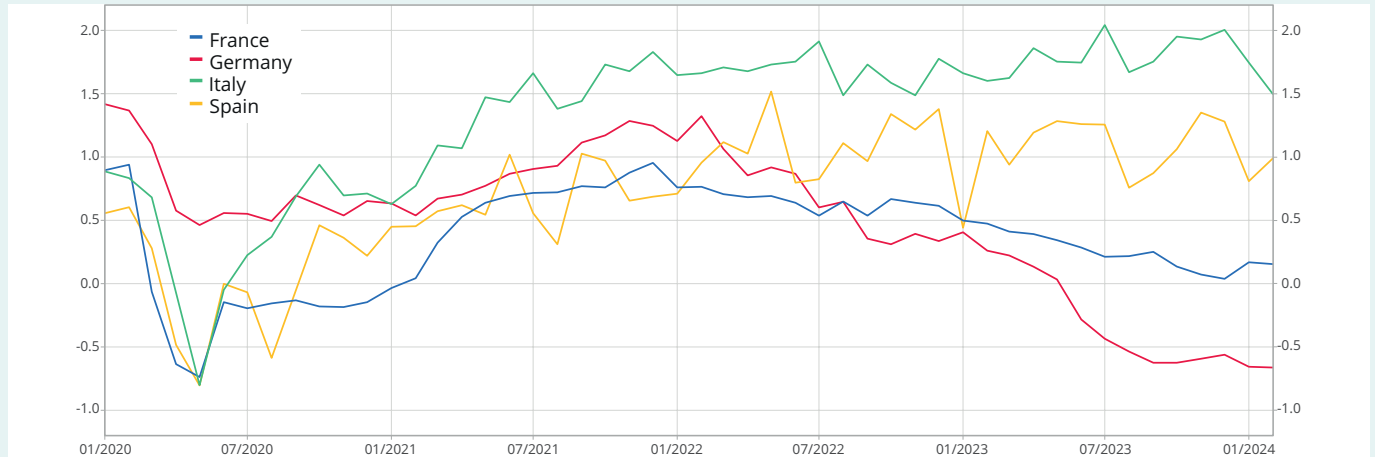
Last point: Q4 2023.

How to read it: in Q4 2023, in Italy, residential investment was 71.2% above its 2019 level.

Source: INSEE, Destatis, Istat, INE, INSEE calculations.

International economic outlook

► 3. Confidence indicator in construction (average balance)



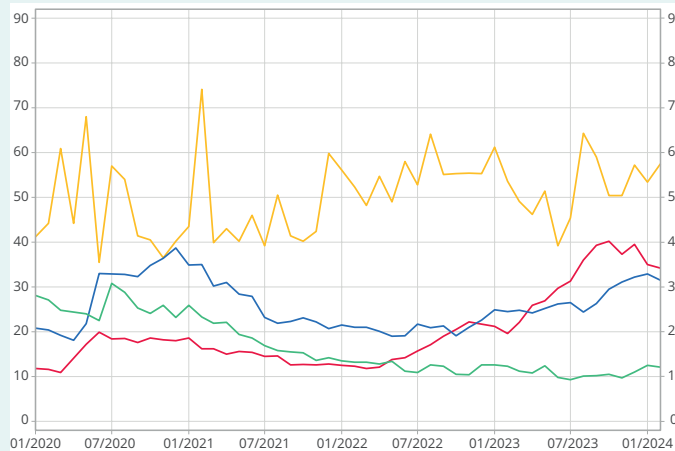
Last point: February 2024.

Note: data are taken from the business tendency surveys of companies. The construction confidence indicator is an aggregate indicator. It corresponds to the average of the balances on the current level of orders and on employment expectations in the next 3 months. This confidence indicator has also been centred (average of balance between January 2005 and May 2023) and reduced in order to facilitate comparisons between countries.

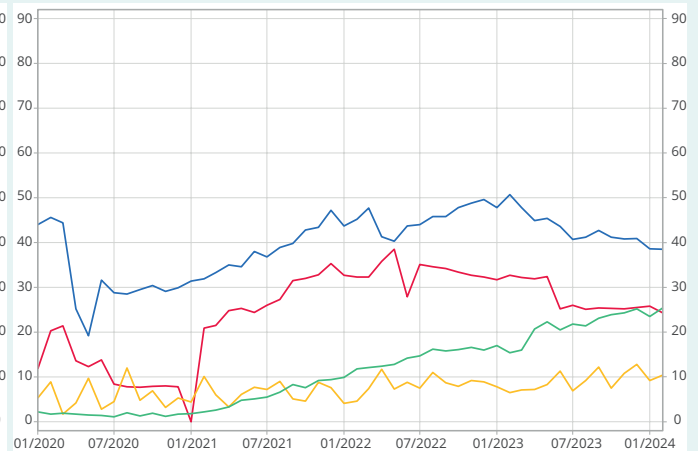
How to read it: in February 2024, in Italy, companies in the construction sector have a higher level of confidence than normal: the aggregate indicator is 1.5 points above its long-term average level (average of the balance between January 2005 and May 2023).

Source: DG ECFIN surveys, INSEE calculations.

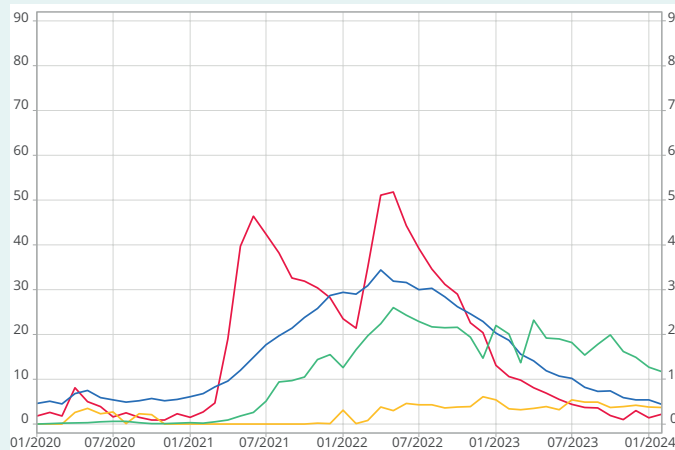
► 4a. Companies where activity is limited by a lack of demand (share in %)



► 4b. Companies where activity is limited by a lack of labour (share in %)



► 4c. Companies where activity is limited by a lack of equipment (share in %)



Last point: February 2024.

How to read it: in February 2024, in Spain, 57.5% of construction companies reported that lack of demand limits their activity.

Source: DG ECFIN Surveys.

United Kingdom

In Q4 2023, the United Kingdom entered recession, with activity shrinking for the second consecutive quarter (-0.3% after -0.1% in Q3, ► **Figure 1**). Across the whole of 2023, activity stagnated (+0.1%).

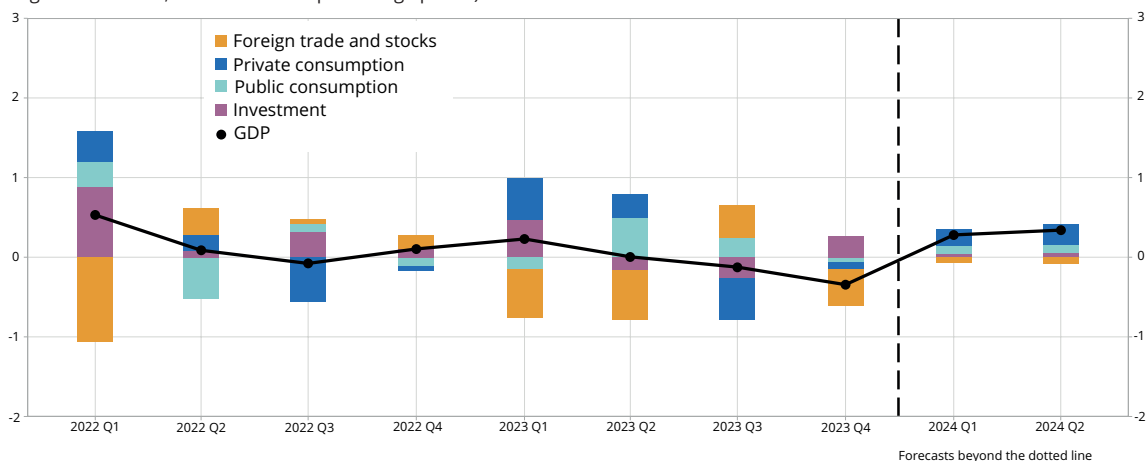
Household demand has been very much affected by the Bank of England’s restrictive monetary policy. Home investment in particular continued to fall back sharply for the fifth consecutive quarter (-1.9% in Q4 after -2.0% in the previous quarter); across the whole of 2023, it declined by 6.8%. Household consumption, which had held up well in H1, was also depressed at the end of the year, shrinking over two consecutive quarters (-0.1% in Q4, after -0.9%). However, corporate investment, which was boosted by some one-off events (windfall effect of the ending of the Super deduction scheme, aircraft imports from the United States), was very dynamic (+1.5% in Q4), showing +6.1% growth in 2023. Meanwhile, foreign trade hampered growth in Q4, with exports shrinking more than imports (-2.9% and -0.8% respectively). However, its contribution was fairly neutral taken as an average over the year.

However, the short-term economic signals look fairly positive at the start of 2024 and suggest a probable upswing in activity. On the supply side, PMI levels continue to pick up (► **Figure 2**). On the demand side, household confidence has been trending upwards since the beginning of 2023: households have benefitted from the rapid decline in inflation, which fell to +4.0% in January and should reach the Bank of England’s target of 2% by June. Wage increases reached 5.8% year-on-year in Q4, and this trend should continue, with the minimum wage due to rise by 9.8% on 1st April. Purchasing power should therefore improve substantially, enabling consumption to recover, although household investment is expected to continue to decline sharply, still hampered by high interest rates. As far as companies are concerned, the public support measures put in place by the government in March 2023 (Full expensing) should continue to bolster investment. Exports are expected to rebound moderately, increasing in a similar way to world demand for British products. Imports are expected to be a little more vigorous, with the result that foreign trade is likely to hamper growth slightly in H1.

Given this context, activity is expected to pick up in H1 2024 (+0.3% forecast in both quarters), driven by domestic demand, especially consumption. For 2024, the mid-year overhang for GDP growth is expected to be +0.2%. ●

► 1. United Kingdom expected to come out of recession in H1 2024

(quarterly changes in GDP in %, contributions in percentage points)



Last point: Q2 2024.

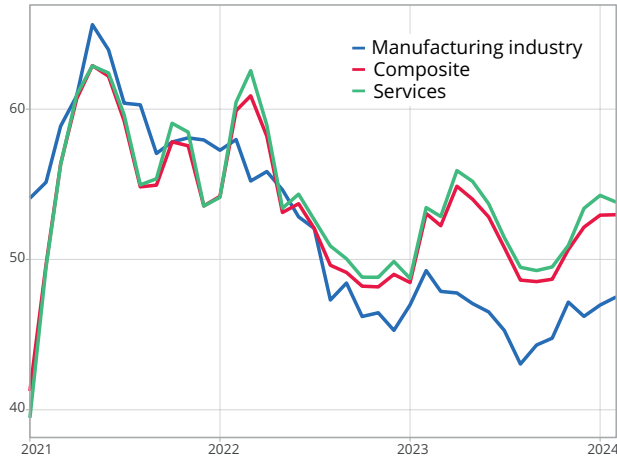
How to read it: in Q4 2023, GDP fell by 0.3%. Investment contributed +0.3 points to this decline.

Source: ONS, INSEE calculations.

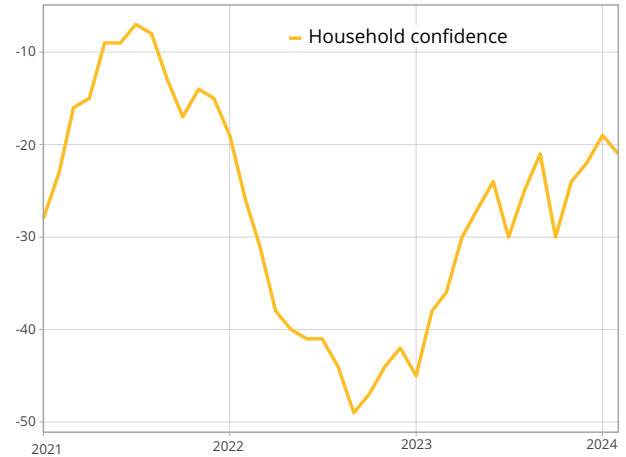
International economic outlook

► 2. Business climate and household confidence have improved in the last few months

(PMI indices, in level)



(Household confidence indicator, in level)



Last point: February 2024.

Note: the PMI gives a monthly evaluation of economic activity based on surveys of purchasing managers. An index higher than 50 indicates an expansion in activity, while an index below 50 suggests a contraction. The consumer confidence index provides a monthly snapshot of consumers' perceptions of their finances and the UK economy. It is constructed on the basis of their opinions on their financial situation over the last 12 months and that anticipated in the coming year.

How to read it: in February 2024, the composite PMI was 53 and the consumer confidence index was -21.

Source: S&P Global, GfK.

United States

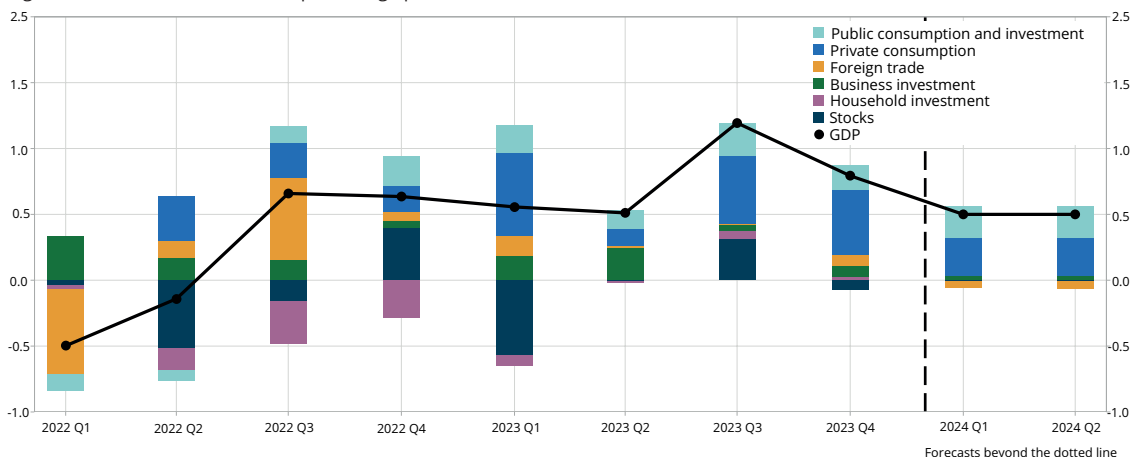
Despite the monetary tightening imposed by the Federal Reserve since the start of 2022, the American economy remained solid throughout 2023. GDP increased by 0.8% in the course of Q4 2023, after +1.2% in Q3 (► **Figure 1**) with growth at +2.5% across the whole year. Private consumption was particularly strong (+0.7% in Q4 and +2.2% for the year), with households benefitting from strong job creations and once again reducing their savings ratio in H2. In addition, activity continued to receive substantial public support, with government consumption and investment increasing by 1.0% in Q4 and 4.0% across the year. Only home investment was badly affected by the monetary tightening and fell back sharply (-10.6% in 2023 after -9.0% in 2022).

Inflation declined significantly from mid-2022 to mid-2023 and has remained at around 3% since then: it was +3.1% year-on-year in January (► **Figure 2**). Energy prices are down year-on-year (-4.6%), in the wake of oil prices. Food prices continue to decelerate (+2.6% in January 2024 after +2.7% in December 2023 and +10.1% a year earlier in January 2023). Core inflation still remains fairly high (+3.9%), boosted by the momentum of wages and housing costs, but it is coming down gradually.

Business tendency surveys picked up at the start of 2024 indicating that activity is still sustained. Job creations are expected to remain strong and wages dynamic, enabling households to reap the benefits of increased purchasing power. Private consumption is expected to increase once again in H1 2024, albeit at a slower pace than at the end of 2023, as the margins for downward adjustments of the savings ratio are diminishing. Home investment is expected to remain sluggish, due to the real estate market situation: mortgage rates remain high, and so are likely to continue to hinder purchase plans. Public consumption and investment should continue to increase vigorously. Exports, which were up 1.6% in Q4 2023, are expected to improve but at a slower pace in H1 2024, in line with demand for products. Because domestic demand is so buoyant, imports are expected to increase a little faster, and thus the contribution of foreign trade to growth is likely to be slightly negative. All in all, GDP should grow by 0.5% per quarter in Q1 and Q2 2024, with the mid-year growth overhang for 2024 standing at +2.2%. ●

► 1. Contributions of United States GDP components to growth

(quarterly change in GDP in %, contributions in percentage points)

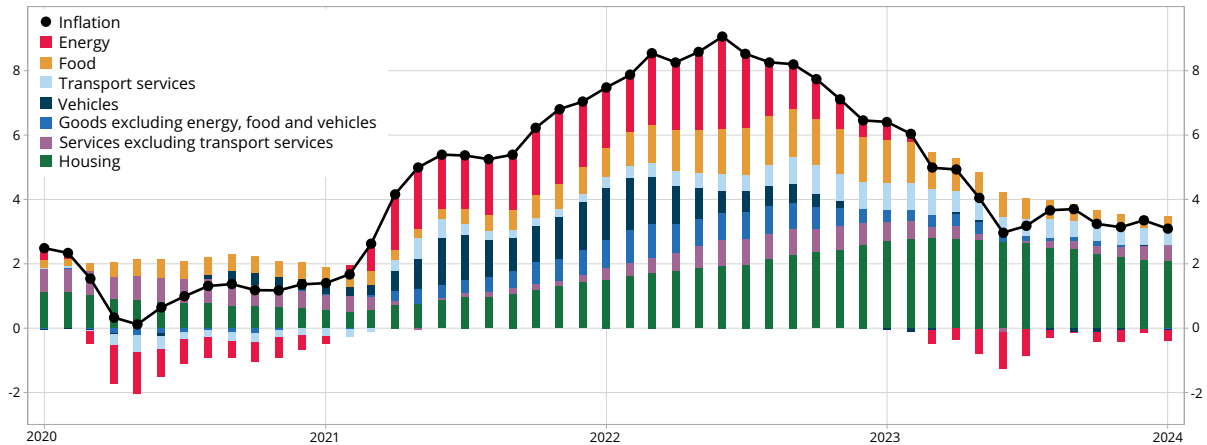


How to read it: in Q4 2023, US GDP increased by 0.8% and private consumption contributed +0.5 points to this growth.
Source: Bureau of Economic Analysis and INSEE forecast.

International economic outlook

► 2. Year-on-year variation in the consumer price index

(year-on-year change in the CPI in %, contributions in percentage points)



Last point: January 2024.

Note: the "Housing" item in the consumer price index (CPI) in the United States includes the price of rents, particularly imputed rents (which is not the case in the French CPI, where only actual rents are taken into account). The Harmonised Indices of Consumer Prices (HICPs) presented in the Inflation section of this Economic Outlook Report cover only actual rents, allowing comparisons to be made between countries.

How to read it: in January 2024, private consumption rose by 3.1% year-on-year in US, with housing prices accounting for +2.1 percentage points of this increase.

Source: Bureau of Labor Statistics.

China

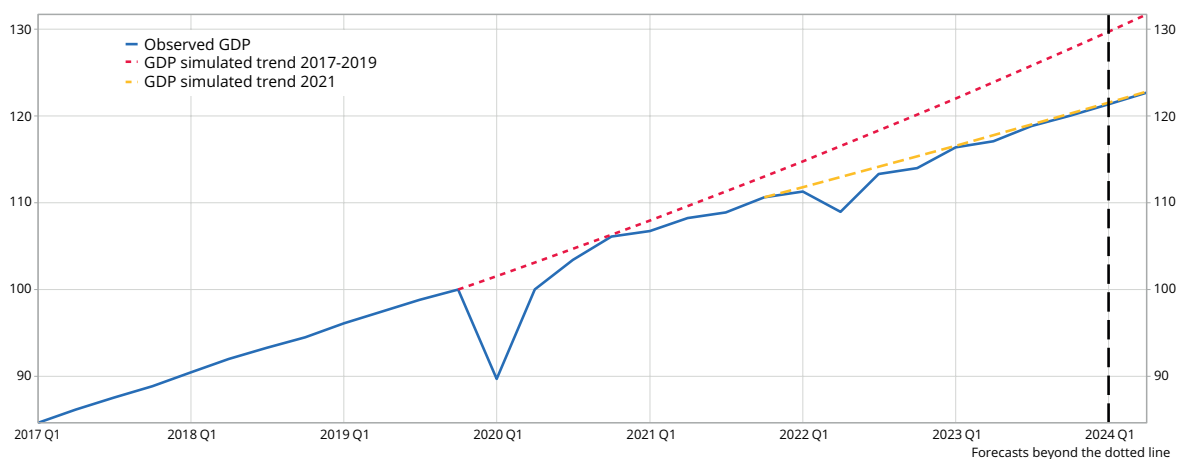
Since health restrictions were lifted towards the end of 2022, growth in activity in China has remained below its pre-pandemic trend (► [Figure 1](#), ► [Focus](#) slowdown in the Chinese economy). According to the Chinese National Bureau of Statistics, Chinese GDP would seem to have grown by 1.0% in Q4 2023 compared to the previous quarter (after +1.5% in Q3), indicating that Chinese growth was +5.2% on average across the whole of 2023, its lowest level since 1990, excluding the Covid period. While some industrial sectors linked to energy transition have been very dynamic, especially the production of electric and hybrid vehicles (+30% in 2023) or photovoltaic cells (+54%), the real estate sector continues to decline: in December 2023, real estate transactions and housing starts were 55% and 60% respectively below their pre-pandemic level. In this context, the financial situation of real estate developers is in decline: one of the largest in the country, Evergrande, was ordered into liquidation at the end of January 2024 by a Hong Kong court. In reaction to this, the Chinese authorities have activated support levers: the cities of Beijing and Shanghai announced new measures to ease property purchases and the People's Bank of China has once again eased its monetary policy. The financial risk seems to be contained for the time being, as the debt was financed mainly by domestic savings and the banking system is supported by the authorities, with the exception of shadow banking (or non-bank financial intermediaries), which is particularly exposed to the real estate sector.

Regarding household consumption, the confidence index dropped sharply at the beginning of 2022, and has not picked up. In December 2023 it was still a long way below its long-term average. In this sluggish context, there are deflationary pressures: in contrast to the major advanced economies, consumer prices are in decline (-0.8% year-on-year in January 2024, ► [Figure 2](#)). Food prices continued to fall back (-5.9% year-on-year in January), especially pork prices. Producer prices in industry are also in decline (-2.5% year-on-year in January).

The sluggishness of domestic demand is expected to hamper imports, which seem to have declined in Q4 2023 and are likely to improve only moderately in H1 2024. On the export side, Chinese companies have gained market share since the health crisis (whereas it had been generally stable since 2011), taking advantage of a weaker yuan, weaker producer prices and a favourable positioning in some market segments (e.g. electric vehicles). This trend looks set to continue for the end of 2023 and into H1 2024 (► [Figure 3](#)). GDP is expected to retain its average pace from 2021, i.e. +1.1% per quarter in Q1 and Q2 2024, thus confirming the break from the pre-pandemic trajectory. The mid-year growth hangover for 2024 would then be +3.6%. ●

► 1. Chinese growth remains below its pre-health crisis trend

(GDP, base 100 in Q4 2019)



Last point: Q2 2024 (forecast from Q1 2024).

Note: the trend curve for 2017-2019 has been constructed by extending the GDP series at a constant quarterly rate from Q1 2020, equal to average quarterly GDP growth over the period 2017-2019.

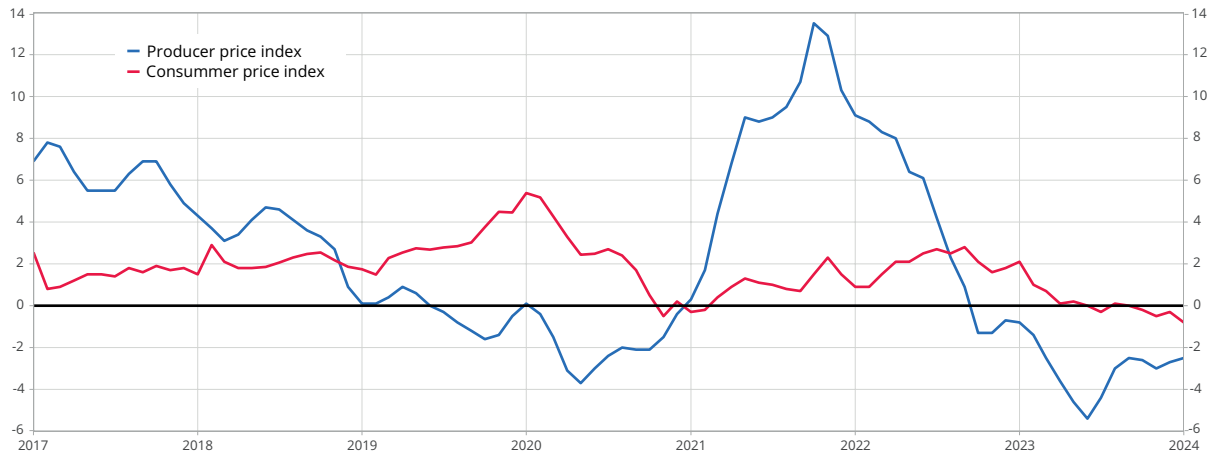
How to read it: in Q4 2023, GDP increased by 20% compared to its Q4 2019 level. According to the trend observed between 2017 and 2019, it would have increased by 28%.

Source: NBSC, INSEE calculations.

International economic outlook

► 2. Deflationary pressures persist

(year-on-year change in producer and consumer price indices, in %)



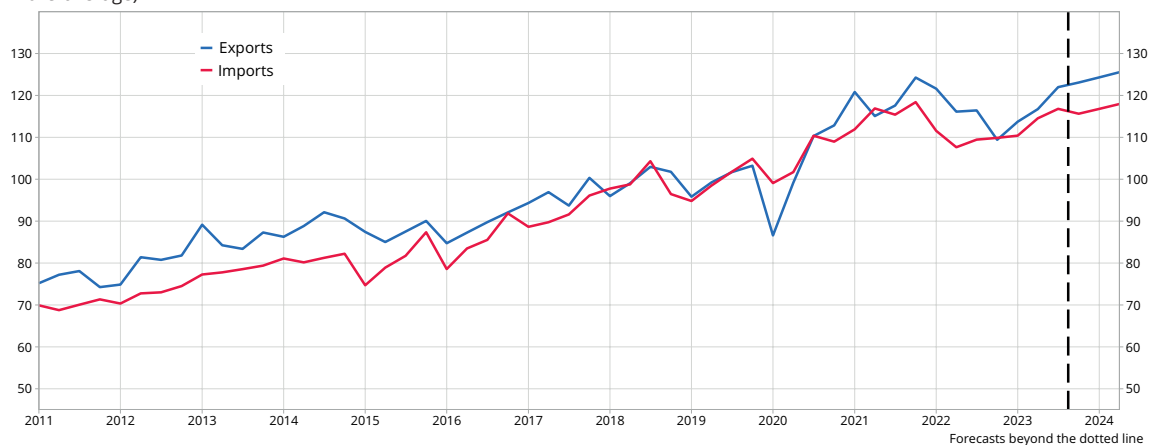
Last point: January 2024.

How to read it: in January 2024, production prices in industry fell by 2.5% year-on-year.

Source: NBSC, INSEE calculations.

► 3. Exports and imports are expected to increase at the same pace in H1 2024 in China

(base 100 = 2019 average)



Last point: Q2 2024 (forecast from Q4 2023).

Note: exports and imports of goods in volume.

Source: OCDE, NBSC, INSEE calculations.