FRANCE
2025-2026 SCENARIO

IN SEARCH OF POLITICAL STABILITY, WITH GROWTH WEAKENED BY UNCERTAINTY

January 2025

Marianne PICARD

WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

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IN SEARCH OF POLITICAL STABILITY, WITH GROWTH WEAKENED BY UNCERTAINTY

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Scenario highlights

- **Household consumption would increase in 2025, as disinflation continues, and accelerate in 2026.**
- **Investment is expected to rebound in 2026 under the delayed effect of the cut in key rates, and supported by the double transition.**
- **Growth should increase in 2026, to a level close to potential growth.**

- **Household consumption and business investment would be affected by the current level of uncertainty, and growth would therefore be sluggish in 2025.**
- **Despite the acceleration in activity in 2026, the output gap would still be negative by that date.**
- **The public deficit would remain very high in 2026, leading to a significant increase in the public debt ratio.**

	2023	2024	2025	2026
GDP volume, swda (y/y, %)	1.1	1.1	0.8	1.1
Domestic demand excluding inventories (contribution to GDP, pp)	0.9	0.6	0.6	1.0
Changes in inventories (contribution to GDP, pp)	-0.3	-0.5	0.1	0.0
Net exports (contribution to GDP, pp)	0.5	0.9	0.0	0.0
Household consumption (y/y, %)	0.9	0.8	0.7	1.1
Total investment (y/y, %)	0.8	-1.6	0.0	1.5
CPI inflation (y/y, %)	4.9	2.0	1.1	1.3
Unemployment rate, France excluding Mayotte (%)	7.3	7.4	7.7	7.8
Budget balance (% of GDP)	-5.5	-6.2	-6.0	-5.5

Last review: 2023
Sources: INSEE, Crédit Agricole S.A./ECO forecasts on green background

Economic activity in France quickened in Q3 2024, with quarterly growth coming in at 0.4%, compared with 0.2% in Q1 and Q2. This uptick is explained by the Paris Olympic and Paralympic Games, estimated to have added 0.2 percentage points to Q3 growth. At the end of Q3, carry-over growth for 2024 was 1.1%.

The economy is not expected to have grown at all in Q4 2024 due to the boost from the Paris Olympics washing out. This would put full-year 2024 growth at 1.1%, unchanged year on year, mainly driven by foreign trade and public spending, with private domestic demand (excluding inventories) stagnating. Average annual CPI inflation eased from 4.9% in 2023 to 2% in 2024. In 2025, growth is predicted to slow to 0.8% and inflation to 1.1%, with prevailing high levels of uncertainty hampering growth: household consumption is set to grow but by less than originally expected, with the recovery in private investment pushed back to 2026. Growth should then pick up in 2026 – assuming political instability eases – to 1.1%, the level of potential growth. However, the output gap will still be negative at the end of 2026. Inflation is set to pick up slightly, to 1.3%.

This scenario is compatible with the adoption of a 2025 Budget Bill in the early part of the year (probably at the end of Q1), with the public deficit shrinking by less than would have been the case under a Barnier budget to reach 6% of GDP in 2025, compared with 6.2% in 2024. It will probably fall to around 5.5% of GDP in 2026.

THE SCENARIO IN BRIEF

IN SEARCH OF POLITICAL STABILITY, WITH GROWTH WEAKENED BY UNCERTAINTY

Looking back on the last few quarters: an uptick in economic activity linked to the Paris Olympic and Paralympic Games

Economic activity in France quickened in the third quarter of 2024, with quarterly growth of 0.4% in volume, compared with 0.2% in both the first and the second quarters. This uptick is explained by the Paris Olympic and Paralympic Games, estimated to have added 0.2 percentage points to third-quarter GDP. Revenue from ticket sales and broadcasting rights was recognised by Insee (the French National Institute of Statistics and Economic Studies) as an output of services at the time of the games, in line with national accounting standards.

At the end of the third quarter, carry-over growth for 2024 was 1.1%.

Outlook for the fourth quarter of 2024: zero growth as the effect of the Paris Olympics washes out

Overall economic activity likely held steady in the fourth quarter as the effects of the Paris Olympics washed out, with the resulting quarter-on-quarter drop offsetting underlying growth of around 0.2%. This quarterly forecast for the fourth quarter is in line with the most recent forecasts from Banque de France ("Monthly Business Survey – Start of January") and INSEE ("Economic Outlook – December 2024: Activity awaiting renewed confidence").

Changes in 2024: growth stable at 1.1%, buoyed by foreign trade and the public sector

Full-year 2024 growth is estimated at 1.1%, unchanged year on year, mainly driven by foreign trade and public spending (contributing 0.9 and 0.5 percentage points of growth respectively) linked to the carry-over growth already observed. Household consumption is set to have slowed slightly, growing 0.8% in volume in 2024, compared with 0.9% in 2023, despite average annual CPI inflation falling from 4.9% in 2023 to 2% in 2024. Total investment is estimated to have fallen by 1.6% in 2024 after having grown by 0.8% in 2023. Investment by non-financial corporations (down 1.9% in the year, after having risen by 3.1% in 2023) and, above all, by households (down 5.9%, compared with 8.2% in 2023) likely continued to be affected by the previous tightening of financial conditions. Meanwhile, government investment is estimated to have remained relatively buoyant, up 3% (compared with a 7.1% increase in 2023). Furthermore, destocking in the run-up to the end of 2023 is estimated to have shaved 0.5 percentage points off 2024 growth.

Consistent with the forecasts for the fourth quarter, our growth forecast for 2024 is in line with the latest annual forecasts from the Banque de France (December Macroeconomic projections) and INSEE (December Economic Outlook).

The public deficit is predicted to have increased significantly in 2024, to 6.2% of GDP (compared with 5.5% in 2023, already an overshoot), well in excess of both the 4.4% written into the 2024 Budget Bill in autumn 2023 and the 5.4% included in the 2024 Stability Programme in spring 2024. This public deficit forecast – intended to be cautious – is slightly higher than the latest government forecast (6.1% in Barnier's Budget Bill) but in line with the more recent European Commission forecast. A deficit of this size would result in the debt-to-GDP ratio rising sharply to 112.9% (up from 109.9% in 2023).

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IN SEARCH OF POLITICAL STABILITY, WITH GROWTH WEAKENED BY UNCERTAINTY

2025 forecasts: economic activity slows, affected by uncertainty

In 2025, growth is predicted to slow to 0.8%. We recently revised down our forecast by 0.2 percentage points in light of current uncertainty on both the domestic political front (in particular the no confidence motion that brought down the Barnier government and the absence, at this stage, of a 2025 Budget Bill) and the trade policy front (following Donald trump's US presidential election win). These high levels of uncertainty will undoubtedly affect households and businesses, which will tend to wait for the right time to spend on consumer goods and services (for households) and on investment and recruitment (for businesses).

Household consumption is nevertheless set to grow in 2025, albeit modestly, to 0.7%, supported by continuing disinflation. Inflation as measured by the consumer price index (CPI) should ease to an annual average of 1.1%. Meanwhile, investment should hold steady in 2025, with investment by non-financial corporations falling slightly (down 0.2%) and household investment more or less flat (up 0.1%). The contribution of foreign trade to growth is likely to be zero, with imports and exports growing at more or less the same pace. Modest restocking should add 0.1 percentage points to full-year growth. Budgetary measures are likely to hamper growth to some extent, with the pace of government consumption expenditure slowing sharply, up 0.6% in volume, compared with 2% in 2024, and government investment slowing (up 0.5%, compared with 3% in 2024).

Nevertheless, we expect only a slight fall in the public deficit in 2025, to 6% of GDP, causing the debt-to-GDP ratio to rise to 116.8%. Some fiscal measures proposed by the Barnier government (e.g. freezing pensions) are no longer an option, while others are hampered by constraints preventing their retroactive application. Moreover, one can well imagine that François Bayrou and his government wish to avoid their predecessors' fate (a no confidence vote) and are thus going to have to make concessions to ensure that this is the case (as, indeed, they already have done). The Bayrou government will thus make less progress on reducing the deficit in 2025 than Barnier was proposing to do, and will not succeed in its goal of containing it at 5.4% of GDP.

Our growth forecast for 2025 is slightly lower than that of the Banque de France in December (0.9%), which was drawn up before the motion of censure against the Barnier government, on the basis of public finance assumptions close to those of the initial Finance Bill (which projected a fall in the deficit to 5% next year) and which therefore does not take account of the latest political developments. For the period to mid-2025, our growth forecast is close to that of INSEE in its December Economic Outlook, which suggests a carry-over growth for 2024 at mid-year of 0.5% (compared with 0.6% in our forecast).

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THE SCENARIO IN BRIEF

IN SEARCH OF POLITICAL STABILITY, WITH GROWTH WEAKENED BY UNCERTAINTY

2026 forecasts: higher growth, at the level of potential growth

Growth will probably pick up in 2026 – assuming the uncertainty dissipates to some degree – to 1.1%, the level of potential growth. However, the output gap will still be negative at the end of 2026. Inflation is predicted to quicken slightly, though remaining well below the ECB's 2% target, with CPI inflation coming in at 1.3%.

Investment should bounce back, growing by 1.5%, with private investment driven by the delayed effect of ECB rate cuts and structural requirements arising from the twofold transition (digital and ecological). Investment by non-financial corporations is set to increase by 1.7%, and household investment to grow by 2.1%. Based on our assumptions for 2026, household consumption – no longer undermined by uncertainty – will quicken, growing by 1.1%. The contribution to growth of foreign trade and changes in inventories is predicted to be zero. Government consumption expenditure and investment are likely to once again slow (increasing by 0.4% and 0.3% respectively).

As regards the public finances, our scenario assumes that the public deficit will fall to 5.5% of GDP in 2026, with public debt reaching 119.4% of GDP.

A scenario based on "reasonable" assumptions at national (and international) level

Our scenario is compatible with a special law scenario in place for some time, followed by a Finance Bill for 2025 adopted early in the year (probably at the end of the first quarter), which will have to find a complicated balance in the National Assembly and be subject to compromise. For this reason, we are assuming a smaller adjustment in public finances than under the previous assumption of a PLF Barnier, and are revising upwards our public deficit forecast for 2025 compared with our last scenario (October). We assume a reduction in political uncertainty from the second half of 2025 onwards, which could result from a more stable coalition or new early general elections, and would make it less difficult to adopt a PLF for 2026 at the end of 2025.

Our assumptions on the international scenario are detailed below.

Risks to growth mainly on the downside

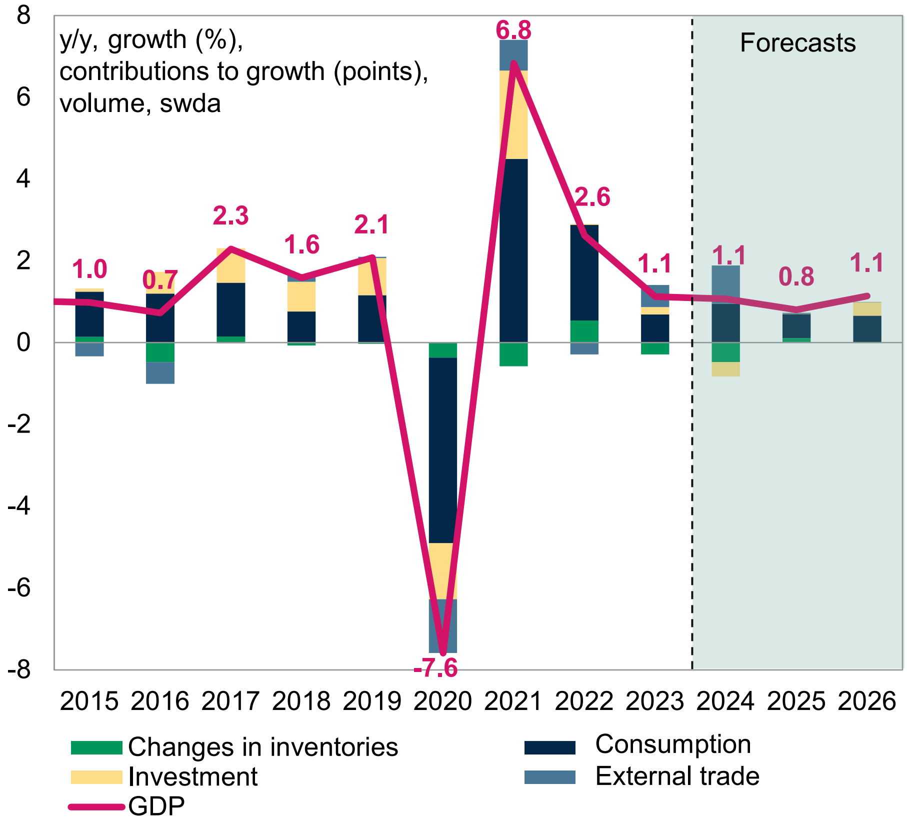
The risks relative to our growth forecasts appear to be on the downside. Firstly, at national level, uncertainty could increase depending on future developments, particularly in relation to the Bayrou government's forthcoming Finance Bill. For a given level of uncertainty, the deleterious impact on activity could be greater than anticipated, depending on the reaction of households and businesses.

On the international front, a further increase in US tariffs against the eurozone could hit its economy harder. What's more, in the event of a further increase in US tariffs on China, Chinese exporters could turn massively to the European market, triggering a wave of deflation and undermining the activity of European producers.

THE SCENARIO IN BRIEF

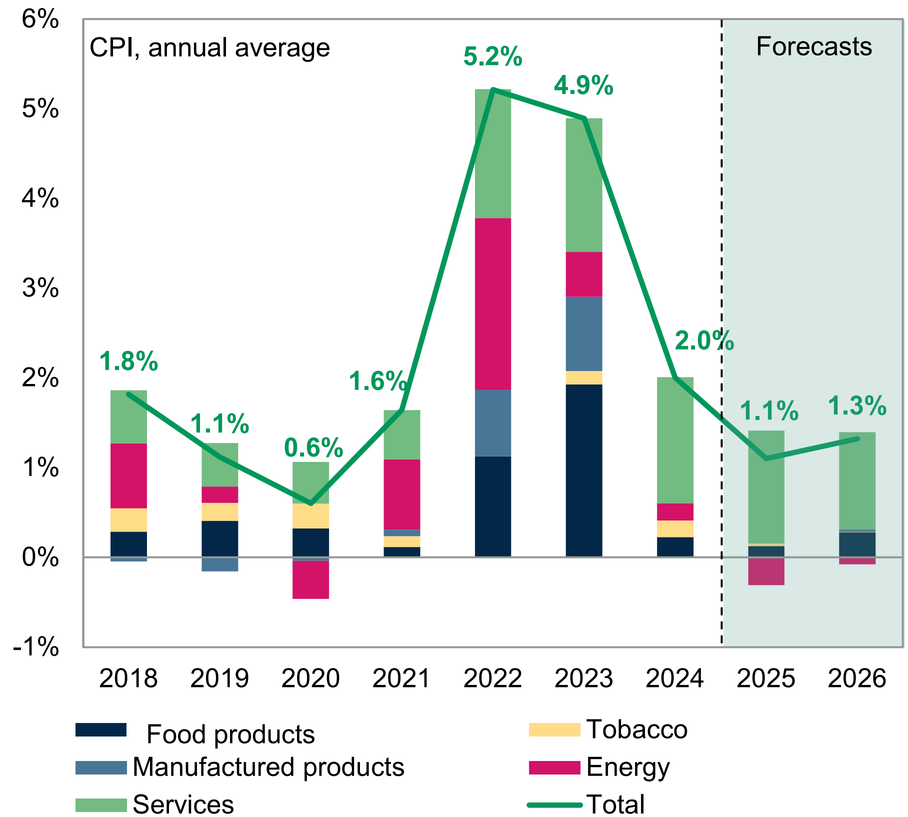
IN SEARCH OF POLITICAL STABILITY, WITH GROWTH WEAKENED BY UNCERTAINTY

Sluggish growth in 2025, before an acceleration in activity in 2026



Last review: 2023
Sources: INSEE, calculations and forecasts by Crédit Agricole S.A./ECO

Inflation is expected to be mainly driven by services



Last review: 2024
Sources: INSEE, calculations and forecasts by Crédit Agricole S.A./ECO

THE INTERNATIONAL ENVIRONMENT

Cautious assumptions in terms of international trade policies

On the international front, our scenario is based on the assumption that US customs duties will rise, but by less than Donald Trump claimed during his election campaign. On average, customs duties would rise from 19% to 40% for China, and from 3% to 6% for the rest of the world (including the eurozone). This average increase would in fact mask more substantial increases on targeted products (such as cars, but also steel and aluminium). The *timing* would differ, with a rise in the first half of 2025 for China, and in the second half of 2025 for the rest of the world.

The increase in US customs duties would be slightly unfavourable for activity in the eurozone. It would hurt European exports. However, this effect would not be felt until the end of 2025, and more importantly 2026, given the timing of the measures. Moreover, France would be less vulnerable to this measure than other European countries such as Germany or, to a lesser extent, Italy (notably because of the targeting of the increase in customs duties). Furthermore, other measures taken by the future Trump administration would lessen this negative impact on growth in the eurozone, such as expansionary fiscal policy, which would on the contrary tend to increase demand for the eurozone. This expansionary fiscal policy would be implemented from 2026 onwards, and would therefore manifest itself a little later.

Sluggish demand from France's main trading partners

In China, growth is set to decline steadily between now and 2026, with growth forecast at 4.2% in 2025 (after 4.8% in 2024) and 3.9% in 2026: the shift in the economic model towards more domestic demand is likely to be slow to take hold. In the United States, economic activity should slow in 2025, but remain vigorous, with growth forecast at 1.9% (after 2.7% in 2024), then accelerate to 2.2% in 2026. In the eurozone, growth is expected to pick up gradually by 2026, but to remain modest, at +1.0% in 2025 (after +0.7% in 2024), and +1.2% in 2026, linked in particular to a sluggish recovery in the German economy. Demand for France is therefore unlikely to be very dynamic between now and the end of 2026.

A slight rise in the price of oil

Oil prices had fallen significantly by the end of 2024, with Brent averaging $74 a barrel in the fourth quarter. Our scenario assumes a gradual, moderate rise in oil prices at the start of 2025, reaching $80 per barrel (Brent) in the second and third quarters. The price would then fall slightly at the end of the year and in the first quarter of 2026, returning to $75, before gradually rising again to reach $82 in the fourth quarter of 2026.

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THE INTERNATIONAL ENVIRONMENT

A less restrictive monetary policy from the ECB

Given the fall in inflation and the economic slowdown, the European Central Bank (ECB) was able to begin its process of normalising monetary policy in June 2024, with an initial cut of 25 basis points (bp) in its three key interest rates. In September, it decided to cut the deposit facility rate by a further 25 bp after a pause in July, which was accompanied by a tightening of the rate corridor so that the other two key interest rates got closer to the deposit rate. In October and December, the ECB cut its three key rates by a further 25 bp.

Our scenario assumes three further 25 bp cuts in key ECB interest rates in 2025: two in the first quarter and one in the second. The terminal rate would therefore be reached as early as June (compared with September in our previous scenario), and the deposit rate would stand at 2.25% (i.e. -25 bp compared with the terminal rate in our October 2024 scenario), which we consider to be a bit below the neutral rate: monetary policy could then be considered to be slightly "accommodative". This relative easing will provide some breathing space for investment in the eurozone, but this effect will be felt mainly from 2026 onwards, given the lag in the transmission of monetary policy and the current high level of uncertainty.

For more information, see our "World Scenario 2025-2026".

International background assumptions

	2024	2025	2026	2024				2025				2026			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
World GDP (y/y, q/q, %)	3.0	2.8	2.9	-	-	-	-	-	-	-	-	-	-	-	-
US GDP (y/y, annualised q/q, %)	2.7	1.9	2.2	1.6	3.0	3.1	2.2	1.9	1.4	1.2	1.8	2.5	2.5	2.4	2.4
Euro area GDP (y/y, q/q, %)	0.7	1.0	1.2	0.3	0.2	0.4	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
China GDP (y/y, q/q, %)	4.8	4.2	3.9	1.5	0.5	0.9	1.1	1.1	1.0	1.0	1.0	0.9	0.8	0.9	0.9
ECB deposit rate (end of period, %)	3.00	2.25	2.25	4.00	3.75	3.50	3.00	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Federal Reserve funds rate (end of period, %)	4.50	4.00	4.00	5.50	5.50	5.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Exchange rate (average, EUR/USD)	1.08	1.05	1.09	1.09	1.08	1.10	1.07	1.05	1.04	1.05	1.07	1.07	1.08	1.09	1.10
Brent (average, USD/barrel)	79.9	78.3	79.3	81.9	85.0	78.9	74.0	75.0	80.0	80.0	78.0	75.0	80.0	80.0	82.0

Last review: Q4 2024 except GDP (Q3 2024)
Sources: BAE, ECB, Eurostat, IMF, Refinitiv, Federal Reserve, Crédit Agricole S.A./ECO forecasts on green background

LATEST ECONOMIC TRENDS

A DARKER OUTLOOK LINKED TO THE POLITICAL CONTEXT

The factors behind growth proved rather disappointing in the first half of 2024, when it was foreign trade and general government spending that drove growth. Household consumption expenditure, on the other hand, stagnated, despite the ongoing disinflation process. In the third quarter, it was household consumption that drove growth, with an increase of 0.6%. Consumption by general government continued to be buoyant (up 0.6%, after 0.6%). For its part, investment fell for the fifth consecutive quarter (-0.7%, after -0.1%), still affected by the past tightening of financial conditions. Exports fell slightly more than imports, with foreign trade making a -0.1 points contribution to growth in the third quarter (after +0.2 points). Changes in inventories gave a slight boost to quarterly growth (0.1 points, after -0.1 points). Carry-over growth for 2024 at the end of the third quarter is 1.1%.

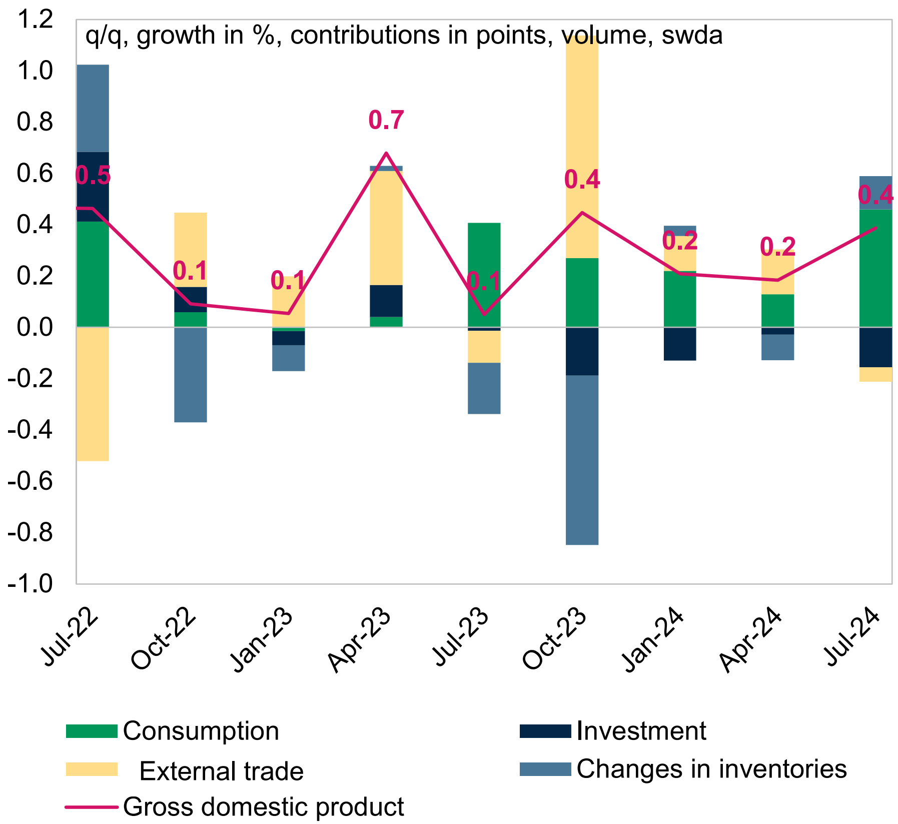
Inflation continued to fall during 2024, and stood at 1.3% year-on-year in December as measured by the consumer price index (CPI). As an annual average, inflation therefore fell to 2% in 2024, after 4.9% in 2023. This was driven mainly by services (whose prices rose by 2.7% over the year, contributing 1.4 percentage points to overall inflation), while food inflation (down to 1.4% from 11.8% in 2023) and energy inflation (down to 2.3% from 5.6% in 2023) fell sharply. Prices of manufactured goods, meanwhile, have remained stable, after rising by 3.5% in 2023. On an annual average basis, tobacco prices have accelerated (+10.3% after +8% in 2023). While total inflation at the end of the year (1.3% year-on-year) was mainly due to the services component (contribution of 1.2 points), service prices began to decelerate year-on-year in the second half of the year, with inflation falling from 3% in August to 2.2% in December.

The latest business survey results send out gloomy signals. On the household side, the synthetic confidence indicator, which had rebounded during the summer (reaching 95 in September), has fallen again, returning to a level of 89 in December 2024, compared with a long-term average of 100. This level, which is low from a long-term historical perspective, nevertheless corresponds to the level reached by the indicator one year earlier, and is higher than the low point reached in the summer of 2022 (80). In detail, over the last few months there has been a rebound in fears about unemployment (even though the unemployment rate remains very low, at 7.4% in the third quarter of 2024 for France excluding Mayotte, compared with an average of 9.6% over the 2010-2019 period) and a worsening opinion about the outlook for living standards in France. The balance of opinion on the opportunity to save remains high in historical perspective, suggesting that households will continue to save massively (and that the savings rate should therefore remain high). The balance of opinion on the opportunity to make major purchases remains low from a historical perspective, but has been stable in recent months, at a level above the low point reached in the summer of 2023, and therefore seems compatible with a slight increase in household consumption in the coming quarters. On the business side, the business climate is also below its historical average of 100, at 95 in January 2025. While this level is not very exciting, it is still compatible with weak growth in activity (the empirical turning point in activity is closer to 80). It is also higher than the level reached by the indicator in July 2024 (94), after the dissolution of the National Assembly and the first round of legislative elections: after this episode, the business climate rebounded, reaching 98 in September. We can therefore imagine that, depending on political developments (and in particular the passing of a finance bill), it could rebound during 2025 (or not). The business climate is below its long-term average in all sectors of activity. The employment climate fell below its long-term average (100) in June, reached a low point in July (at 96), before rebounding (to 99 in September). It stands at 98 in January 2025.

LATEST ECONOMIC TRENDS

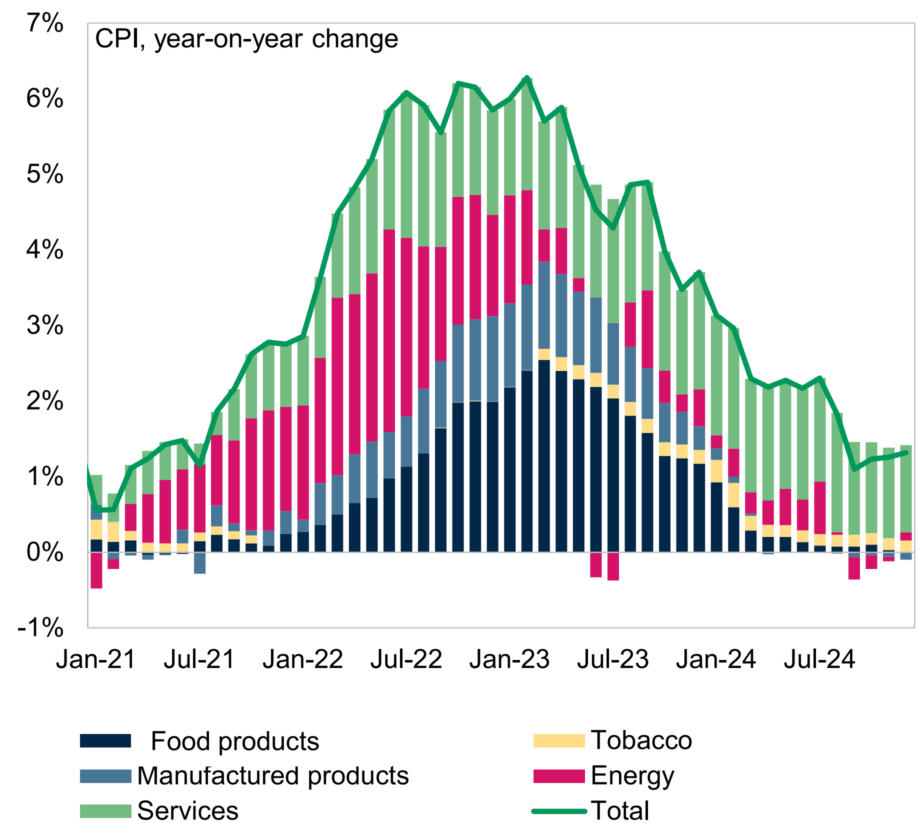
A RISE IN GROWTH IN THE THIRD QUARTER OF 2024, WHILE THE DISINFLATION PROCESS CONTINUED WELL INTO 2024

Economic activity accelerated in the third quarter of 2024, in connection with the Olympic Games



Last review : Q3 2024
Sources: INSEE, Crédit Agricole S.A./ECO calculations

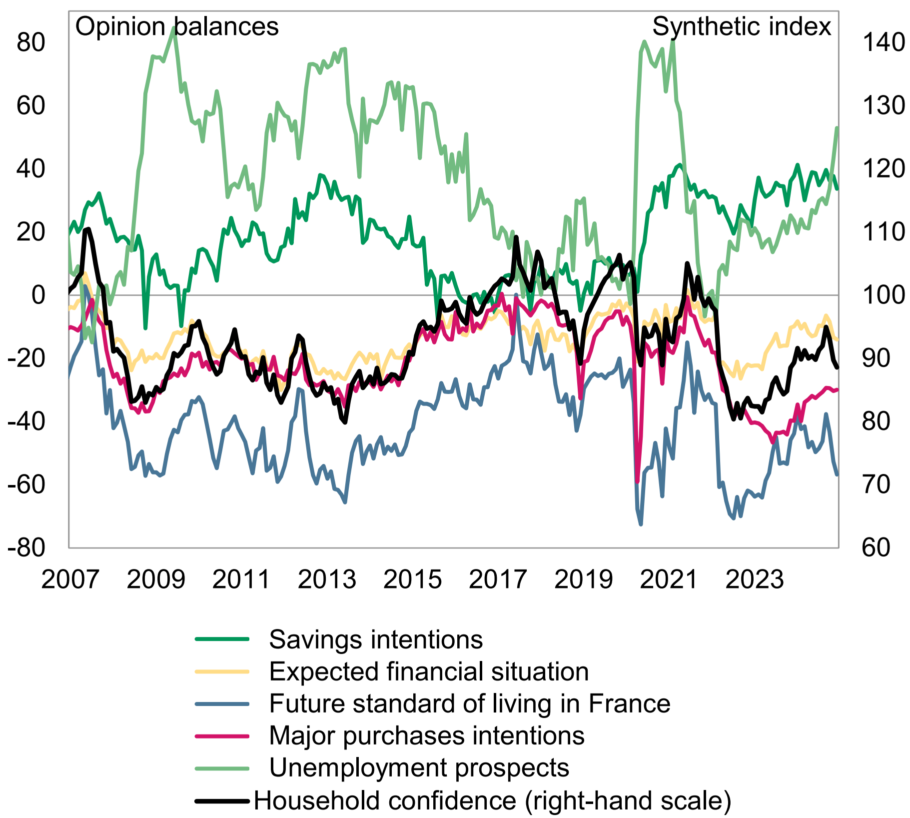
Inflation eased during 2024



Last review: December 2024
Sources: INSEE, Crédit Agricole S.A./ECO calculations

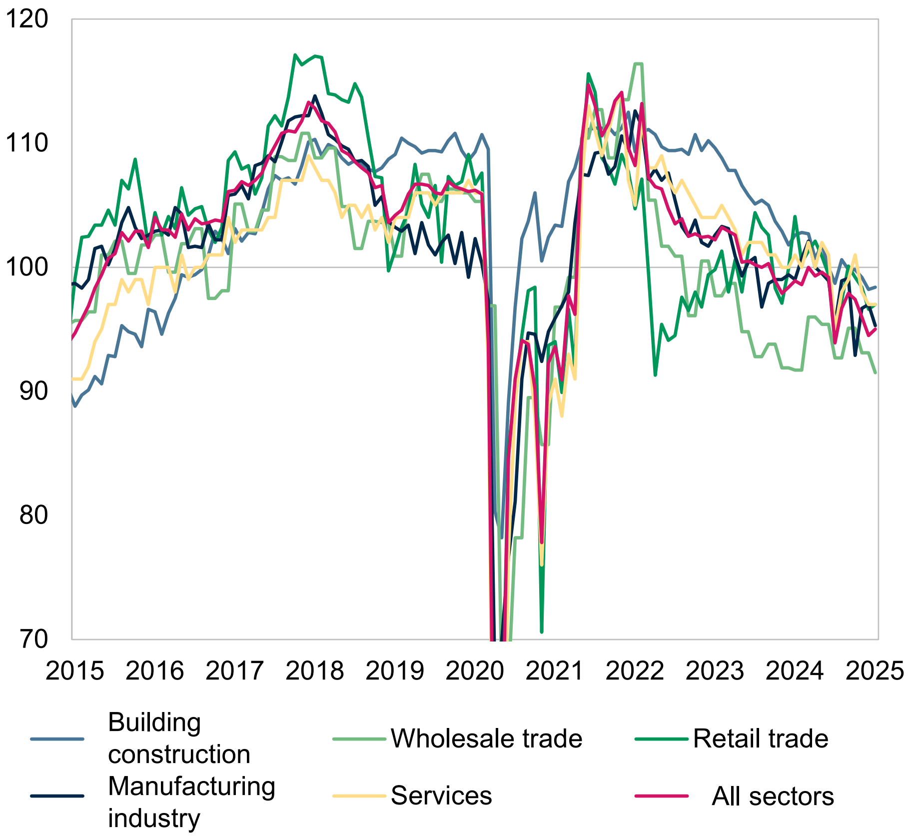
BUSINESS SURVEYS: A DARKER OUTLOOK LINKED TO THE POLITICAL CONTEXT

Household confidence fell again at the end of 2024 after a summer rebound



Last points: December 2024
Sources: INSEE, Crédit agricole S.A./ECO

The business climate is weakened by uncertainty



Last points: January 2025
Sources: INSEE, Crédit Agricole S.A./ECO

LABOUR MARKET

EMPLOYMENT HOLDING UP WELL AND WAGES OUTPERFORMING PRICES

According to the national accounts, employment remained stable in the third quarter of 2024 (+0.0%, after +0.1% per quarter in the first half of the year). Given the growth in the active population (+0.1% after -0.1%), the unemployment rate as defined by the International Labour Office (ILO) rose slightly, to 7.4% for France excluding Mayotte (after 7.3% in the second quarter) and to 7.2% for Metropolitan France (after 7.1%).

We forecast a more marked slowdown in employment in 2025 (+0.2% annual average after +0.5% in 2024), which would result in a moderate rise in the unemployment rate, to 7.7% for France excluding Mayotte (after 7.4% in 2024), and 7.5% for Metropolitan France (after 7.2% in 2024). Employment growth would return to around 0.5% in 2026, and the unemployment rate should remain virtually stable (at 7.8% for France excluding Mayotte and 7.6% for Metropolitan France). Despite the slight rise in the unemployment rate over the forecast horizon, it would remain low in historical perspective, far from its average for the 2010 decade (9.6% for France excluding Mayotte, and 9.3% for Metropolitan France). Compared with 2024, employment growth in 2025-2026 will be driven more by private-sector salaried employment, and less by public-sector salaried employment which will begin to slow down sharply, against a backdrop of efforts to reduce public spending.

Data on payroll employment from administrative sources ("employment estimates") show a slight increase in the third quarter of 2024 (+0.2%) after a slight fall in the previous quarter (-0.1%). These data differ from those in the national accounts for various reasons, and in particular are end-of-quarter data, whereas those in the national accounts are quarterly averages. Be that as it may, employment proved to be very resilient in 2024, and there was an increase in the employment of senior citizens (aged 55 or over).

The slowdown in employment in 2024 has already led to some recovery in labour productivity, but it remains significantly below its level before the health crisis. The contained growth in employment forecast for 2025-2026 should enable a partial recovery in productivity losses, with the increase in employment being weaker than the forecast growth in activity.

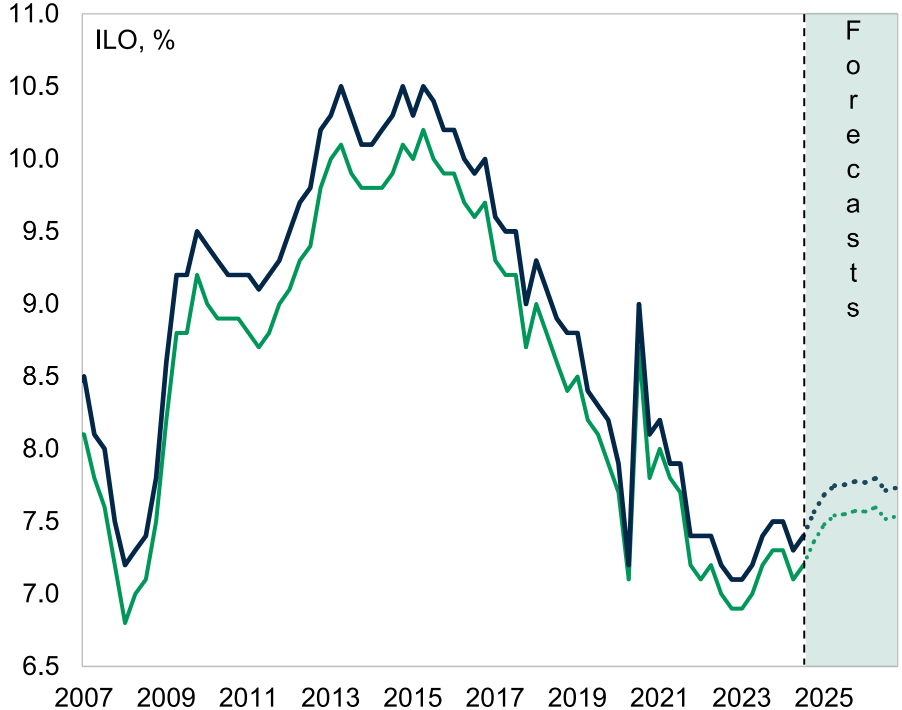
Nominal wages decelerated significantly year-on-year during 2024: the Banque de France's negotiated wage index rose by 2.7% year-on-year in the third quarter of 2024, compared with +4.8% a year earlier, and the basic monthly wage index published by Dares rose by 2.7% year-on-year, compared with 4.2% in the third quarter of 2023. The SMIC increased by 2% on 1st November 2024, in anticipation of the increase that should have taken place on 1st January 2025 (according to the annual adjustment formula). With the exception of the SMIC, whose purchasing power had been preserved by virtue of its automatic revaluation in line with inflation, wages expressed in real terms finally came out on top in 2024, after several years of decline. Over a year, inflation had in fact fallen below wage growth by the end of 2023, due to disinflation and sustained nominal wage growth.

In our forecast, we expect wage growth to be slightly stronger than price growth between now and the end of 2026, with per capita wage rising by 2.4% in 2025 and 1.9% in 2026, after 3% in 2024. Gains in the purchasing power of wages support the purchasing power of households' gross disposable income, and, as income from work, have a greater propensity to be consumed than income from capital (e.g. property income, which has been particularly buoyant in recent years).

LABOUR MARKET

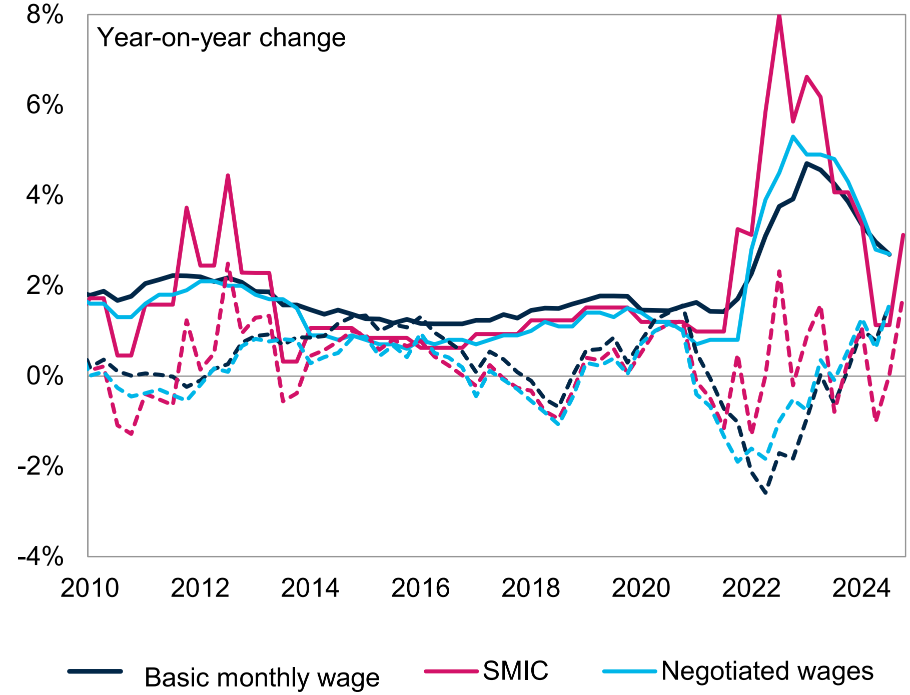
EMPLOYMENT HOLDING UP WELL AND WAGES OUTPERFORMING PRICES

The unemployment rate is expected to rise slightly, below its pre-pandemic level



Last review: Q3 2024
Sources: INSEE, Crédit Agricole S.A./ECO forecasts

Average wages are slowing but finally rising in real terms



NB: Dotted lines show trends in real wages (wages deflated by total CPI).
End-of-quarter data.
The SMIC is the minimum wage in France.

Last review: Q3 2024 except SMIC (Q4 2024)
Sources: Dares, Insee, Banque de France, Crédit Agricole S.A./ECO calculations

HOUSEHOLDS

CONSUMPTION EXPECTED TO INCREASE, BUT AT A REDUCED PACE IN 2025

Household consumption remained sluggish in the first half of 2024 (+0.1% in the first quarter and -0.0% in the second quarter), despite the increase in the purchasing power of gross disposable income (GDI, +0.3% in the first quarter and +0.5% in the third quarter). The household savings rate, which was already well above its pre-crisis level at the end of 2023 (17.2% in the fourth quarter, compared with an average of close to 14% between 2015 and 2019), has therefore risen again. In the third quarter of 2024, household consumption did rebound to +0.6%, but this increase is partly linked to the effect of the Paris Olympic and Paralympic Games. In addition, given that the increase in purchasing power of GDI (+0.9%) was greater than that of consumption, the household savings rate rose again, to 18.2% (after 17.9% in the second quarter). Households are thus demonstrating their preference for saving, despite disinflation.

Household consumption of goods remains the biggest loser since the health crisis: while household consumption of services rose by more than 10% between the fourth quarter of 2019 and the third quarter of 2024, household consumption of goods remains 4% below its pre-health crisis level. Behind this dichotomy lie both cyclical and more structural factors. In detail, some segments are bearing the brunt of particularly high inflation over the period: for food, the CPI has risen by 23.6%, and this has been reflected in changes in consumer behaviour, with consumers turning more towards cheaper products ("distributor brands") and less towards more expensive products ("big brands"). Energy has also been affected by this high inflation, but more frugal behaviour in this segment, as in others such as textiles and clothing, could reflect more lasting changes in consumer behaviour. In the automotive segment, the situation is also somewhat unusual, in a context of transition towards electric vehicles, while electric vehicles stay more expensive than their internal combustion equivalents, and European consumers do not seem to be ready for this change. Consumption of housing equipment is slightly higher than it was before the health crisis, but has been sluggish in recent quarters: this is linked to the property cycle, with transactions currently at a low level.

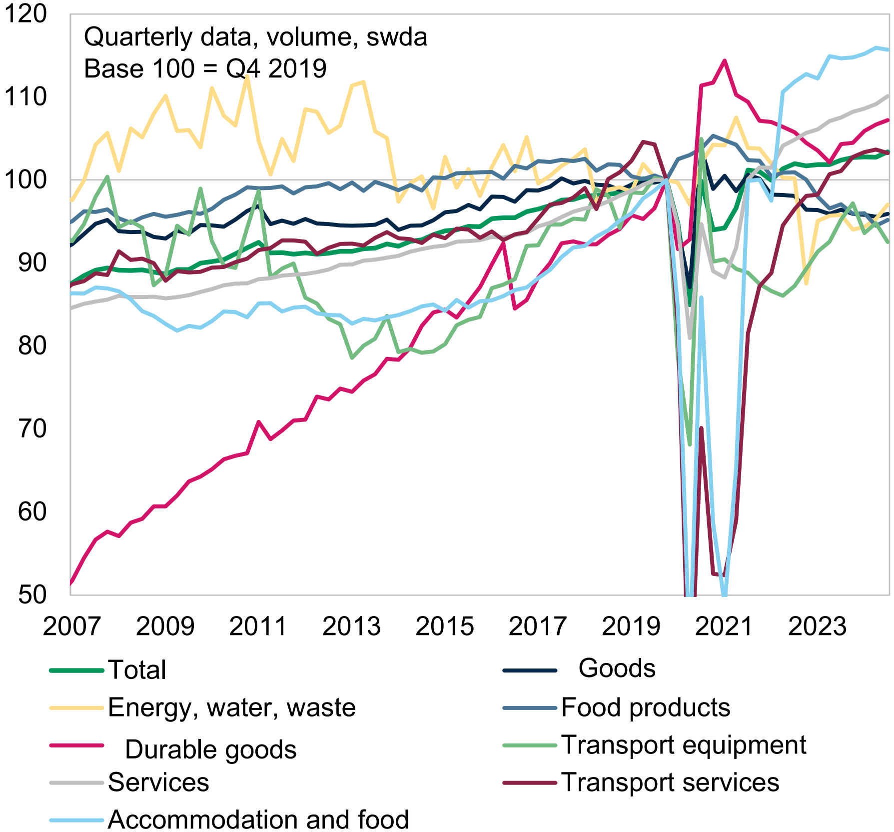
We forecast a slight fall in household consumption in the fourth quarter of 2024, as a result of the impact of the Olympic Games. Household consumption should then increase by 0.2% per quarter over the first three quarters of 2025, supported by continued disinflation and still relatively buoyant wages, but affected by uncertainty. Households would opt for substantial precautionary savings, and potential Ricardian effects could also be at work, with households saving more in anticipation of future tax increases (given the current state of public finances). The household savings rate would thus rise slightly in the fourth quarter of 2024, and remain at this very high level in the first half of 2025 (above 18.5%). We then expect the household savings rate to fall back slightly, but slowly, to 17.5% in the final quarter of 2026, a level well above that prevailing before the health crisis. Household consumption would accelerate slightly to 0.3% per quarter from the last quarter of 2025 onwards, assuming a relative dissipation of uncertainty at that point. The purchasing power of household GDI is expected to slow in 2025, to 1% over the year (after 2.3% in 2024), which would nonetheless support household consumption, which is expected to grow by 0.7% (after 0.8% in 2024). GDI in real terms will rise only slightly in 2026 (+0.2%), but the dissipation of uncertainty will result in a slight fall in the household savings rate, and household consumption would accelerate to +1.1%.

Household investment should stabilise in 2025 (+0.1% after -5.9%), which conceals positive quarterly changes that would compensate for negative carry-over growth at the end of 2023 for 2024 (-0.7%). It should then really rebound in 2026, to +2.1%, thanks to more favourable financing conditions.

HOUSEHOLDS

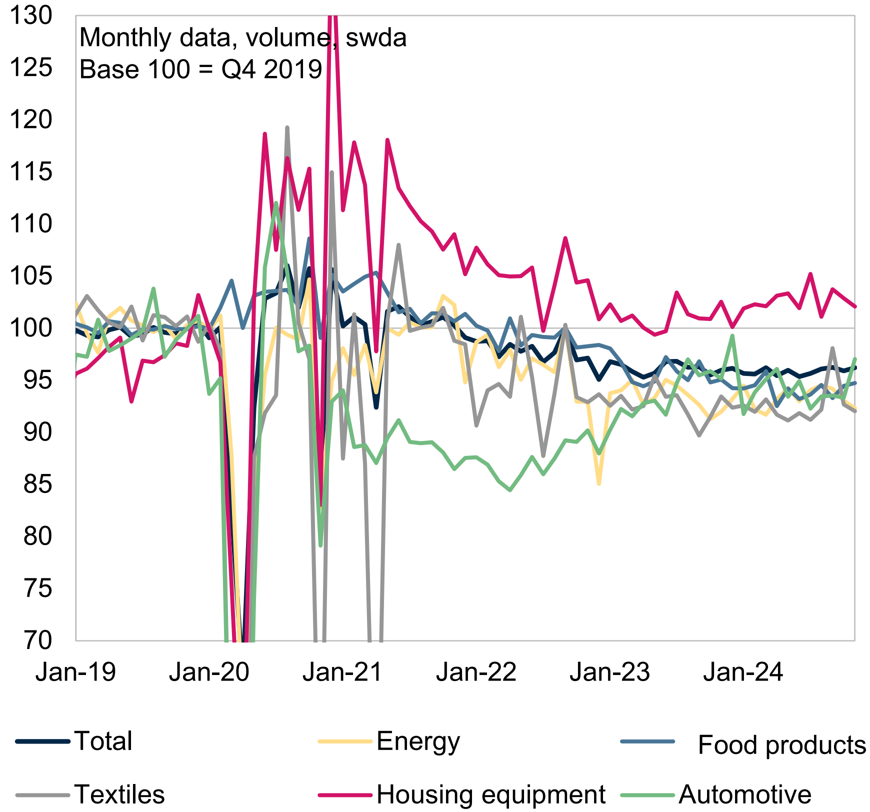
CONSUMPTION OF GOODS STILL DEPRESSED DESPITE RISING PURCHASING POWER

A certain dichotomy between trends in consumption of goods and services



Last review : Q3 2024
Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts

Energy, food, textiles and cars bear the brunt of sluggish consumption of goods

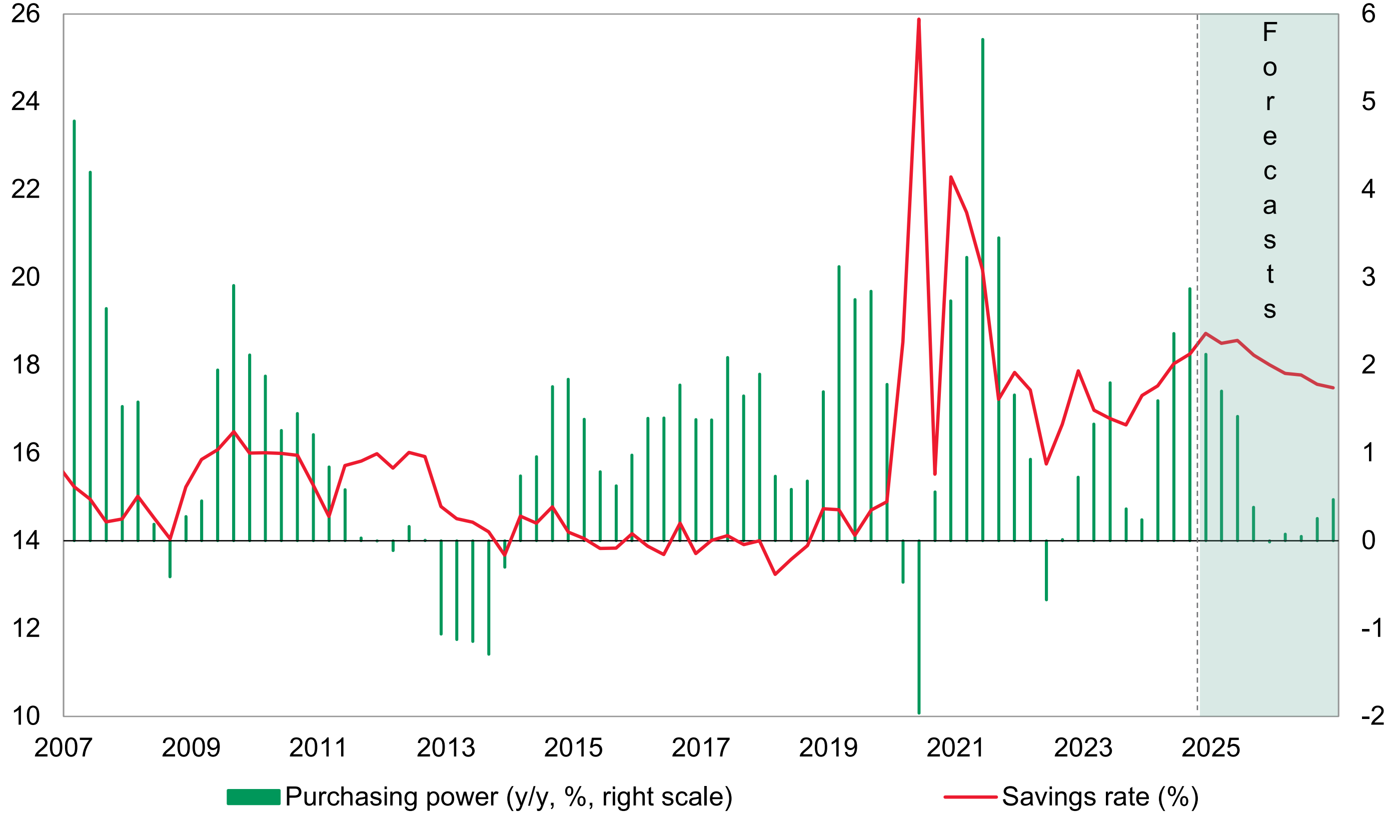


Last review: November 2024
Sources: INSEE, Crédit Agricole S.A./ECO calculations

HOUSEHOLDS

PURCHASING POWER WOULD SUPPORT CONSUMPTION, BUT UNCERTAINTY WOULD LIMIT THE INCREASE WITH A HIGH SAVINGS RATE

Household purchasing power should continue to rise in 2025, and the savings rate should remain very high in H1 2025 before falling very slowly



Last review: Q3 2024
Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts

INVESTMENT IS NOT EXPECTED TO REBOUND UNTIL 2026, THE MARGIN RATE FOR NFCS SHOULD REMAIN AT A DECENT LEVEL

Investment by non-financial corporations (NFCs) recorded its fourth quarterly fall in volume terms in the third quarter of 2024 (-1.2% after -0.2%). While the direction of change came as little surprise, given the past tightening of financial conditions, which is still weighing on investment, the magnitude of the fall in the third quarter was greater than we had anticipated. Investment in market services, and more specifically in information and communications, remains on an upward trend (digital transition, artificial intelligence). By contrast, the situation for manufactured goods is more worrying, with investment in transport equipment in particular in decline. We anticipate a further decline in investment by NFCs in the fourth quarter of 2024, albeit a smaller one than that seen in the third quarter.

In 2025, we forecast a relative stabilisation in investment by NFCs over the year (-0.2% after -1.9% in 2024), which conceals slightly positive quarterly changes (+0.2% to +0.3%) that partially offset negative carry-over growth at the end of 2024 of around -0.9%. However, the real rebound in investment by NFCs would only occur in 2026, with growth of 1.7% over the year, and more significant quarterly changes. This rebound in 2026 is compatible with the lag in the transmission of monetary policy: although key rates have already been cut, and we expect three further cuts in the first half of 2025, monetary policy is currently still restrictive, and will not become slightly accommodative until the second quarter of 2025. However, this rate cut will take time to be passed on to investment (several quarters). Moreover, the current level of uncertainty would in any case prevent a more premature rebound. By 2026, investment should be back on its structural feet, led by the twin transitions (digital and ecological).

The average profitability of companies is relatively good, judging by the margin rate. It increased to 32.4% for NFCs in the third quarter of 2024, following a slight fall in the second quarter (to 31.2%). While this rebound is partly due to the temporary effect of the Olympic Games, the margin rate is currently at a comfortable level on average, since it stood at between 30% and 31% for NFCs in 2018-2019, before the health crisis. There are, however, very specific sectoral stories, with in particular a margin rate that is still very high in historical perspective in energy, water and waste. The margin rate in the accommodation and catering sector, which was very low from a historical perspective between late 2021 and early 2023, has since recovered to levels closer to its historical average. In industry, the margin rate remains high from a historical perspective, with two sectors standing out. The first is transport equipment, where the margin rate was relatively high from a historical perspective in 2022-2023, but has since fallen back (a form of normalisation). The food and beverages industry, for its part, still has a very high margin rate from a historical perspective. We expect the NFC margin rate to fall slightly on average. In particular, we expect labour costs growth to be slightly higher than productivity growth, and the tax burden is unlikely to fall (on the contrary). However, the NFC profit margin should remain at a decent level, close to 31% in 2025-2026, the same level as in 2019.

Business defaults have risen sharply since 2022. In 2024, the Banque de France counted 65,764 legal units in receivership or compulsory liquidation. The provisional figures for December show a 16.8% increase in business failures compared with the previous year. This increase can be explained in part by a catch-up and normalisation effect, following the period of slowdown in insolvencies seen during the Covid-19 crisis (2020-2021). However, this upward trend in business defaults moderated in the final months of the year. In addition, a large number of new businesses have been registered by INSEE since the health crisis.

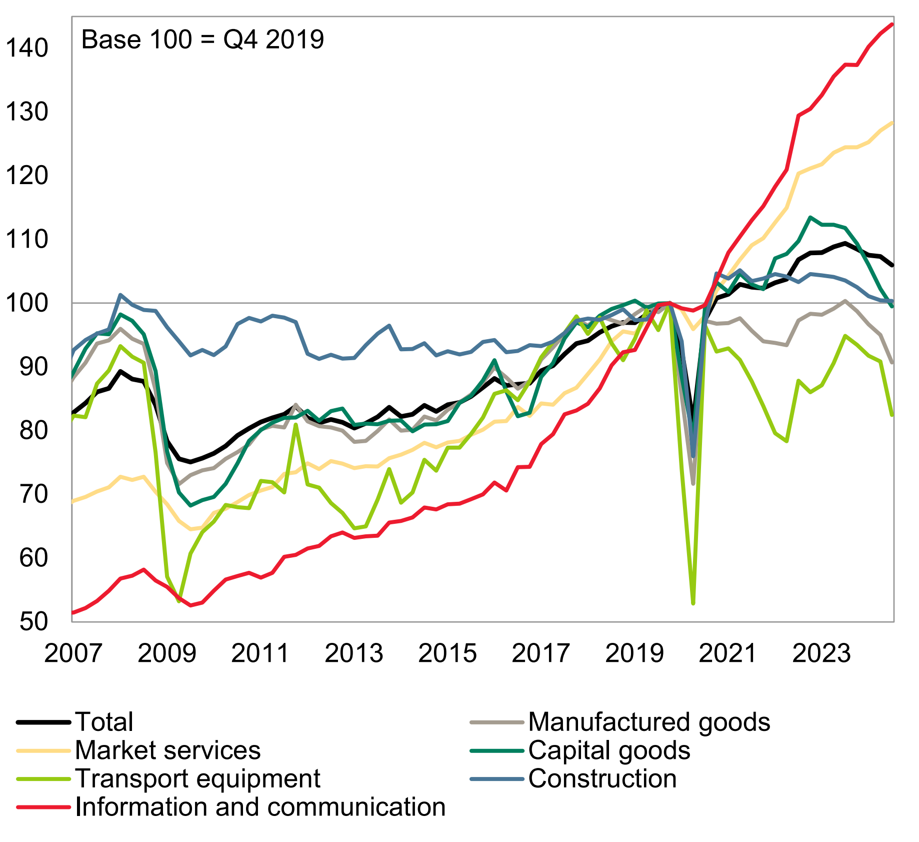
COMPANIES

WORSENING FINANCING CONDITIONS WEIGHING ON INVESTMENT

NFC financing costs remain high

Last review: November 2024
Sources: Banque de France, Crédit agricole S.A./ECO

NFC investment contracted for the fourth consecutive quarter in Q3 2024

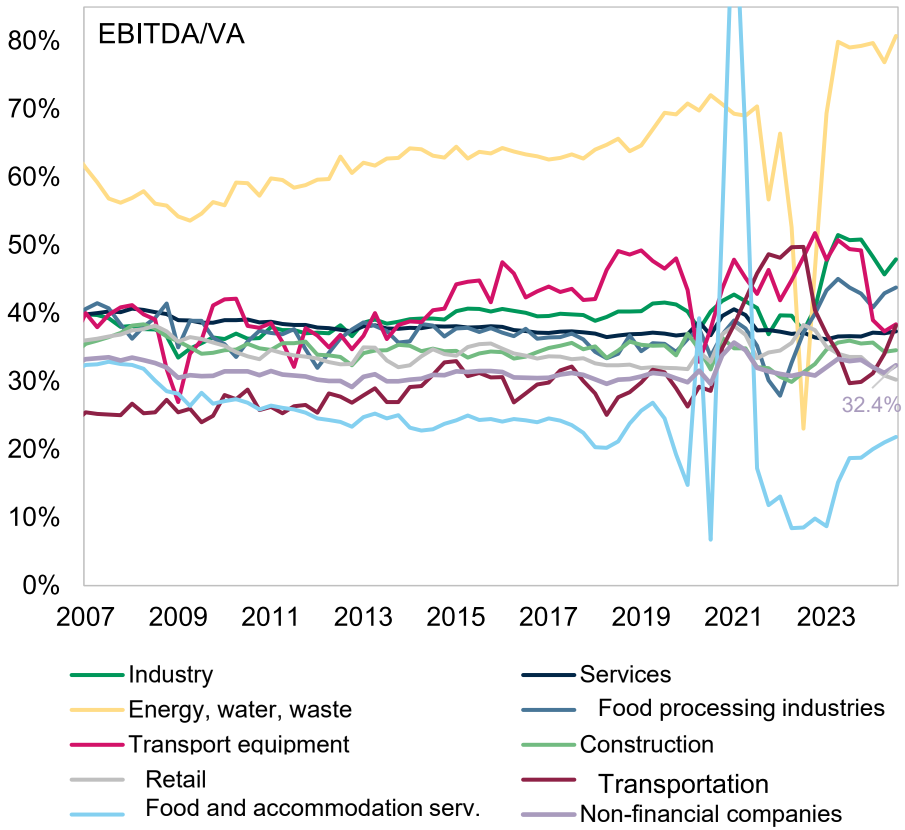


Last review: Q3 2024
Sources: INSEE, Crédit Agricole S.A./ECO calculations

COMPANIES

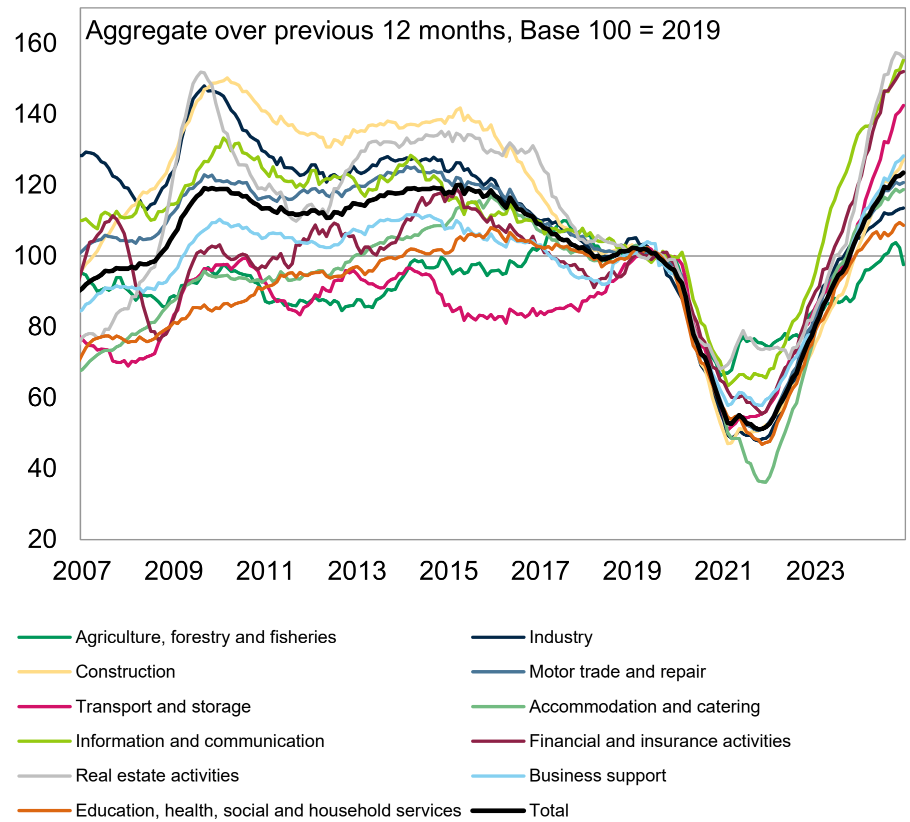
COMFORTABLE AVERAGE PROFITABILITY DESPITE THE RISE IN INSOLVENCIES

The NFC margin rate is currently at a comfortable level, on average



Last review: Q3 2024
Sources: INSEE, Crédit Agricole S.A./ECO calculations

A fairly widespread rise in defaults, but more marked in certain sectors

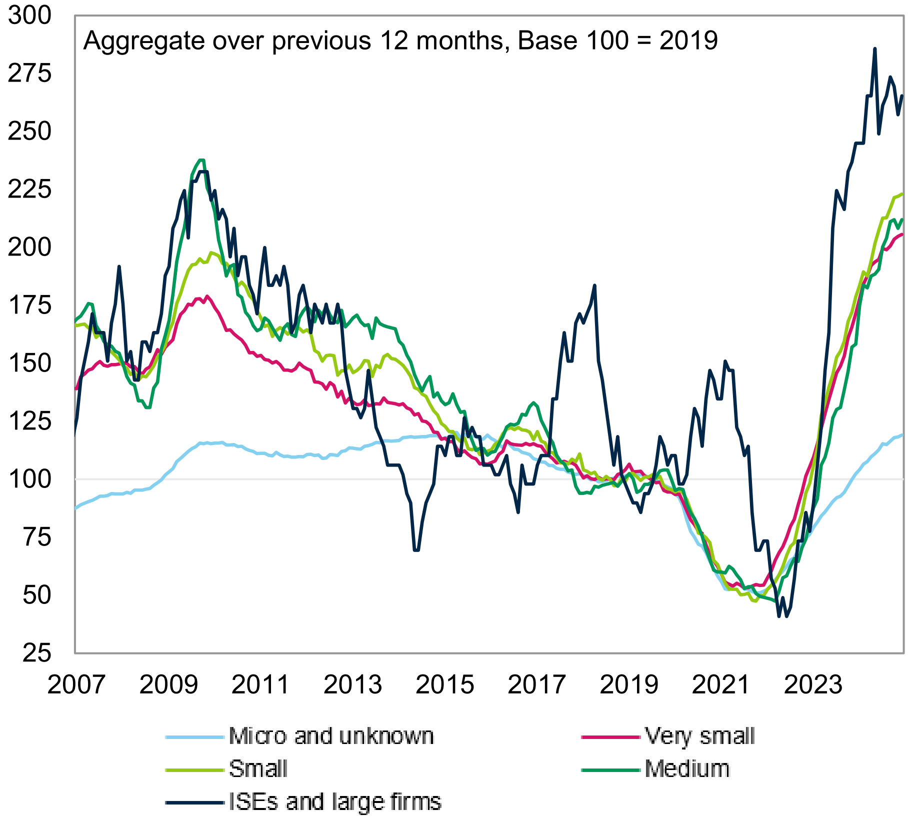


Last review: December 2024
Sources: Banque de France, calculations by Crédit Agricole S.A./ECO

COMPANIES

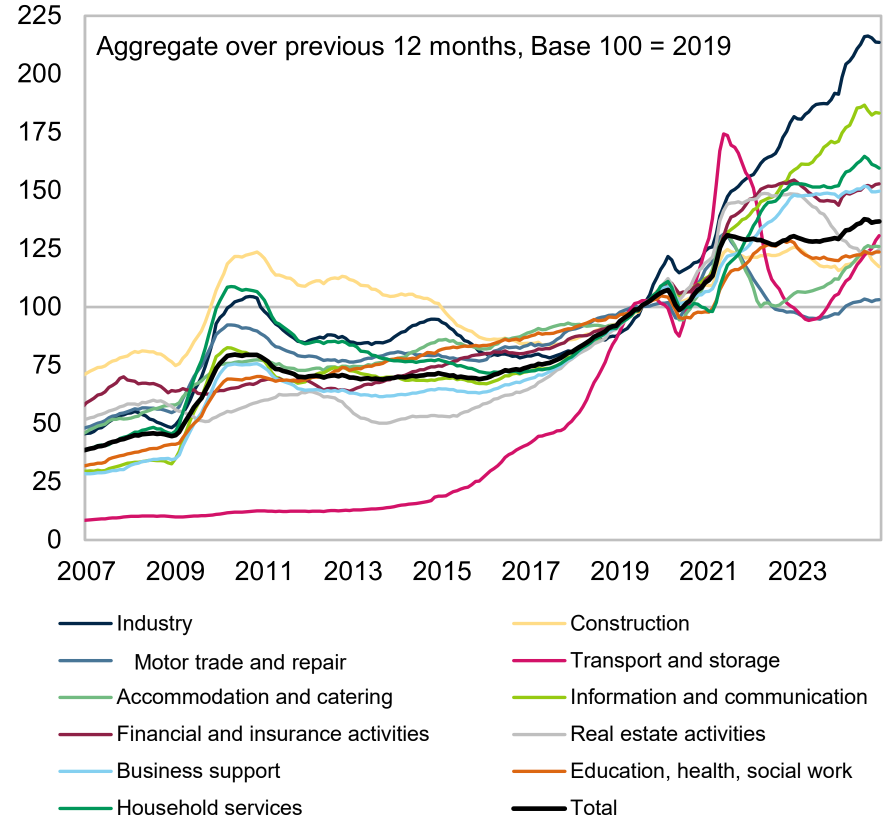
A MORE MARKED RISE IN INSOLVENCIES AMONG MEDIUM-SIZED BUSINESSES, MANY NEW BUSINESSES

The rise in insolvencies particularly affects SMEs



Last review: December 2024
Sources: Banque de France, Crédit Agricole S.A./ECO calculations

Numerous creations that contribute to the phenomenon of "creative destruction"



Last review: November 2024
Sources: INSEE, Crédit Agricole S.A./ECO calculations

RISKS TO ECONOMIC ACTIVITY TILTED TO THE DOWNSIDE

Downside risks to business

Political instability and a wait-and-see attitude by households and businesses

Efforts on public finances and macroeconomic knock-on effects

International trade policies and heightened geopolitical tensions

Slower than expected easing in financing conditions

Risks to business

Gains in purchasing power

Increase in employment

Behaviour of households (less saving) and companies (more investment)

Faster than expected easing of financing conditions

FOCUS: WHEN UNCERTAINTY WEIGHS ON GROWTH

A DOWNWARD REVISION OF OUR GROWTH FORECAST BY 0.2 POINTS FOR 2025

Uncertainty weighing on growth, with households and businesses adopting a more wait-and-see attitude

Given the latest political developments and recent survey data, we have lowered our growth forecast from the October 2024 scenario of 1.0% to 0.8% for 2025. The main reason for this is the increased political uncertainty since last summer, which is currently weighing on growth and will continue to do so in the first half of 2025 (at least).

In detail, despite higher public consumption due to the absence of any real fiscal consolidation, which automatically adds 0.2 points of growth for 2025, we expect business investment to slow (total investment forecasts have been revised from +1.0% to +0.0%) and precautionary savings to continue to weigh on household consumption growth (revised down from +1.0% to +0.7%). The sum of these three effects results in a 0.15 to 0.20 points reduction in our growth forecast, to 0.8%.

A deleterious effect of uncertainty described in the economic literature

In 1980, Ben Bernanke wrote a fundamental article entitled "*Irreversibility, Uncertainty, and Investment*", which showed that a large proportion of business investment was "irreversible". This means that it is generally difficult, if not impossible, to reverse an investment without incurring significant costs (for example, if a company builds a factory or invests in long-term equipment, it cannot easily sell or reallocate these assets if the investment turns out to be unwise). Uncertainty gives companies a strong incentive to reduce or postpone large, irreversible investments if they are unsure of the future (typically due to political or tax changes), as they risk locking themselves into a bad decision.

At the macroeconomic level, empirical evidence confirms Bernanke's view that economic cycles - particularly recessions or periods of high uncertainty - can have a disproportionate impact on investment behaviour.

A massive shock of uncertainty occurred with the dissolution of the National Assembly in June. The Economic Policy Uncertainty Indices (EPU), which quantify this uncertainty, showed a rise in June 2024 that has continued ever since. It should also be noted that the current global uncertainty over trade policies, in addition to the domestic political situation, can also create noise and negatively affect investment decisions.

The unemployment rate is set to rise slightly more than initially forecast, but will remain at a historically low level

As a result of this slowdown and the more pronounced wait-and-see attitude of businesses, the unemployment rate could rise slightly more than initially forecast. We have revised it upwards from 7.4% to 7.8% for the end of 2025 (this level remaining moderate in historical perspective).

Our public deficit forecast has been revised upwards for 2025

Because of the slowdown in economic activity and the increase in public spending, we have raised our forecast for the public deficit from 5.5% to 6.0% of GDP in 2025. The increase in public spending explains a revision of +0.3 percentage points revision to this ratio, while weaker growth, taking into account the effect on public revenues, adds +0.2 percentage points to the forecast. This is compatible with a special law scenario in place for some time, followed by a Finance Bill for 2025 adopted at the start of the year, which will have to strike a complicated balance in the National Assembly and be the subject of compromises.

➔ *For more information, see our publication: French growth – Starting to foot the bill of politics (December 2024)*

FOCUS: WHEN UNCERTAINTY WEIGHS ON GROWTH

A REVISION OF THE GOVERNMENT'S FORECASTS FOR 2025, GOOD NEWS FOR THE PUBLIC DEFICIT IN 2024?

The government has also revised its growth forecast by -0.2 points for 2025

The Bayrou government recently announced that it had revised its growth forecast for 2025 to 0.9%, to take account of the deleterious effects of the Barnier government's censure. The forecast was 1.1% in the original Barnier copy, i.e. a similar revision to ours. The government's inflation forecast has also been revised downwards, to 1.4% for the CPI (compared with an initial forecast of 2.1%). These forecasts, while more realistic than the previous ones, still seem a little high to us.

A new medium-term macroeconomic and public finance trajectory has been approved by the EU's economy and finance ministers. The aim is still to reduce the public deficit below 3% of GDP by 2029, but with a lower initial target of 5.4% in 2025 (compared with 5% in the Barnier copy). This trajectory has been sent to the Haut Conseil des Finances publiques (High Council for Public Finances), which is expected to issue its opinion shortly.

A lower-than-expected public deficit in 2024?

Finally, *breaking news*: according to the latest figures from Bercy, the public deficit could be lower than forecast in 2024 (by more than €6 billion). According to the Minister for the Economy, Finance, Industrial Sovereignty and Digital Technologies, Éric Lombard, it will be "closer to 6% than to 6.1% of GDP". The public deficit had in fact been estimated at 6.1% of GDP in 2024 by the government in Mr Barnier's draft finance bill for 2025 (PLF) and in the end-of-year finance bill (LFG) for 2024. The surprise would come from lower government spending, slightly higher-than-expected tax receipts (inheritance tax, VAT), and a slightly lower-than-expected debt burden. We remain cautious and await the INSEE figures, which will be published in March 2025. In any case, at this level, it remains a drop in the ocean…

THE SCENARIO IN FIGURES

THE FORECAST IN DETAIL

France Scenario - January 2025
In search of political stability, with growth weakened by uncertainty

	2023	2024	2025	2026	2023				2024				2025				2026			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP volume, swda (y/y, q/q, %)	1.1	1.1	0.8	1.1	0.1	0.7	0.1	0.4	0.2	0.2	0.4	0.0	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Domestic demand (contribution to GDP, pp)	0.9	0.6	0.6	1.0	-0.1	0.2	0.4	0.1	0.1	0.1	0.3	-0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Household consumption (y/y, q/q, %)	0.9	0.8	0.7	1.1	0.1	0.0	0.5	0.3	0.1	0.0	0.6	-0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Public consumption (y/y, q/q, %)	0.8	2.0	0.6	0.4	-0.3	0.1	0.5	0.4	0.7	0.6	0.6	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1
Total investment (y/y, q/q, %)	0.8	-1.6	0.0	1.5	-0.2	0.6	-0.1	-0.8	-0.6	-0.1	-0.7	-0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.6
Changes in inventories (contribution to GDP, pp)	-0.3	-0.5	0.1	0.0	-0.1	0.0	-0.2	-0.7	0.0	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to GDP, pp)	0.5	0.9	0.0	0.0	0.2	0.4	-0.1	0.9	0.1	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports (y/y, q/q, %)	2.5	1.6	1.1	1.2	-1.5	3.2	-0.9	0.7	0.5	0.6	-0.8	0.5	0.5	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Imports (y/y, q/q, %)	0.7	-1.3	1.1	1.2	-2.0	1.8	-0.5	-2.0	0.1	0.1	-0.6	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
CPI inflation (y/y, %)	4.9	2.0	1.1	1.3	6.0	5.2	4.7	3.7	2.8	2.2	1.7	1.3	1.1	0.9	1.1	1.3	1.2	1.3	1.4	1.4
Harmonised inflation, HICP (y/y, %)	5.7	2.3	1.2	1.5	7.0	6.1	5.5	4.2	3.0	2.5	2.1	1.7	1.4	1.0	1.2	1.3	1.3	1.5	1.5	1.6
Harmonised underlying inflation, HICP excl. food, energy and tobacco (y/y, %)	4.0	2.3	1.9	1.7	4.4	4.5	4.0	3.1	2.5	2.4	2.3	2.2	2.1	1.8	1.8	1.9	1.7	1.7	1.7	1.6
Unemployment rate, France excl. Mayotte (%)	7.3	7.4	7.7	7.8	7.1	7.2	7.4	7.5	7.5	7.3	7.4	7.6	7.7	7.7	7.8	7.8	7.8	7.8	7.7	7.7
Unemployment rate, Metropolitan France (%)	7.1	7.2	7.5	7.6	6.9	7.0	7.2	7.3	7.3	7.1	7.2	7.4	7.5	7.5	7.6	7.6	7.6	7.6	7.5	7.5
Budget balance (% of GDP)	-5.5	-6.2	-6.0	-5.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public debt (% of GDP)	109.9	112.9	116.8	119.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Last review: Q3 2024 except inflation (Q4 2024)
Sources: INSEE, Crédit Agricole S.A./ECO calculations and forecasts (forecasts on green background)

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04/11/2024	Eurozone – 2024-2025 Scenario: recalibration of the balance of risks	Europe

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