

# France

## French economy relapses back into stagnation in second quarter

- **GDP flat in second quarter after 0.7% growth spurt at start of year**
- **Economy contracted 0.1% if government sector is excluded**
- **Underlying trend likely to be one of steady but fragile expansion**

The French economy ground to a halt again in the spring, with GDP unchanged during the second quarter in what will be a wake-up call to the government and eurozone policymakers.

The second quarter disappointment follows the surprisingly vigorous 0.7% growth spurt seen in the first quarter, which always looked too good to be true.

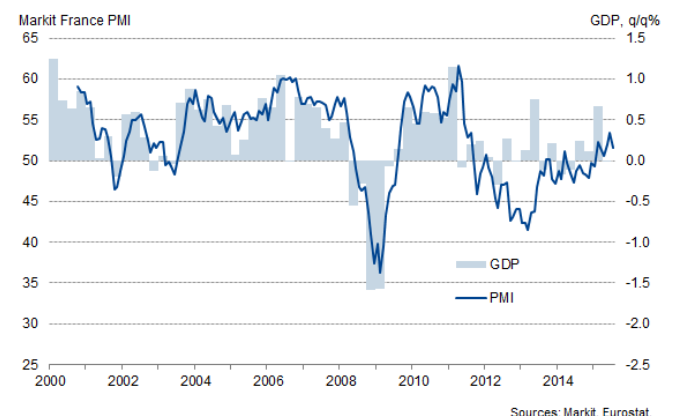
Once government spending is excluded the picture is even worse, with the private sector contracting 0.1% in the three months to June after also seeing a 0.7% surge in the first quarter. That means the non-government economy is only 0.7% larger than a year ago and still 0.9% smaller than its pre-crisis peak. The fact that the overall economy is 1.7% larger than its pre-crisis peak illustrates the extent to which government spending has helped prop up the economy in recent years (government expenditure is running 12.3% higher than at the end of 2007).

We suspect the GDP numbers overstate the weakness of the economy, albeit only slightly. There's no doubt that France remains in a fragile state, dangerously close to sliding back into decline. The business surveys have been pointing to steady but only meagre growth since February, which paints a more realistic picture of what's actually happening in the French economy than the volatile GDP numbers. However, even the PMI survey data dipped closer to stagnation in July after signalling anaemic economic growth of just 0.2% in the second quarter.

The fact that the economy is at risk of sliding back into recession despite a drastically weakened currency, central bank stimulus that now includes a €60bn per month quantitative easing programme and a boon to

consumers from low inflation and sharply lower oil prices, will be a major concern for policymakers.

### French economic growth and the PMI



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