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FRANCE – Is the French economy stalling since the snap election call?

- **A month after President Emmanuel Macron dissolved the National Assembly and called the election, some signs of a French economy stalling have arguably appeared. At least this is what Bank of France Governor François Villeroy mentioned recently.**
- **In practice, this is fully debatable. Although previous episodes of political uncertainty in other countries have triggered downward growth revisions (eg, Greece in 2015, Italy in 2018), we do not see any hard evidence of this in France so far.**

There is no evidence of French growth tumbling so far but we promise to watch it closely.

Bank of France Governor François Villeroy recently said that the French economy is facing an "uncertainty shock" exacerbated by the political context and its structural weaknesses, namely its trade and budget deficits. This threat is now one of the key areas of uncertainty surrounding our progressive rebound narrative for the Eurozone. We propose a deeper dig into this topic.

Update on our 2024 French Growth Forecast

Before the snap election announcement, we were slightly above consensus (and we remain there), despite some uncertainty surrounding the impact of the Olympics[1]. Major international institutions all gradually scaled back their forecast for 2024 GDP growth last year. A slight upward revision has been seen since the start of 2024. The target remains around 1%.

For Q224, we were (and are still) tracking +0.2% GDP. This growth should be mainly driven by household consumption. INSEE published its *Note de Conjoncture* last week, with an updated forecast of +0.3% QoQ for Q224. Last week, Bank of France estimated that growth would be 0.1% QoQ in Q224 as a result of its monthly business survey.

For full year 2024, we expected (and still expect) a year-end acceleration at +0.4% QoQ in both Q324 and Q424, which would lead to +1.1% annual SWDA[2] growth in 2024 (as in 2023 after upward revisions). This **mainly** reflects an improvement in households' purchasing power due to continuous disinflation and dynamic nominal wages. It will more than offset the drop in investment (-1.1% YoY) already slowed by financial tightening. Overall, domestic demand (excluding changes in inventories) should contribute 0.7ppt to GDP growth.

The Bank of France annual growth forecast dropped from 1.2% in March 2023 to 0.8% in June. Likewise, the OECD and IMF projections for 2024 fell from 1.3% and 1.4% respectively at the beginning of 2023 to 0.7% and 0.9% recently. Only the French government has remained structurally more optimistic. It should be noted, however, that for the most part (except the IMF), these forecasts precede the revision of the national accounts (and their transition to the 2020 base), which raised the growth overhang for 2024 to 0.6% at the end of Q1. Since the beginning of the year, forecasts have remained stable and even rose marginally, showing growing optimism on the French economy. Last week, INSEE even published an annual growth forecast for 2024 of 1.1% (same as ours).

[1] Last week, INSEE estimated that the impact of the Olympics on Q324 GDP is likely to be +0.3ppt (with a downward adjustment in Q424), which could slightly modify our quarterly growth forecast but should not change the annual figures.

[2] Seasonally and working days adjusted.

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French growth stalling: a risk to our scenario…

As Villeroy mentioned, political uncertainty could come into play now. As the snap election was announced closer to mid-June, it will not result in a change for the Q224, but the rest of the year could be affected.

Below, we look at some historic precedents of politically-driven shocks that resulted in a national tightening of financial conditions: Greece in 2015 and Italy in 2018. We should mention, however, that no direct comparison with France is reasonably conceivable. France has arguably suffered far less than those two examples, but the illustration is insightful.

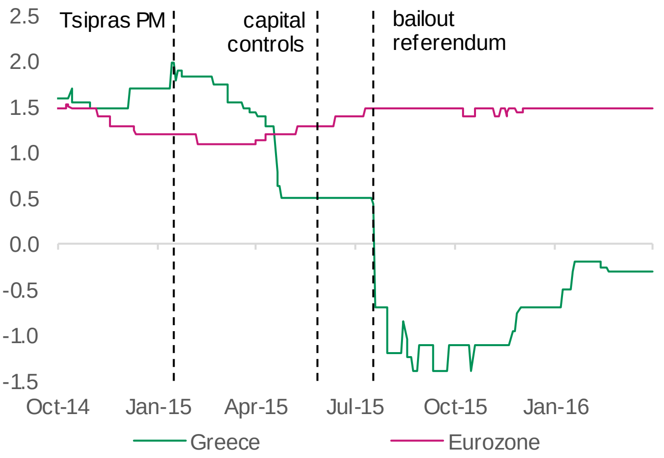
Greece in 2015

The political crisis likely destroyed 2ppt of GDP. In January 2015, Alexis Tsipras won in the general election and became PM on a left-wing and anti-EU/IMF/ECB bailout platform. In June 2015, foreign capital controls were implemented to stem outflows from the Greek banking system. In July 2015, Tsipras organised and won a referendum to reject the EU/IMF/ECB bailout. Despite winning the referendum, Finance Minister Yanis Varoufakis resigned and Tsipras' government reached an agreement on 13 July with the European authorities for a confirmation of the three-year-bailout. Yield on 10Y Greek government bonds rose from c.6% in mid-2014 to a 10-12% range over 2015 (and peaked at around 14% just before the referendum). Real GDP growth for 2015 was substantially revised down: from c.1.5% over Q115 to negative territory after the summer. This downward revision was a pure Greek idiosyncrasy, as Eurozone growth forecasts remained very stable over the year.

Italy in 2018

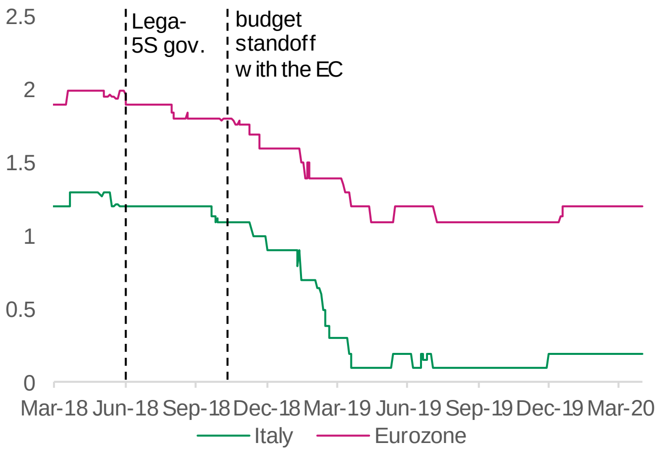
The political crisis / budget standoff reduced GDP but not by more than 0.5ppt. At the end of May 2018, the League and the Five Star Movement united to form an unexpected Eurosceptic coalition. The spread on 10Y BTP vs Bund widened to more than 300bp over that summer. In September, the government presented a new budget plan featuring a significantly loosened fiscal policy (structural deficit was anticipated 0.8ppt higher than in spring under the previous government). The European Commission initiated an excessive deficit procedure against Italy in November. Finally, growth was revised down but similar developments were visible in some peers such as Germany. Overall, the impact of the budget standoff was likely negative but not significantly so.

Evolution of the consensus forecast for 2015 real growth for Greece and Eurozone



Source: Bloomberg, Crédit Agricole CIB

Evolution of the consensus forecast for 2019 real growth in Italy and the Eurozone



Source: Bloomberg, Crédit Agricole CIB

In the French case, the most significant effects in the short term would rather impact public finances, not growth. The impact on our growth scenario to 2025 should be very limited. Two opposite effects would actually occur: some negative real effects via a fall in confidence and some positive effects through less-restrictive fiscal policy than that projected by the former government (eg, Stability Programme).

… But a clear lack of evidence so far

Let's disentangle the false alarms from uncertainties in the recent French data. Downward surprises on several business indicators raised some concern recently about the French economy. This is particularly the case for the closely watched PMIs and industrial production index (IPI) despite a lack of actual signal currently.

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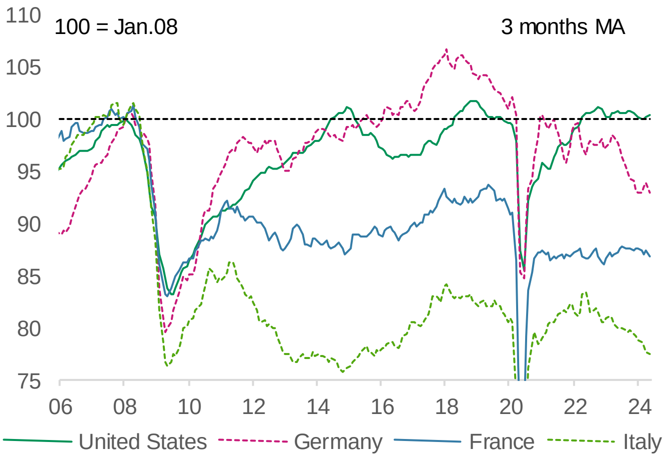
The industrial production index published by INSEE dropped substantially in May (-2.1%). In fact, the figure should not be over-interpreted, as this sudden drop would have been exacerbated by the numerous bank holidays in May (according to INSEE itself). Furthermore, it is important to underline that this was before President Macron's decision to dissolve the National Assembly, and thus can absolutely not be considered a result of it.

For PMIs, France has displayed a growing decoupling with the UK and peripherals. While S&P Composite PMI has constantly been above the theoretical expansion threshold (50) in the UK since November 2023, it has been steadily under that in France, except for April 2024 (50.5) before dropping -1.6 points in May (it remained relatively stable in June). However, we should remain prudent in calling it a 'decoupling' as (1) the empirical expansion threshold rather lies around 45 in France; and (2) PMIs are not adjusted for bank holidays, which could explain the sudden drop in May. Once again, the fall preceded the snap election call and therefore cannot result from it.

More generally, these two indicators are less robust than business surveys published by INSEE and Bank of France, which do not tell the same story so far. Indeed, INSEE's business climate has remained stable in June and the Bank of France's last survey shows a steady recovery of industry. These surveys are considered more consistent in a context of the sectorial divergences as the companies' sample is wider. While not as pessimistic as PMIs and IPs, these reports underline growing uncertainties among corporates.

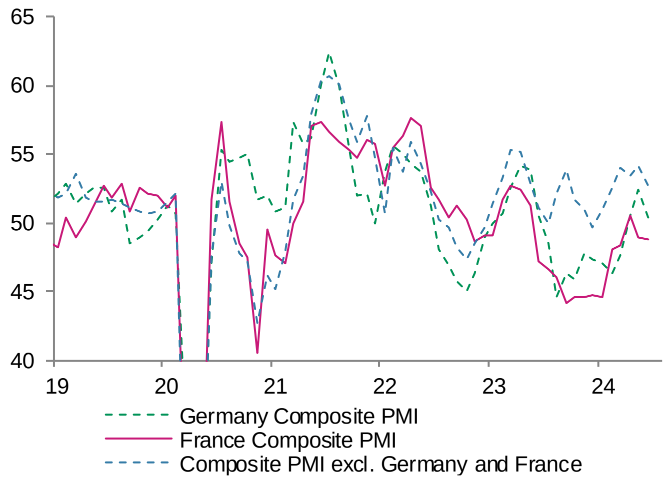
The only certainty is the rise in uncertainty as [Villeroy pointed out](#).

Industrial production (3MMA): better resisted in France than in peers and no clear break since early 2024



Source: Census, Destatis, INSEE, ISTAT, Bloomberg, Crédit Agricole CIB

France PMIs are slightly weaker than peers but nothing alarming



Source: S&P, Bloomberg, Crédit Agricole CIB

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