

# Economic outlook

7 February 2023



Despite falling consumption in the main Eurozone economies, economic activity in the zone was generally stable in Q4 2022, with the effects of the energy crisis at this stage appearing to be less severe than had been feared.

In France, business surveys suggest a short-term situation that is both hesitant and relatively resistant, although household confidence remains depressed. Growth is therefore expected to remain slightly positive (+0.2% forecast in Q1 and Q2 2023), bringing the mid-year growth overhang to around +0.6% for 2023.

The year-on-year variation in consumer prices has been relatively stable since the summer, at around 6%, but the contribution of food has now outpaced that of energy. Energy is still likely to make a major contribution in February, however, with the increase in regulated electricity prices, after which it should fall back considerably as a result of the “base effect”. In June 2023, headline inflation is therefore expected to be around 5% over one year, with core inflation (which excludes the most volatile prices) remaining stable at a little above 5.5%.

## At the end of 2022, economic activity in France continued to slow, but did not decline

French economic activity slowed in Q4 2022 (+0.1% after +0.2% in Q3). The expected “cold snap” coming at the same time as gas and electricity price shocks for businesses thus resulted in a slowdown rather than a decline, despite a sharp fall in consumption. In particular, industrial output held up better than expected at the end of the year.

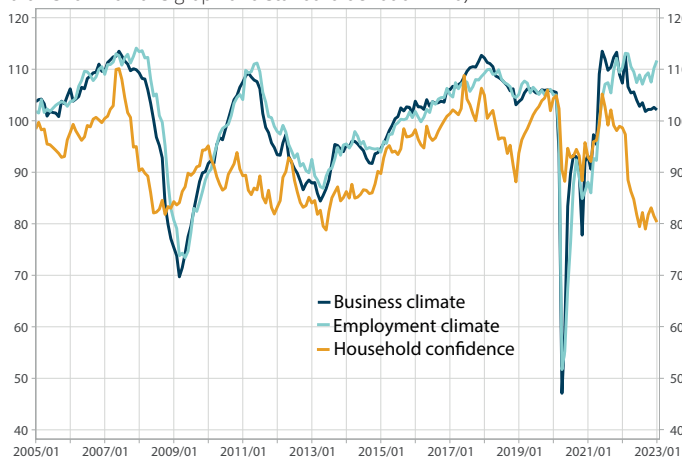
This relative resistance could be gauged from the business climate indicators produced from the different business tendency surveys, but the signals sent out by higher-frequency data (e.g. electricity consumption

by large industrial companies) seemed more negative. The difference can probably be put down to efforts to save energy and the fact that at the aggregate level, the relationship between electricity consumption and production, is not necessarily linear.

All in all, annual GDP increased by 2.6% between 2021 and 2022, a figure that mainly stems from the rebound in activity in mid-2021, as we emerged from the health crisis. Quarter on quarter, GDP grew at a slow pace in 2022 (at +0.15% on average per quarter), in an international context characterised by a succession of shocks (complex management of the Covid-19 pandemic in China, war in Ukraine) and by the very high level of inflation.

### ► 1. Business climate, employment climate and household confidence indicators in France

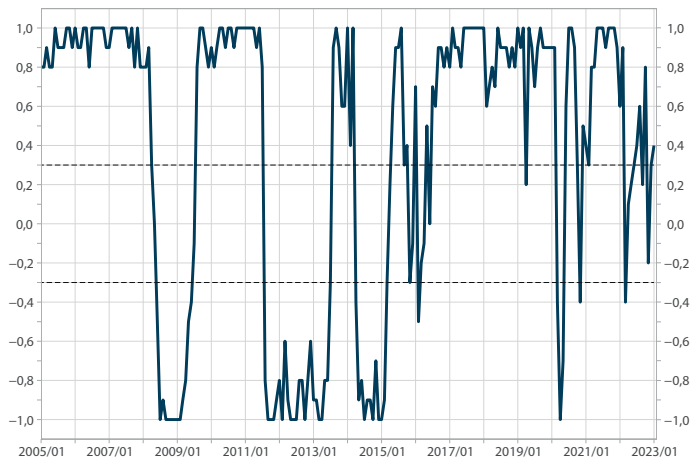
(standardised indicator: average = 100 across the entire series, which is longer than shown on this graph and standard deviation = 10)



Last point: January 2023.

Source: business survey, INSEE.

### ► 2. Economic turning point indicator in France



Last point: January 2023.

How to read it: close to +1 (or -1): favourable (unfavourable) economic climate. Between +0.3 and -0.3: area of economic uncertainty.

Source: INSEE.

## A hesitant short-term situation

Since mid-2022, the composite indicators from the business tendency surveys have been relatively stable, with a strong dichotomy between businesses and households (► **Figure 1**). On the business side, the business climate remains slightly above its long-term average, and the employment climate even more significantly higher. Looking at households, confidence in the economic situation remains in decline, linked mainly to the level of inflation. Macroeconomic indicators also seem to be virtually stable, whether in their quarterly rate of growth or the year-on-year variation in consumer prices (which has hovered around 6% since the summer).

Calculated from the business tendency surveys of companies, the economic turning point indicator, which traces the difference every month between the probability of the economic trend being favourable and the probability of its being unfavourable, has sent out no clear signal since the start of the war in Ukraine (► **Figure 2**).

In fact, the international context in general remains uncertain. On the one hand, the lifting of health restrictions in China, the relatively good performance of the United States economy so far and the less acute nature than expected of the energy crisis in Europe may appear to be factors for optimism, as indicated by the surveys. On the other hand, though inflation may be falling back in some countries, it is weighing heavily on purchasing power and hence on consumption, while monetary tightening remains the rule on both sides of the Atlantic.

## Slightly fewer supply chain difficulties, a few more concerns over demand, and prices that remain under pressure

Alongside the relatively stable business climate, business tendency surveys indicate a gradual easing of certain supply constraints in recent months (► **Figure 3**). In January 2023, in the manufacturing industry, 30% of

businesses reported that they were facing supply chain difficulties, a proportion down significantly from July 2022 (45%), but still substantially higher than the long-term average (10%).

At the same time, concerns about demand are increasing somewhat: in January 2023, 29% of industrial businesses said they were experiencing such concerns (sometimes together with supply difficulties), against 22% in July. The same trend can be seen in services.

The easing of supply difficulties is partly reflected in the expected changes in selling prices declared by businesses: in industry, the corresponding balance of opinion remains very high but has been slowing down for a few months. Conversely, it increased significantly in services in January (► **Figure 4**).

## Inflation: coming down from the plateau?

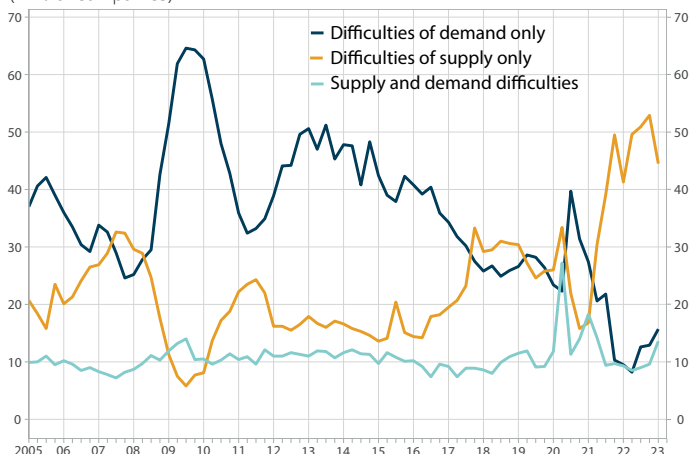
During 2022, inflation spread to a large number of goods and services. The convergence of pressures on production conditions has gradually shifted to consumer prices. In particular, while the year-on-year variation in the global price index has plateaued at around 6% since mid-2022, food (+13% year-on-year in January 2023) has made up an ever-increasing share.

Assuming that a barrel of Brent is €80, inflation is likely to remain at around 6% in February (► **Figure 5**), as a result of the 15% increase in the regulated electricity tariff. Then over the next few months, and barring any new surprises, two effects could be juxtaposed: on the one hand, the previous shocks could continue to spread, and on the other, moderating factors could emerge like the gradual standardisation of global supply chains seen over the past few months.

By mid-2023, the year-on-year price variation is expected to decline, mainly due to the “base effect”, particularly with regard to petroleum products. It is likely to reach +5% in June, but food looks set to be the main contributor to

### ► 3. Supply and demand difficulties in the French industry

(in % of companies)



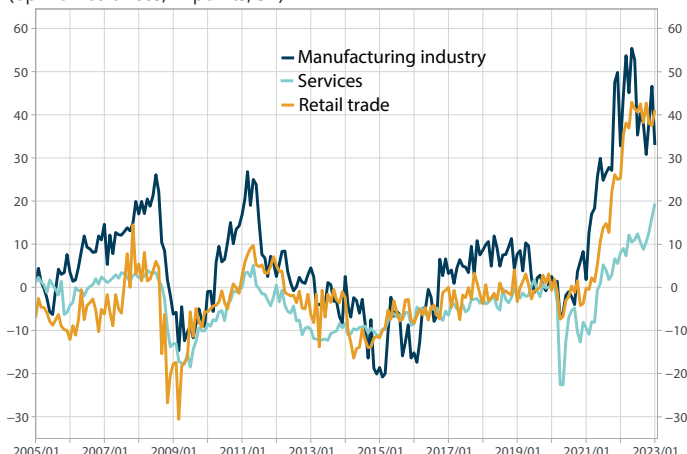
Last point: January 2023.

Note: results are weighted by turnover.

Source: quarterly business survey in industry, INSEE.

### ► 4. Balances of opinion on expected change in selling prices

(opinion balances, in points, SA)



Last point: January 2023.

Source: business survey, INSEE.

inflation (► **Figure 6**), with the year-on-year price variation expected to remain around 13%. Core inflation is likely to remain a little above 5.5% year-on-year, thus overtaking headline inflation.

### Industrial output: catch-up effects in some branches, impact of the energy crisis in others

At the end of 2022, different industrial branches experienced contrasting movements (► **Figure 7**). Production declined in the most energy-intensive branches, like the chemical industry, for example (-8% year-on-year in Q4), although this decline has been relatively well contained. Conversely, other branches have benefitted from catch-up effects linked to the improvement in supply chain conditions and demand, for example the manufacture of transport equipment (+10% year-on-year). Finally, manufacture of coke and refined petroleum suffered from strikes in October, although with a clear rebound from November. Electricity production also began to pick up at the end of the year, linked to the gradual return to service of nuclear reactors.

In Q1 2023, industrial output could increase slightly, benefiting not only from the rebound in the manufacture of coke and refined petroleum products, but also from

the easing of supply chain difficulties and the continuing recovery in electricity production.

Activity in market services is expected to maintain a moderate pace. However, some services, especially transport, could be affected by the ongoing strikes. This impact is likely to depend mainly on the duration and the extent of the social movement. At this stage, no such effect has been included in this forecast. In fact, previous episodes show that while this impact can be significant at sectoral level (whether in sectors directly affected by the strikes or those that are partly dependent on them), it is usually quite limited at the macroeconomic level, especially as we then see catch-up effects. In Q4 1995, as in the last quarter of 2019, the impact of strikes was assessed at around 0.2 points of quarterly GDP. It is possible that the development of teleworking since that time could lessen this impact.

### Probably little reason in the short term to wait for domestic demand

Household consumption fell back sharply in Q4 2022 (► **Figure 8**). Energy consumption in particular declined significantly, after a very mild autumn, but also probably as a result of energy-saving efforts. Food consumption fell

## ►5. Past and projected headline inflation

(year-on-year, in % in consumer price index)

CPI* groupings (2023 weightings)	January 2023		February 2023		March 2023		April 2023		May 2023		June 2023	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy
Food (16.2%)	13.2	2.2	13.7	2.2	13.4	2.2	12.6	2.0	13.4	2.2	13.3	2.1
Tabacco (1.9 %)	0.2	0.0	0.4	0.0	5.5	0.1	5.7	0.1	6.0	0.1	6.2	0.1
Manufactured products (23.1%)	4.6	1.1	4.2	1.0	4.5	1.1	4.5	1.1	4.5	1.1	4.7	1.1
Energy (9.2%)	16.3	1.5	17.9	1.6	7.3	0.7	9.9	0.9	7.6	0.7	2.4	0.2
Services (49.6%)	2.6	1.2	2.4	1.1	2.4	1.2	2.5	1.2	2.7	1.3	3.0	1.5
<b>All (100%)</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>5.2</b>	<b>5.2</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</b>	<b>5.4</b>	<b>5.0</b>	<b>5.0</b>
<b>Core inflation**</b>	<b>5.7</b>	<b>5.7</b>	<b>5.7</b>	<b>5.7</b>	<b>5.6</b>	<b>5.6</b>	<b>5.6</b>	<b>5.6</b>	<b>5.5</b>	<b>5.5</b>	<b>5.7</b>	<b>5.7</b>

■ Provisional.

■ Forecast.

yoy: year-on-year change; cyoy: contribution to overall year-on-year change.

\* Consumer price index (CPI).

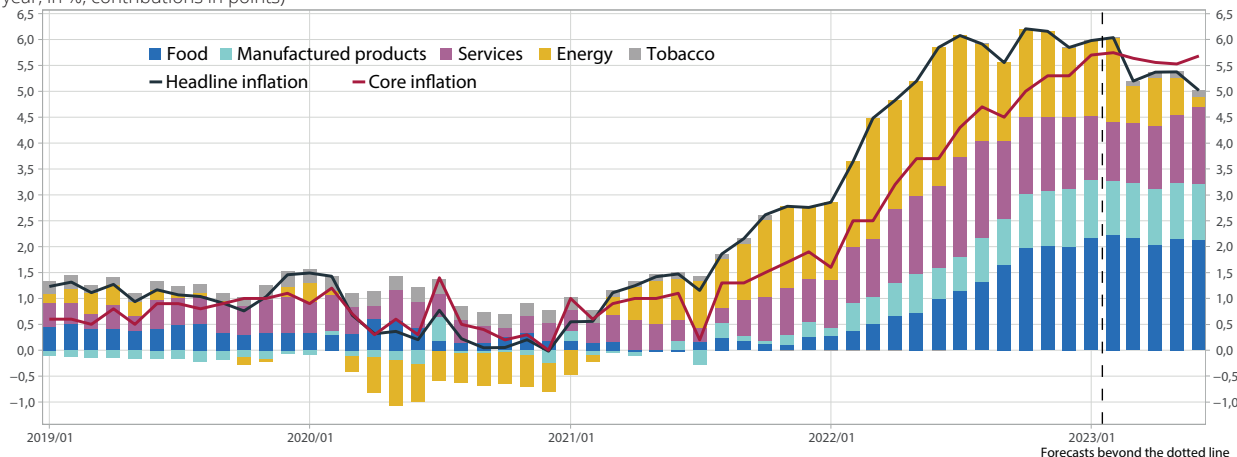
\*\* Index excluding public tariffs and products with volatile prices, corrected for tax measures.

How to read it: in January 2023, the consumer price index rose by 6.0% year-on-year, according to the provisional estimate. It is also expected to rise by 6.0% year-on-year in February.

Source: INSEE.

## ►6. Headline inflation and contributions by item

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



Note: for January 2023, headline inflation is a provisional estimate, core inflation is a forecast.

How to read it: in January 2023, the consumer price index rose by 6.0% year-on-year, according to the provisional estimate. Food contributed 2.2 points to this increase. Core inflation is expected to stand at 5.7% year-on-year in January 2023.

Source: INSEE.

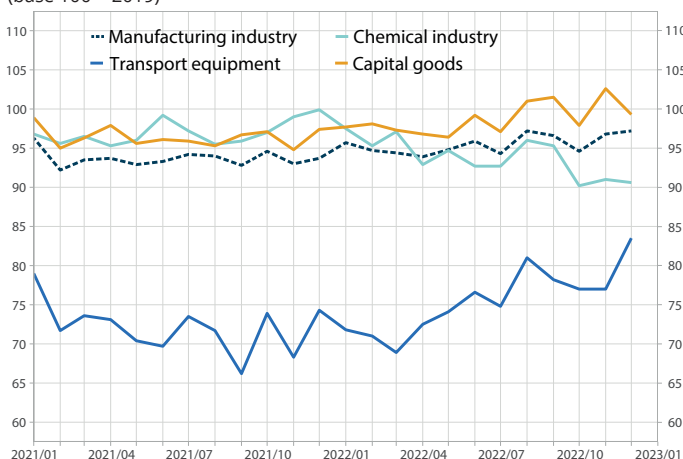
back too, for the fourth consecutive quarter, in a context of high inflation.

At the start of 2023, household consumption is expected to rebound a little in view of its downturn in the previous quarter. It is likely that this rebound will be driven by energy consumption, if we assume weather conditions this winter closer to normal than those experienced this autumn. However, consumption could be mitigated by moderating behaviour, especially as a result of the increase in regulated gas and electricity tariffs.

Excluding energy, household consumption is likely to evolve, as in previous quarters, in very different ways depending on the consumer items. Notably, food purchases could continue to be penalised by persistently high inflation. However, a rebound in food consumption cannot be ruled out, with the possibility that households will then limit themselves in other goods or services. Recovery should continue, however, for vehicle purchases, which remain well below their pre-health crisis level, despite their rebound in H2 2022.

## ► 7. Industrial production index for certain branches

(base 100 = 2019)



Last point: December 2022.

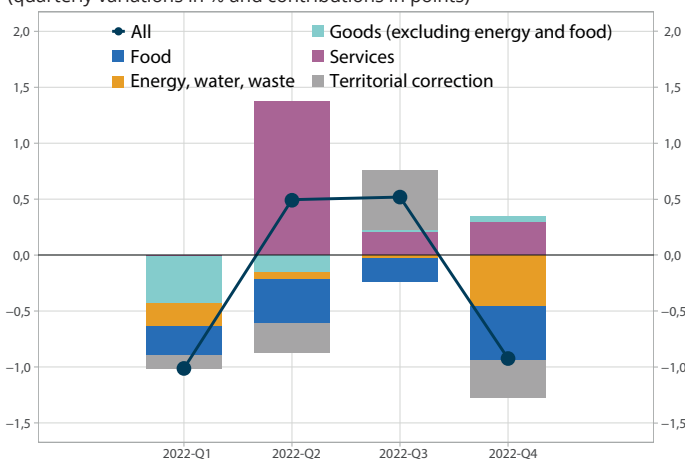
Source: INSEE.

In late 2022, investment continued to grow in France, although at a slower pace, sending out a mixed signal. In addition, exports weakened, because of manufactured products, however, the balance of opinion on foreign order books remains at around its long-term average.

All in all, French GDP growth is expected to remain slightly positive in H1 2023 (+0.2% forecast in Q1 and in Q2). The growth overhang for 2023 then looks set to be +0.6% by mid-year (► Figure 9). There are several uncertainties that could affect this scenario, shifting it either upwards or downwards. If the recent factors for optimism are confirmed, the forecasts for France and its partners could be raised further. Conversely, it cannot be ruled out that the effects of cost shocks will be more strongly felt at the beginning of the year, that new shocks could occur, or that the continuing monetary tightening ends up weighing more heavily on activity, especially as the current economic signals, generally better than expected, are perhaps likely to push back the end of this monetary adjustment. ●

## ► 8. Household consumption

(quarterly variations in % and contributions in points)



Note: territorial correction represents purchases made by French residents abroad (also counted in imports) minus purchases by non-residents made in France (counted as exports). Other contributions to household consumption (food, energy, etc.) refer exclusively to consumption within the territory.  
Source: INSEE.

## ► 9. Past and projected economic activity (GDP)

(quarterly and annual variations in %)

	2021				2022				2023		2021	2022	2023 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Gross domestic product (GDP)	0.1	1.1	3.3	0.6	-0.2	0.5	0.2	0.1	0.2	0.2	6.8	2.6	0.6

■ Forecast.

How to read it: in Q4 2022, GDP increased by 0.1%. It would increase by 0.2% in Q1 2023.

Source: INSEE.

