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FRANCE

French business confidence defies the turmoil for now

October's unexpected rebound in business confidence is good news, particularly for industry. But the survey does not yet capture the impact of the latest social unrest, while higher interest rates, a weak labour market and deteriorating public finances are clouding the outlook further



An unexpected improvement

Against all expectations, business confidence edged up in October despite the sharp rise in French interest rates since September, gaining one point to reach 97. It therefore remains below its long-term average, but the rebound is a welcome surprise in the current environment.

The main surprise came from industry, where the indicator jumped four points to 105. The increase was largely concentrated in transport equipment and mainly reflected an improvement in order books, particularly foreign orders. The other components also improved, but much more modestly. In services, the rebound was limited to one point, taking the indicator to 99. This mainly reflected stronger expectations for activity and demand, as well as a marked recovery in administrative and support services. By contrast, confidence deteriorated in retail and construction.

On prices, the survey provides no new inflationary signal. Intentions to raise prices declined in industry and remained stable in both services and construction.

The rebound is encouraging, especially after several months of disappointing industrial data. But it does not fundamentally alter the outlook. The indicator of perceived economic uncertainty rose sharply. In services, it even reached its highest level outside the Covid-19 crisis.

More importantly, the employment climate fell three points to 95, driven by a clear deterioration in hiring intentions in services excluding temporary employment. The signal from the labour market therefore remains firmly negative, which should limit growth in household income and consumption over the coming quarters.

Finally, the survey was conducted between late September and early October. It therefore captures the widening in French spreads, but not the violence and social unrest seen last weekend. October's rebound is encouraging, but fragile and already partly overtaken by events.

Social unrest is already changing the picture

Since the October business confidence data was collected, the nature of the risk has changed. It no longer relates only to weak activity and the impact of higher interest rates, but also to the economic, political and financial consequences of social unrest.

The economic cost of the violence is not limited to broken shop windows and looting. [As explained here](#), material damage represents only the most visible part of the bill. Closures, lower footfall and permanently lost sales could weigh far more heavily on activity.

But the real issue is persistence. A brief and localised episode would probably have a limited macroeconomic impact, while prolonged unrest could undermine confidence by encouraging households to avoid city centres, tourists to postpone their trips and businesses to delay investment. This could turn a temporary disruption into a more lasting economic shock.

The unrest also makes it even more difficult to secure parliamentary approval for the budget, at a time when the government has virtually no room to respond through additional spending or tax cuts. France therefore has neither the fiscal room to buy social peace nor the political room to impose the necessary adjustment easily.

The vicious circle is under way

The reaction in financial markets shows that the confidence channel is already at work. The yield on 10y French OATs has crossed the symbolic 5% threshold, while the spread over the German Bund has widened beyond 160bp, from 137bp last Friday. These moves reflect both growing doubts about the ability of any future government to pass the necessary reforms and

savings measures, and mounting concerns about the outlook for the French economy.

This creates a vicious circle. At the same time, the renewed deterioration in financial conditions is further weakening an already very poor growth outlook by increasing the cost of credit. We expect GDP growth of just 0.3% in 2026 and 0.6% in 2027, but the risks are tilted towards another downward revision. Against this backdrop, the government's objective of reducing the deficit to 5% of GDP in 2027 looks particularly fragile, as it is based on growth of 0.5% in 2026 and 1% in 2027, well above our forecast. Even if the draft budget were adopted in full, it might therefore not be enough, as weaker activity would automatically reduce the expected tax revenues.

A rating downgrade would merely confirm the obvious

On Friday, Moody's is expected to formally acknowledge the deterioration in France's public finances. Our base case is a one-notch downgrade from Aa3 to A1, with a stable outlook. This would bring its rating into line with those of Fitch and S&P, which both rate France A+ with a stable outlook. However, a negative outlook following the downgrade cannot be ruled out. This would signal that a further downgrade could follow in the relatively short term.

Fitch issued an unambiguous warning on 12 October. In the absence of meaningful progress on the deficit, the outlook could be revised to negative, while another substantial increase in debt could lead to a downgrade. Its base case now sees public debt reaching almost 128% of GDP in 2030, with the deficit still close to 5.5% and the interest burden rising to 3.8% of GDP. An unscheduled rating action before Fitch's next review therefore cannot be ruled out if the objective of reducing the deficit to 5% in 2027 becomes clearly unattainable.

These decisions do not change the diagnosis for France. They merely provide formal confirmation of a deterioration in the fiscal position that is already widely visible. They are also a reminder that, without a credible improvement in the growth and deficit outlook, rising debt and its associated interest burden will continue to reduce France's room for manoeuvre.

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