

17 September 2024 – Interim projections

- These interim projections are based on the usual assumption of an unchanged economic policy in the current political context. They confirm the decline in headline and core inflation that we forecast in our previous projections. HICP inflation is expected to fall significantly from 5.7% in 2023 to 2.5% in 2024, and 1.5% in 2025 – mainly due to the announced drop in electricity prices – and to remain low at 1.7% in 2026. After a temporary interruption in the second half of 2024, services inflation should continue to ease, allowing core inflation to drop to 1.9% in 2026.
- As a result of this disinflation, wages are now rising faster than consumer prices, a trend that could intensify in 2025. This increase in real wages should sustain gains in purchasing power and then consumption next year. The unemployment rate is expected to rise slightly in 2025, before resuming its downward trend thanks to the recovery in activity, to stand at 7.3% at the end of 2026.
- When compared with June, INSEE's revisions to the quarterly national accounts for 2023 and early 2024 mechanically increase forecast average annual growth for 2024 (from 0.8% to 1.1%). In the second half of the year, the adverse effect of increased uncertainty should be temporarily offset by the favourable effect of the Olympic Games. Looking beyond 2024, while forecast growth remains unchanged for 2025 (at 1.2%), it has been revised downwards slightly for 2026 (to 1.5%).
- This projection is subject to a large degree of uncertainty. First, the current political uncertainty in France represents a risk to the assumptions relating to public finances and to the impact of the wait-and-see tendency among businesses and households. Second, this uncertainty is compounded by geopolitical risks (war in Ukraine, the situation in the Middle East, trade tensions, etc.) and their effects on commodity prices and international trade.

KEY PROJECTIONS FOR FRANCE

	2022	2023	2024	2025	2026
Real GDP	2.6	1.1	1.1	1.2	1.5
HICP	–	0.2	0.3	0.0	-0.1
HICP excluding energy and food	5.9	5.7	2.5	1.5	1.7
End-of-year unemployment rate ^{a)}	–	0.0	0.0	-0.2	0.0
	3.4	4.0	2.5	2.3	1.9
	–	0.0	0.0	0.1	0.0
	7.1	7.5	7.5	7.6	7.3
	–	0.0	-0.1	-0.3	-0.3

Sources: INSEE data for 2022 and 2023 (quarterly national accounts published on 30 August 2024). Blue-shaded columns show Banque de France projections. Figures are adjusted for the number of working days. Annual percentage change except where otherwise indicated. Revisions to the June 2024 forecast, which was based on the quarterly accounts published on 30 April 2024, are shown in italics and calculated in percentage points using rounded figures. Projections are based on the quarterly accounts published on 30 August 2024 and technical assumptions with a cut-off date on 16 August 2024.

a) ILO, mainland France and overseas departments, % of labour force, value in fourth quarter of every year.

These projections are based on Eurosystem technical assumptions, for which the cut-off date is 16 August 2024 (see Table 1). They incorporate the HICP (Harmonised Index of Consumer Prices) inflation figures for July published on 14 August, as well as the second quarter 2024 national account figures published on 30 August 2024, and the data from the Banque de France's monthly business survey for the beginning of September. Our standard fiscal assumptions remain unchanged in relation to those used in our June projections, with a primary structural adjustment of 0.6% of GDP in 2025 and 2026.

Inflation continues to fall as expected and this trend should be amplified in 2025 by the decrease in electricity prices

HICP inflation continues to decline, from 4.2% in the final quarter of 2023, to 2.5% in the second quarter of 2024 (see Chart 3). It stood at 2.7% in July 2024 and 2.2% in August. This decrease was helped by lower food and manufactured goods inflation, which stood at 1.4% and 0.5%, respectively, in July 2024. However, the vulnerability of trade supplies due to geopolitical instability in the Red Sea could drive a slight rise in inflation in these two components in the second half of 2024. Energy prices should be affected by the announced 15% drop in regulated electricity prices in February 2025. Services inflation, which stood at 3.1% in July 2024, has begun to come down and, after a temporary interruption in the second half of 2024, should continue to trend downwards until the end of the projection horizon (see Chart 4).

The inflation forecast for 2024 remains unchanged at 2.5%: the unexpected downward trend of recent months in services and food inflation has been offset by the upward trend in manufactured goods inflation, driven mainly by buoyant pharmaceutical prices. Our inflation forecast for 2025 has been revised downwards to 1.5%, due to the announced cut in electricity prices, partly offset by an upward revision in manufactured goods inflation, also linked to the situation in the Red Sea. The inflation forecast for 2026 remains unchanged at 1.7% and its composition also remains largely unchanged.

Nominal wages are now more buoyant than prices

Per capita wages are now rising faster than prices (by 2.7% year-on-year in the second quarter of 2024 in the market sector, compared with 2.5% for prices), a trend that should continue (see Chart 5). However, they posted a more pronounced slowdown in the first half of 2024 than in our June projections, leading us to revise their average growth in 2024 downwards by 0.4 percentage points.

Moreover, employment should be more dynamic and unemployment lower than in our previous projections (see Chart 6). The partial recovery of past productivity losses is expected to be smaller as these losses are more limited in the 2020 benchmark revision of the national accounts. This upward revision in employment offsets the unexpected downward trend in wages, so that our forecast for the real wage bill over the 2024-2026 period has barely been revised compared with the June projection.

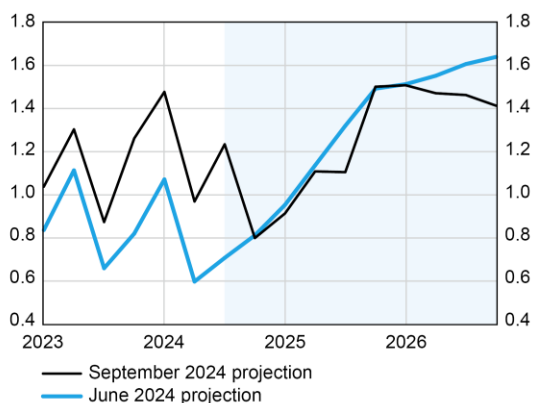
Aside from favourable revisions to past data, growth is expected to strengthen only moderately

Based on the Banque de France's most recent business survey at the beginning of September, GDP growth should be temporarily higher in the third quarter, reflecting underlying growth of between 0.1% and 0.2%, undermined by the current context of uncertainty, plus a positive impact of around 0.25 percentage point attributable to the Paris Olympic and Paralympic Games. This should be followed by a corresponding downward movement that would reduce growth in the fourth quarter. In 2024, growth should average 1.1%, driven chiefly by foreign trade, but held back by destocking, mainly due to the easing of supply difficulties. Consumption is expected to remain sluggish, despite gains in the purchasing power of wages. In 2025, GDP should continue to grow at a similar annual average rate, however household consumption should take over as the main driver; gains in purchasing power should be sustained more by real wages and progressively less of these gains should be saved. In 2026, growth should be bolstered by the recovery in private investment as a result of past easing of interest rates (see Chart 2).

The newly-published quarterly accounts, incorporating the 2020 benchmark revision, mechanically result in higher average annual growth in 2024. However, because the revisions are concentrated around the turn of 2024, year-on-year GDP growth at the end of 2024 remains unchanged at 0.8%, and has come down from 1.3% at the end of 2023 (see Chart 1). For 2025 and 2026, revisions to international assumptions are limited and partially cancel each other out and therefore have no major repercussions. However, exports are likely to be temporarily dragged down until the first half of 2025 by the poor wheat harvests in the summer of 2024. Market shares that have been revised upwards for past periods would also require a smaller catch-up in 2026, leading us to revise export and GDP growth downwards for that year.

Chart 1: Real GDP growth and comparison with June forecast

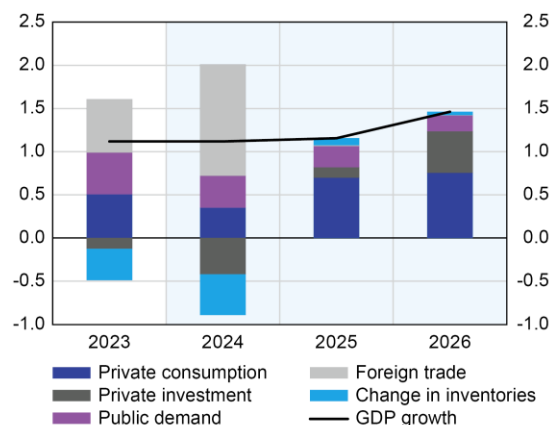
(year-on-year percentage change, quarterly data)



Sources: INSEE data up to the second quarter of 2024. Blue-shaded area shows Banque de France projections.

Chart 2: Contributions to real GDP growth

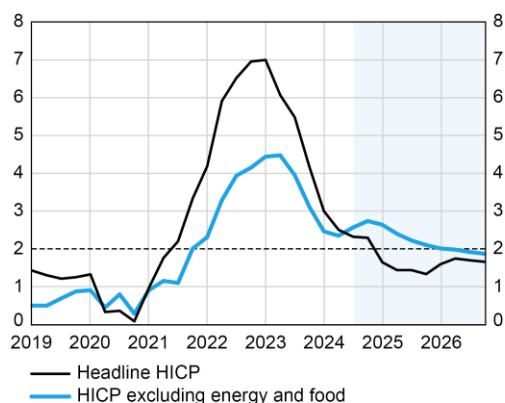
(annual percentage change and percentage point contributions)



Sources: INSEE data up to the second quarter of 2024. Blue-shaded area shows Banque de France projections.

Chart 3: HICP and HICP excluding energy and food

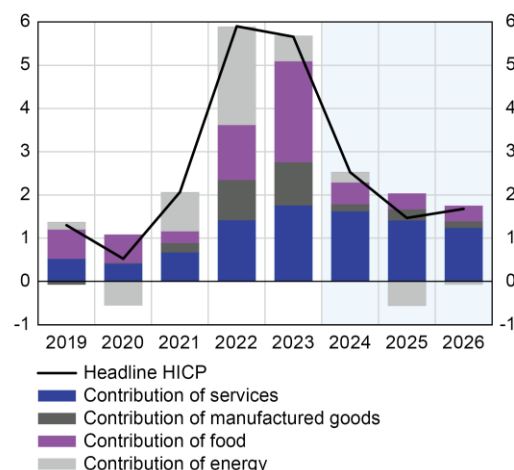
(year-on-year percentage change, quarterly data)



Sources: INSEE data up to the second quarter of 2024. Blue-shaded area shows Banque de France projections.
Note: HICP, Harmonised Index of Consumer Prices.

Chart 4: Breakdown of HICP

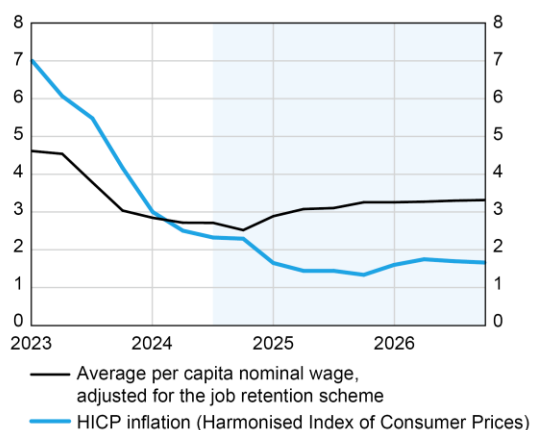
(annual percentage change and percentage point contributions)



Sources: INSEE data up to the second quarter of 2024. Blue-shaded area shows Banque de France projections.

Chart 5: Average per capita wage growth in the market sector and inflation

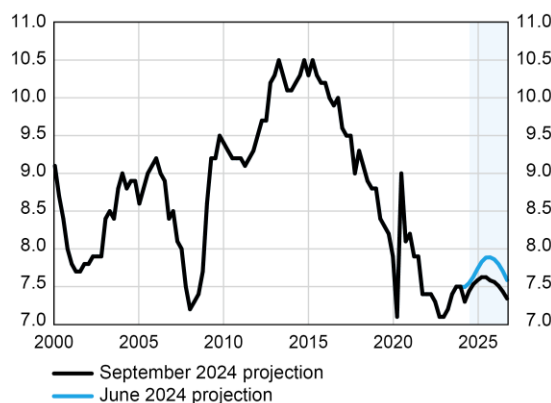
(year-on-year percentage change, quarterly data)



Sources: INSEE data up to the second quarter of 2024. Blue-shaded area shows Banque de France projections.

Chart 6: Unemployment rate

(ILO, percentage of the labour force, mainland France and overseas departments)



Sources: INSEE data up to the second quarter of 2024. Blue-shaded area shows Banque de France projections.

Appendix: Eurosystem technical assumptions and detailed projections

Table 1: Technical assumptions and international environment^{a)}

	September 2024 projections					Revisions since June 2024			
	2022	2023	2024	2025	2026	2023	2024	2025	2026
Technical assumptions									
Brent oil price (USD/barrel)	103.7	83.7	83.2	76.1	73.2	0.0	-0.6	-1.9	-1.2
Brent oil price (EUR/barrel)	98.5	77.5	76.5	69.5	66.9	0.0	-1.1	-3.0	-2.3
Non-energy commodity prices in EUR (annual percentage change)	19.2	-14.5	6.7	0.6	2.5	0.0	-5.0	-3.5	1.6
USD/EUR exchange rate	1.05	1.08	1.09	1.10	1.10	0.00	0.01	0.02	0.02
Euro nominal effective exchange rate (annual percentage change) ^{b)}	-3.6	4.9	2.2	0.5	0.0	0.0	0.4	0.4	0.0
3-month Euribor ^{c)}	0.3	3.4	3.6	2.5	2.2	0.0	0.0	-0.4	-0.3
10-year French government bond yields ^{c)}	1.7	3.0	3.0	3.0	3.1	0.0	0.0	0.0	0.1
International environment, annual percentage change									
World real GDP	3.4	3.1	3.1	3.1	3.1	0.0	0.1	0.1	0.0
World real GDP (excluding euro area)	3.3	3.5	3.4	3.4	3.3	0.0	0.1	0.1	0.1
Global trade (excluding euro area)	5.5	1.0	3.1	3.4	3.3	-0.1	0.5	0.1	0.0
Foreign demand for French goods and services	7.1	-0.2	1.3	3.1	3.2	0.0	-0.1	-0.1	0.0
<i>Intra-euro area</i>	7.5	-1.3	-0.4	2.8	3.1	0.2	-0.8	-0.3	0.0
<i>Extra-euro area</i>	6.7	0.7	2.7	3.3	3.3	-0.1	0.5	0.0	0.0

Source: Eurosystem. Blue-shaded columns show Eurosystem projections.

a) These technical assumptions and international environment projections were constructed by the Eurosystem on 16 August 2024 for market data, in accordance with the principles set out in *A guide to the Eurosystem/ECB staff macroeconomic projection exercises*, July 2016, available at: <https://www.ecb.europa.eu/pub/pdf/other/staffprojectionsguide201607.en.pdf>. Foreign demand corresponds to the sum of imports of France's main trading partners, weighted by the share of each country in France's exports. The method of calculation is described in the Occasional Paper "Trade consistency exercise in the context of the Eurosystem projection exercises – an overview", available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecbocp108.pdf>.

b) Calculated against 41 euro area trading partners.

c) The forecasts for interest rates were calculated using the yield curve.

Table 2: Detailed projections for France

	September 2024 projections					Revisions since June 2024			
	2022	2023	2024	2025	2026	2023	2024	2025	2026
Real GDP	2.6	1.1	1.1	1.2	1.5	0.2	0.3	0.0	-0.1
<i>Fourth-quarter year-on-year change</i>	0.8	1.3	0.8	1.5	1.4	0.5	0.0	0.0	-0.2
Contributions to GDP growth (in percentage points) ^{a)}									
Domestic demand (excluding changes in inventories)	2.4	0.9	0.3	1.1	1.5	0.3	-0.4	0.0	0.1
Net exports	-0.3	0.6	1.3	0.0	0.0	-0.1	0.3	-0.2	-0.1
Changes in inventories	0.6	-0.4	-0.5	0.1	0.0	0.1	0.4	0.1	0.0
Household consumption (52%) ^{b)}	3.0	0.9	0.6	1.3	1.4	0.3	-0.6	0.0	0.0
Government consumption (24%)	2.6	0.8	1.2	0.9	0.9	0.3	0.3	0.1	0.1
Total investment (22%)	0.1	0.7	-1.5	0.7	2.1	0.1	-0.9	-0.1	0.0
Government investment (4%)	0.1	7.1	1.9	0.6	-0.6	2.5	-1.0	0.1	0.0
Household investment (5%)	-3.3	-8.2	-6.2	-0.7	3.6	-1.3	0.0	0.0	0.0
Business investment (NFCs-FCS-IEs) (13%)	1.6	2.5	-0.7	1.2	2.3	-0.1	-1.3	-0.2	-0.1
Exports (33%)	8.4	2.5	1.9	2.7	3.4	0.7	-0.5	-0.8	-0.5
Imports (34%)	9.1	0.7	-1.7	2.6	3.3	0.9	-1.2	-0.4	-0.1
Net job creations (in thousands)	708	321	113	-13	107	-1	29	48	27
Unemployment rate (ILO, mainland France and overseas departments, % of labour force)	7.3	7.3	7.4	7.6	7.5	0.0	-0.1	-0.2	-0.2
<i>Level in fourth quarter</i>	7.1	7.5	7.5	7.6	7.3	0.0	-0.1	-0.3	-0.3
Average per capita wage, adjusted for the job retention scheme	3.6	4.0	2.7	3.1	3.3	-0.1	-0.4	-0.1	0.0
HICP	5.9	5.7	2.5	1.5	1.7	0.0	0.0	-0.2	0.0
<i>Fourth-quarter year-on-year change</i>	7.0	4.2	2.3	1.3	1.7	0.0	0.2	-0.4	0.0
HICP excluding energy and food	3.4	4.0	2.5	2.3	1.9	0.0	0.0	0.1	0.0
<i>Fourth-quarter year-on-year change</i>	4.2	3.1	2.7	2.1	1.9	0.0	0.1	0.0	0.1
GDP deflator	3.2	5.3	2.2	1.3	1.7	-0.1	-0.7	-0.2	0.1

Sources: INSEE data for 2022 and 2023 (quarterly national accounts published on 30 August 2024). Blue-shaded columns show Banque de France projections.

Figures are adjusted for the number of working days. Annual percentage change except where otherwise indicated. Revisions to the June 2024 forecast, which was based on the quarterly accounts published on 30 April 2024, are calculated in percentage points using rounded figures.

a) Individual contributions may not add up to GDP growth as figures have been rounded.

b) Percentages in brackets refer to each item's share of GDP in 2019.