



FRANCE 2024-2025 SCENARIO

KEEPING A COOL HEAD AMID THE
EXCITEMENT OF THE OLYMPICS AND
PERSISTENT POLITICAL UNCERTAINTIES

July 2024

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KEEPING A COOL HEAD AMID THE EXCITEMENT OF THE OLYMPICS AND PERSISTENT POLITICAL UNCERTAINTIES

Scenario highlights

- ▲ The disinflation process will continue and wages will rise in real terms.
- ▲ Household consumption is expected to increase and drive growth.
- ▼ Investment will continue to be impacted in 2024 by the past tightening of financial conditions.
- ▼ Annual growth is expected to remain moderate in 2024 and increase in 2025 only.

France	2022	2023	2024	2025
GDP y/y, %	2.6	1.1	1.1	1.3
Domestic demand excl. inventories contribution to GDP, pp	2.4	0.9	0.7	1.2
Household consumption y/y, %	3.0	0.9	1.1	1.3
Total investment y/y, %	0.1	0.8	-1.1	1.4
Changes in inventories contribution to GDP, pp	0.5	-0.3	-0.5	0.0
Net exports contribution to GDP, pp	-0.3	0.5	0.9	0.0
Inflation (CPI) y/y, %	5.2	4.9	2.3	1.5
Unemployment rate %, France excluding Mayotte	7.3	7.3	7.6	7.6
Budget balance % of GDP	-4.7	-5.5	-5.4	-4.3

Latest observations: 2023.

Sources: INSEE, Crédit Agricole S.A./ECO forecasts.

Forecasts finalised on 08/06/2024
Publication drafted on 29/07/2024

Economic activity continued to grow in France in Q1 2024, up 0.2% after 0.3% in Q4 2023. The growth overhang at the end of the first quarter thus stands at 0.6% for 2024.

As we finalised our scenario before the dissolution of the National Assembly, it can be described as “politically neutral” or “with policy unchanged”. But the political picture that appears to be emerging, with none of the coalitions achieving a majority, could have little impact on the growth scenario through end-2025 and instead could have an impact above all on public finances and sovereign spreads.

We expect growth to be stable in 2024 relative to 2023, at 1.1%. The main growth driver will be household consumption, as disinflation continues. But growth will also be fuelled by foreign trade, owing to the points already observed. However, investment will in all likelihood continue to be negatively impacted by the past tightening of financial conditions, while the destocking trend of late 2023 and early 2024 is likely to detract from annual growth. Growth is expected to increase to 1.3% in 2025, bolstered by persistent strong consumption momentum and the rebound in investment as monetary policy returns to normal. Annual average inflation is expected to fall sharply, to 2.3% in 2024 (in CPI terms) and 1.5% in 2025.

THE SCENARIO IN BRIEF

A SCENARIO OF MODERATE GROWTH DRIVEN BY CONSUMPTION

Economic activity continued to grow in France in Q1 2024, with quarterly growth of 0.2% (after 0.3% in Q4 2023), driven by consumption and foreign trade. Investment fell slightly for the second consecutive quarter and destocking continued to hamper growth. The growth overhang for 2024 thus stood at 0.6% at the end of the first quarter.

Activity is expected to increase again in the second quarter, with growth forecast at 0.2%. This figure sits between the Banque de France forecast of +0.1% based on its latest economic surveys and INSEE's forecast of +0.3% in its [July economic report](#). We expect economic growth to pick up in the second half of the year, for annual growth of 1.1% in 2024, stable compared with the previous year. We are forecasting economic growth of 1.3% in 2025.

The increase will be driven primarily by household consumption. The latter is expected to strengthen, to +1.1% in 2024 and +1.3% in 2025, as a result of continued disinflation and persistently strong growth in nominal wages, generating gains in purchasing power for households. Inflation, as defined by the consumer price index, is expected to fall to an annual average of 2.3% in 2024 and 1.5% in 2025. Investment will continue to be adversely affected in 2024 by the past tightening of financial conditions. It should decline slightly in 2024 (-1.1%) before rebounding in 2025 (+1.4%), bolstered in particular by the gradual easing of the European Central Bank's monetary policy. Inventory changes are expected to weigh on

growth in 2024 (contribution of -0.5 points) owing to the widespread destocking trend in the last three quarters observed, even though companies are expected to restock slightly at the end of the year. Foreign trade should contribute positively to growth in 2024 (by 0.9 points) in line with the last two quarters observed, although exports and imports are then forecast to grow broadly in line. Room for catch-up remains in exports, including in the aeronautics sector, but imports have been somewhat lacklustre in the last few quarters observed and should gain in momentum as household consumption picks up over the forecast horizon and companies increase their inventories slightly by the end of 2024.

Our forecasts are subject to moderate uncertainty. The upside and downside risks to activity seemed relatively balanced before the announcement of the dissolution of the National Assembly (at which point our scenario had already been finalised). Since this event, however, political risks appear to be dominating, as the relative political stability having reigned in France until recently may well have disappeared for a while. No clear majority has emerged from the elections, but the attendant political risks could have only a limited impact on economic activity in the short term (our scenario horizon of 2025), owing to two opposing effects. First, the economy could be negatively impacted by eroding confidence prompting economic players to adopt a wait-and-stance. Second, France's budgetary policy could well be less restrictive than expected by the departing government (see Stability Programme 2024-2027).

INTRODUCTION

THE INTERNATIONAL ENVIRONMENT

In the US, both economic activity and inflation proved more resilient than expected. This is why we postponed the Fed's monetary easing in our scenario (with an initial key-rate cut in September 2024, compared with July in our previous scenario). However, a slight recession is still expected in late 2024/early 2025, with a moderate impact on activity in the Eurozone and France, which is expected to slow two quarters later, in Q3 and Q4 2025.

In the Eurozone, monetary easing has already begun, with an initial 25bp cut in key rates in June 2024. The ECB decided to leave its key rates where they stand in July, stressing the “data dependency” of its future monetary policy decisions. We still expect a 25bp cut every quarter through September 2025 for the

deposit rate, along with a tightening of the interest rate corridor by the end of 2024. This rate decrease would enable a rebound in investment in the Eurozone and France in 2025 after the slump in 2024.

The Paris Olympics and Paralympics could boost growth by 0.3pp in France in the third quarter, ahead of a downward knock-on effect in the fourth quarter, according to the INSEE estimate (see [July 2024 Economic Outlook](#)). This information, which did not exist at the time of our forecast, could lead us to make a slight adjustment to our quarterly growth forecasts (a little more in the third quarter and a little less in the fourth), with no major impact on the annual figures.

International background assumptions															
	2023	2024	2025	2023				2024				2025			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
World GDP (y/y, q/q, %)	2.9	2.9	2.6	-	-	-	-	-	-	-	-	-	-	-	-
US GDP (y/y, q/q, annualised, %)	2.5	2.0	0.4	2.2	2.1	4.9	3.4	1.4	1.7	0.5	-0.8	-0.5	1.1	1.4	2.0
Euro area GDP (y/y, q/q, %)	0.6	0.8	1.5	0.6	0.1	0.0	-0.1	0.3	0.3	0.5	0.4	0.3	0.4	0.3	0.3
China GDP (y/y, q/q, %)	5.2	4.7	4.2	1.8	0.8	1.5	1.2	1.5	0.7	0.4	0.4	0.3	0.4	0.3	0.3
ECB deposit rate (end of period, %)	4.00	3.40	2.65	3.00	3.50	4.25	4.50	4.50	4.25	3.65	3.40	3.15	2.90	2.65	2.65
Federal Reserve funds rate (end of period, %)	5.50	5.00	3.50	5.00	5.50	5.50	5.50	5.50	5.50	5.25	5.00	4.50	4.00	3.50	3.50
Exchange rate (average, EUR/USD)	1.08	1.07	1.10	1.07	1.09	1.09	1.08	1.09	1.08	1.06	1.05	1.07	1.09	1.10	1.12
Brent (average, USD/barrel)	82.3	84.2	88.0	82.2	77.9	85.9	83.0	81.9	85.0	83.0	87.0	85.0	87.0	90.0	90.0

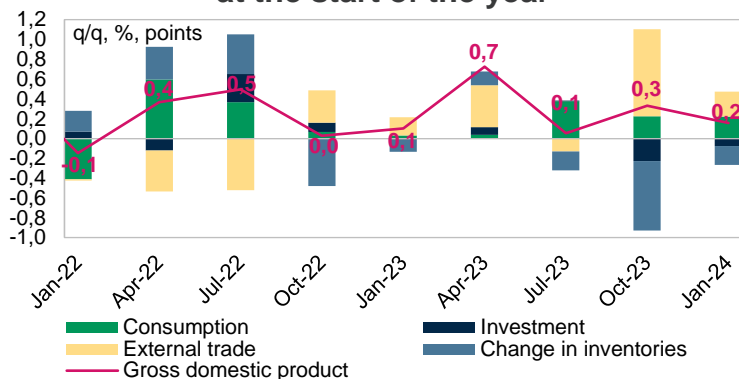
Latest observations: Q1 2024

Sources: BAE, ECB, Eurostat, IMF, Refinitiv, Federal Reserve, Crédit Agricole S.A./ECO forecasts.

RECENT ECONOMIC TRENDS

MODERATE GROWTH AGAINST A BACKDROP OF DISINFLATION, RELATIVELY STABLE SURVEY INDICATORS

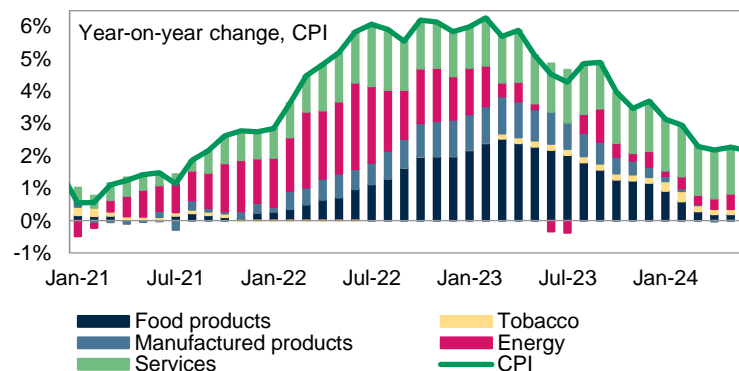
Economic activity continued to grow at the start of the year



Last review: Q1 2024

Sources: INSEE, Crédit Agricole S.A./ECO.

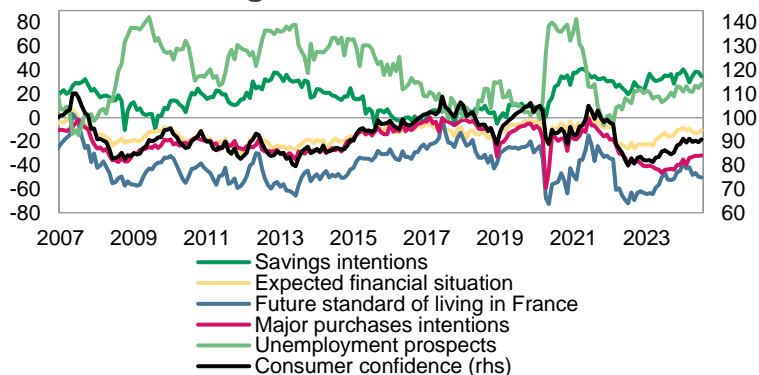
While the disinflation process continued



Last review: June 2024

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

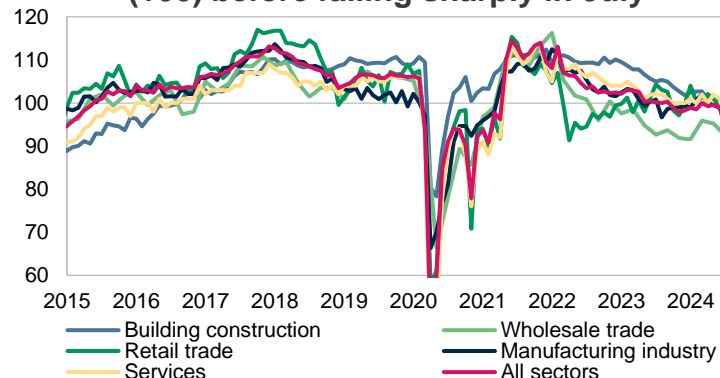
Consumer confidence remains low but is higher than in summer 2022



Last review: July 2024

Sources: INSEE, Crédit Agricole S.A./ECO.

The business climate was close to its average (100) before falling sharply in July



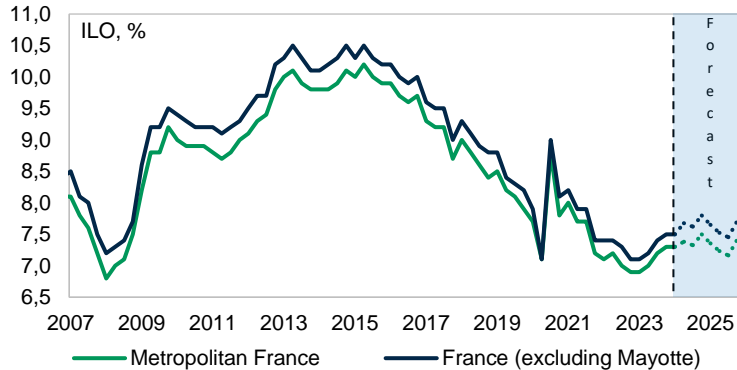
Last review: July 2024

Sources: INSEE, Crédit Agricole S.A./ECO.

HOUSEHOLDS

CONSUMPTION SET TO ACCELERATE ON GAINS IN WAGE PURCHASING POWER, DESPITE A SLIGHT INCREASE IN THE UNEMPLOYMENT RATE

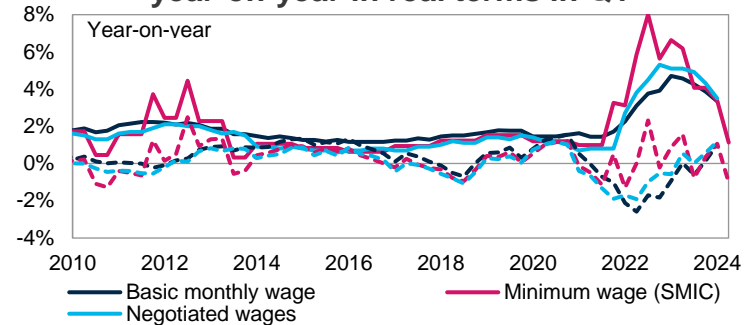
The unemployment rate will rise but remain much lower than before COVID



Last review: Q1 2024

Sources: INSEE, Crédit Agricole S.A./ECO forecasts.

Average wages started to rise year-on-year in real terms in Q1

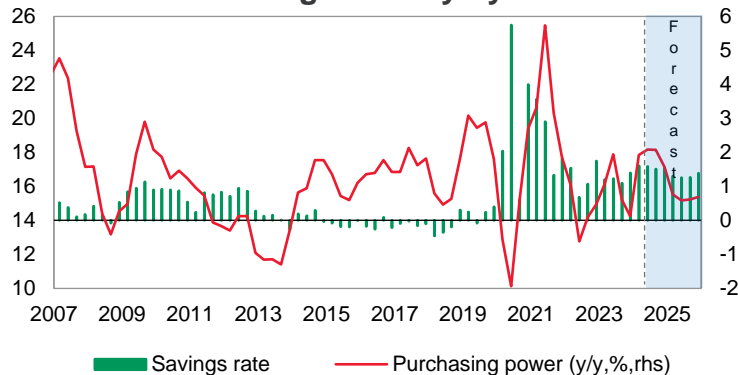


NB: Dotted lines show trends in real wages (wages deflated by total CPI).
End-of-quarter data.

Last review: Q1 2024 except SMIC and CPI (Q2 2024)

Sources: DARES, INSEE, Banque de France, Crédit Agricole S.A./ECO calculations.

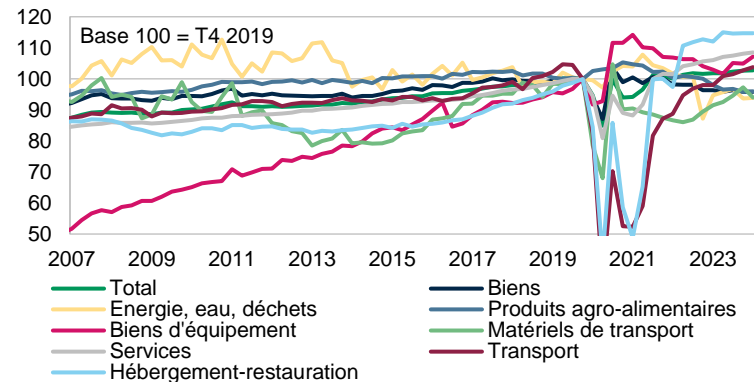
Household purchasing power set to increase significantly by end-2025



Last review: Q1 2024

Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts.

Room for catch-up in goods consumption



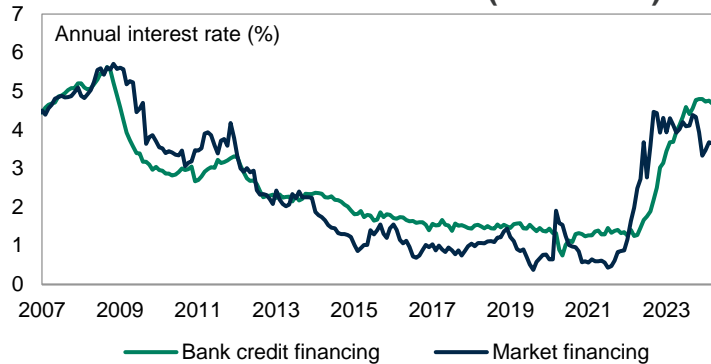
Last review: Q1 2024

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

CORPORATES

INVESTMENT IS EXPECTED TO REMAIN IMPACTED THIS YEAR BY PAST TIGHTENING BEFORE REBOUNDED NEXT YEAR ON PLANNED MONETARY EASING

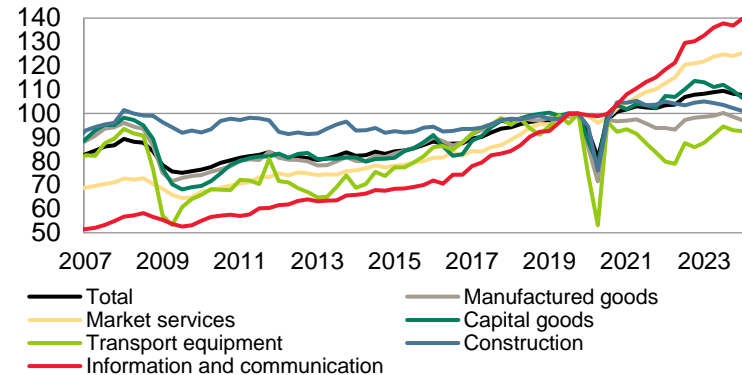
NFC financing costs remain high but have started to moderate (new flows)



Last review: May 2024

Sources: Banque de France, Crédit Agricole S.A./ECO.

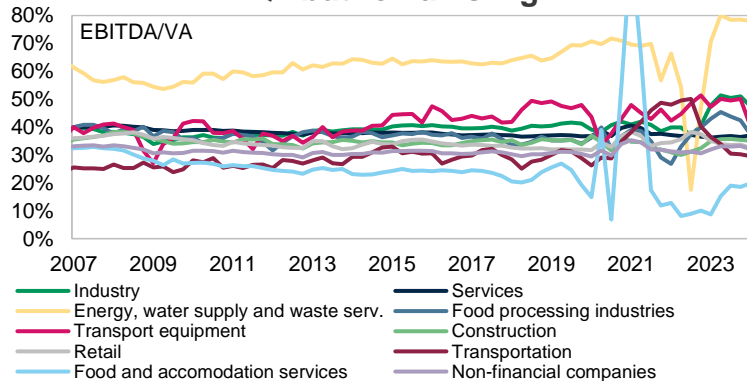
NFC investment contracted for the second consecutive quarter in Q1 2024



Last review: Q1 2024

Sources: INSEE, Crédit Agricole S.A./ECO calculations.

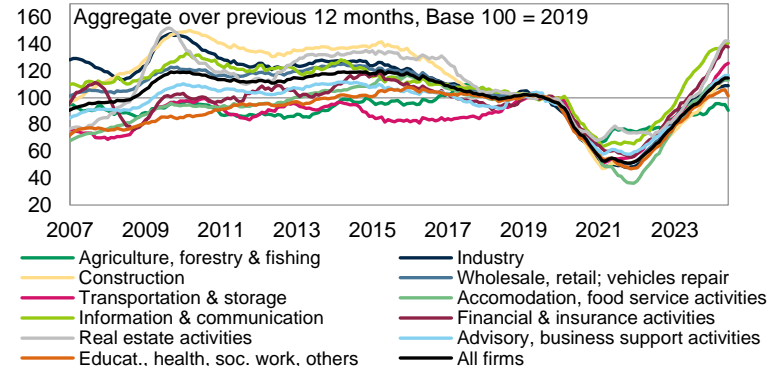
The NFC margin rate decreased slightly in Q1 but remains high



Last review: Q1 2024

Sources: INSEE, Crédit Agricole S.A./ECO.

The number of corporate insolvencies is beginning to stabilise over 12 months

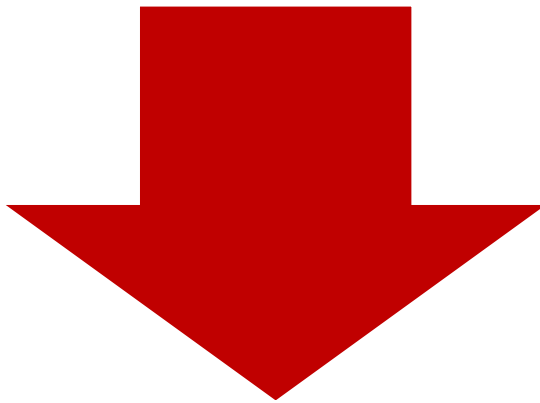


Last review: June 2024

Sources: Banque de France, Crédit Agricole S.A./ECO calculations.

RISKS

RISKS NOW MAINLY POLITICAL



Downside risks to activity

- Political developments (*medium-term* risk)
- Behaviour of households (savings +) and companies (investment -)
- Low growth among trade partners
- Worsening geopolitical tensions
- Delayed impact of monetary tightening



Upside risks to activity

- Rapid continuation of disinflation
- Gains in wage purchasing power
- Maintaining employment
- Behaviour of households (savings -) and companies (investment +)
- Rapid easing of financing conditions



THE POTENTIAL EFFECTS OF A HUNG PARLIAMENT

LIMITED SHORT-TERM EFFECTS, IN THEORY

The scenario that appears to be emerging following the results of the second round of the early general elections (no absolute majority). The extent of the deadlock in the National Assembly and the economic policy to be implemented are still highly uncertain.

In macroeconomic terms, the result could be close to our central scenario in the short term, with two contrasting effects offsetting each other overall. The most sensitive effects through 2025 (i.e. our scenario horizon) could well concern public finances and sovereign spreads.

Macroeconomic scenario:

- Probably some real negative effects *resulting* from the **ebbing confidence** of economic agents. These effects could already be seen in business climate and business uncertainty indicators in July 2024 (see the economic surveys of the Banque de France and INSEE) but the latter were far from alarming. The responses also largely precede the second round of France's legislative elections, and so this recent trend could dissipate in the coming months.
- In the short term, slightly positive economic effects from a less restrictive fiscal policy.

Public finances:

- **A slight deterioration compared with our central scenario**, as the departing government has factored substantial savings on spending into its current trajectory (which we believed in part).
- It will be difficult to pass savings measures on to spending in this case. But further significant increases in spending, including the most radical measures of the New Popular Front (NFP) and National Rally (RN), are also to be ruled out.
- The gradual reduction in the primary public deficit will be postponed at the very least.

The most damaging effect could be on rates (increase in the OAT/Bund spread), resulting from probable political instability in France. The markets initially appeared to be rather relieved that an absolute majority for the NFP or RN had been ruled out following the results of the second round of voting, even if the OAT/Bund spread has since increased slightly (hovering around 70bp since 23 July), though certainly not catastrophically.

Refer also to our latest publication "[Is the French economy stalling since the snap election call?](#)"

THE SCENARIO IN FIGURES

OUR FORECAST IN DETAIL

France Scenario – July 2024

Keeping a cool head amid the excitement of the Olympics and persistent political uncertainties

	2022	2023	2024	2025	2023				2024				2025			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP y/y, q/q, %	2.6	1.1	1.1	1.3	0.1	0.7	0.1	0.3	0.2	0.2	0.4	0.4	0.3	0.2	0.2	0.4
Domestic demand excl. inventories contribution to GDP, pp	2.4	0.9	0.7	1.2	0.0	0.1	0.4	0.0	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Household consumption y/y, q/q, %	3.0	0.9	1.1	1.3	0.2	0.0	0.5	0.2	0.1	0.3	0.4	0.4	0.4	0.2	0.2	0.3
Public consumption y/y, q/q, %	2.6	0.8	1.5	0.7	-0.3	0.2	0.4	0.4	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total investment y/y, q/q, %	0.1	0.8	-1.1	1.4	-0.1	0.3	0.0	-1.0	-0.3	-0.3	0.0	0.3	0.4	0.5	0.5	0.7
Changes in inventories contribution to GDP, pp	0.5	-0.3	-0.5	0.0	-0.1	0.1	-0.2	-0.7	-0.2	0.2	0.1	0.1	-0.1	-0.1	-0.1	-0.1
Net exports contribution to GDP, pp	-0.3	0.5	0.9	0.0	0.2	0.4	-0.1	0.9	0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Exports y/y, q/q, %	8.3	2.5	3.1	1.8	-1.4	3.0	-1.1	1.0	1.2	0.5	0.8	0.5	0.5	0.3	0.3	0.4
Imports y/y, q/q, %	9.1	0.7	0.3	1.9	-1.9	1.6	-0.7	-1.7	0.4	0.8	0.8	0.5	0.5	0.3	0.3	0.3
Inflation (CPI) y/y, %	5.2	4.9	2.3	1.5	6.0	5.2	4.7	3.7	2.8	2.2	2.2	1.9	1.7	1.5	1.3	1.5
Inflation (HICP) y/y, %	5.9	5.7	2.6	1.6	7.0	6.1	5.5	4.2	3.0	2.5	2.7	2.3	2.1	1.6	1.3	1.5
Unemployment rate France excluding Mayotte, %	7.3	7.3	7.6	7.6	7.1	7.2	7.4	7.5	7.5	7.7	7.6	7.8	7.7	7.5	7.5	7.7
Unemployment rate Metropolitan France, %	7.1	7.1	7.4	7.3	6.9	7.0	7.2	7.3	7.3	7.4	7.3	7.5	7.4	7.2	7.2	7.4
Budget balance % of GDP	-4.7	-5.5	-5.4	-4.3	-	-	-	-	-	-	-	-	-	-	-	-
Public debt % of GDP	111.2	109.9	111.5	112.0	-	-	-	-	-	-	-	-	-	-	-	-

Last review: Q1 2024 except inflation (Q2 2024)

Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts.

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