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French economy grinds to a halt

The French economy has avoided recession, but only just. Downward revisions to GDP data confirm that economic activity lost more momentum than previously thought, making the government's fiscal targets even harder to achieve

We remain more pessimistic than the French government and forecast GDP growth of 0.5% on average for 2026

French GDP revised downwards

The second estimate of French GDP growth disappointed. Second-quarter GDP was revised down and is now estimated to have stagnated, compared with the previously reported 0.2% quarter-on-quarter increase. First-quarter growth was also revised lower, to -0.2% from -0.1%. These revisions were driven by weaker-than-expected agricultural output and softer real activity in market services.

Looking at the details, the only bright spot was a recovery in household consumption in the second quarter, which grew by 0.3% after contracting by 0.3% in the first quarter. This improvement came despite a decline in households' real purchasing power due to rising inflation. Meanwhile, investment remained weak, falling by 0.3% after a 0.8% decline in the previous quarter. Net trade and inventories continued to fluctuate significantly from one quarter to the next.

Today’s data release from INSEE also showed that salaried employment declined by 0.1% in the second quarter after stagnating in the first. Total employment is down 0.3% year-on-year, but more worryingly, the private sector has now recorded six consecutive quarters of job losses.

Fiscal consolidation will require greater efforts

Taken together, these figures suggest that the French economy came very close to a technical recession in the first half of the year. The weak growth backdrop means that the government's revised GDP growth forecast of 0.7% is now out of reach. With the annual carry-over growth rate standing at just 0.3%, France would need quarterly growth of around 0.5% in both the third and fourth quarters to achieve that target, an outcome that appears highly unlikely.

As a result, additional fiscal consolidation measures will be needed in 2026 if the government is to keep the public deficit below 5%, following the 5.1% deficit recorded in 2025. Without further measures, and with growth remaining so weak, the deficit could end up even higher than last year. The government’s previous commitment to reduce the deficit to 4.6% this year now appears firmly out of reach.

This also means that the adjustment required for the 2027 budget will be even greater than previously expected. Under unchanged policies, the European Commission's spring forecasts projected a deficit of 5.7% of GDP in 2027, pushing public debt up to 120.2% of GDP. Against this backdrop, the budget discussions that are now beginning within the government will be closely monitored by bond markets. The approach of the 2027 presidential election only adds to the uncertainty surrounding the fiscal outlook.

Despite inflation, activity could still edge a little bit higher

For the remainder of the year, we remain more pessimistic than the government and forecast GDP growth of 0.5% on average for 2026, with risks tilted to the downside. The third quarter has been affected by heatwaves, but the improvement in business confidence during July and August, together with solid consumer spending in July, suggests that growth should be positive in the third quarter, albeit modest.

Inflation also increased in August, as expected, rising to 2.4% from 2.1% in July, largely because of higher energy prices. Inflationary pressures remain very subdued across other categories: goods inflation stood at -0.4%, services inflation at 2.0%, and food inflation at 1.1%. There is therefore no evidence of meaningful second-round effects in France. Economic activity remains simply too weak for higher energy prices to spread more broadly across the economy.

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