Flash Economics

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France: attractiveness requires stability

France's situation illustrates that to be attractive, particularly for industrial investment, a country needs to offer stability. Manufacturing production has been declining in France since 2019, the rate of business investment has been falling since the beginning of 2023, investment intentions have been declining since mid-2024, and industrial productivity has been falling since 2019.

These difficulties in the industrial sector reflect:

- Rising energy prices;
- But also political instability, with the absence of a parliamentary majority since the legislative elections of June 2022 and especially since those of 2024;
- Unstable tax rules, with the increase in taxes on large corporations in 2025;
- Possible backtracking on pension reform.

France's attractiveness is penalized by very high labor costs and a low-skilled workforce. If energy prices remain high, and political instability means that major reforms (tax, pension system rules) have to be abandoned, then there won't be many reasons for companies to invest in France.

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Difficulties facing the French economy, especially the industrial sector

All indicators point to the **weakness of the French economy, particularly industry**:

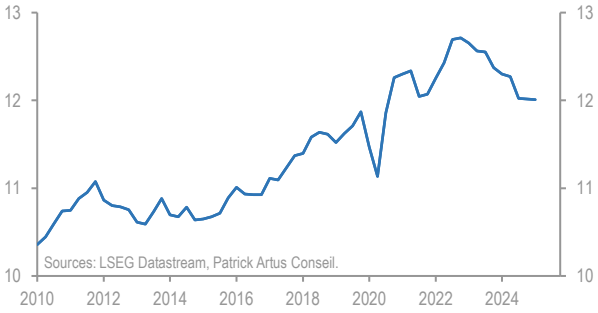
- **Decline in manufacturing production** since 2019 (**Chart 1**);

Chart 1
France: Manufacturing production (01.01.2010 = 100)



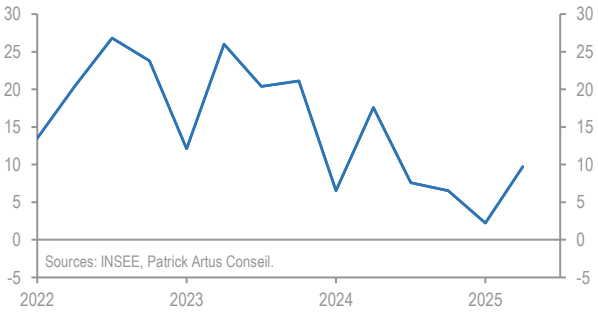
- **Decline in the rate of business investment** since the start of 2023 (**Chart 2**);

Chart 2
France: Investment of non-financial corporations in value terms (as % of nominal GDP)



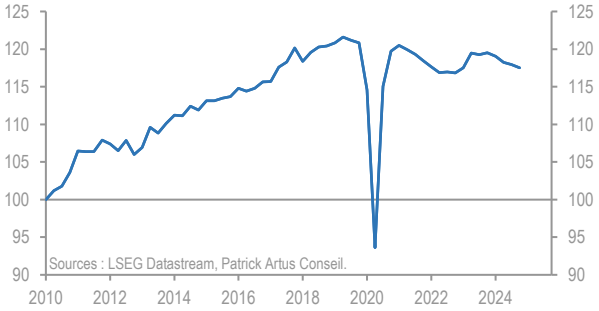
- **Decline in investment intentions** (**Chart 3**) since mid-2024, with some recovery in investment intentions in Q2 2025;

Chart 3
France : Expected trend in investment for the next three months (balance of opinion - in %)



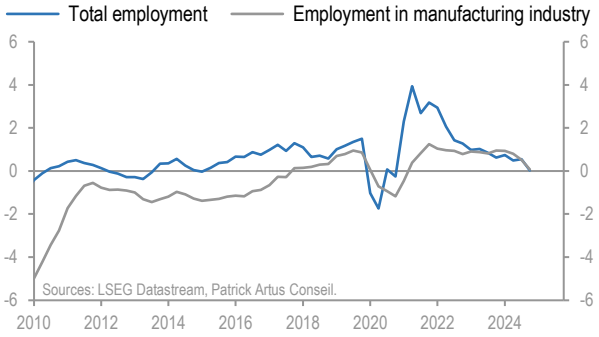
- **Decline in industrial labor productivity** (**Chart 4**) since the start of 2019;

Chart 4
France: Productivity per head in the manufacturing sector (2010.Q1 = 100)



- **Slowdown in job creations** (**Chart 5**);

Chart 5
France: Total employment and employment in manufacturing industry (Y/Y as %)



- **The number of industrial site closures exceeds the number of industrial site openings in 2024**. In 2024, the balance of industrial site openings and closures has become negative (-5), whereas this balance was positive in 2022 (49) and 2023 (59)[1].

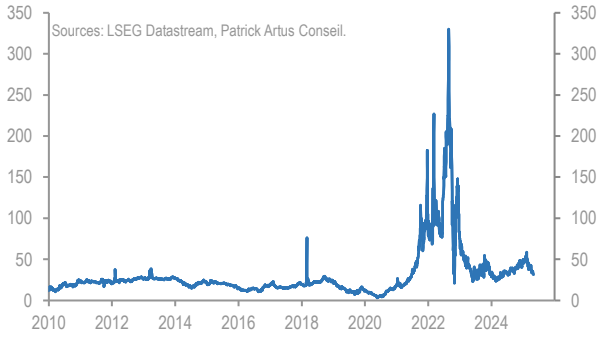
We can see that, particularly since 2023, the situation of the French economy, and especially of French industry, has been deteriorating.

Deterioration stems from rising energy prices and political instability

The rise in energy prices in Europe since the start of the war in Ukraine (**Chart 6** shows the price of natural gas in Europe) is obviously unfavorable to the industrial sector.

[1] Source: State industrial barometer 2024, March 2025

Chart 6
Europe: Natural gas price (€/MWh)



However the deterioration observed since 2019 or 2023 (investment, manufacturing production) or 2024 (investment outlook) can be linked to the **sharp rise in political uncertainty**, resulting from the absence of a parliamentary majority since the parliamentary elections of June 2022, and even more so since those of July 2024.

Since then, French and foreign companies have had to contend with **unstable tax rules** (tax hikes for large corporations in 2025, roll back of social security contribution reductions on low wages), and a possible backtracking on pension reform.

Summary: what reasons can companies find for investing in France?

France's attractiveness to companies is already penalized by:

- **Labor costs** (**Table 1**);

Table 1: Mean nominal hourly labour cost per employee in the manufacturing sector (2023, USD)

Country	Mean nominal hourly labour cost (USD)
Thailand (2016)	1.7
Philippines (2019)	2.1
Brazil (2020)	2.5
Türkiye	5.8
China	9.5
Romania	10.5
Poland	14.2
Hungary	14.7
Portugal	15.8
Slovakia	18.2
South Korea (2024)	21.1
United Kingdom (2019)	26.3
Spain	28.0
Slovenia	28.1
Italy	32.7
United States of America	43.7
France	**48.2**
Germany	49.7

Sources: ILO, LSEG Datastream

- Low skills levels in the workforce (Table 2).

Table 2: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Sweden	279	281
Netherlands	282	276
Canada	269	267
Germany	271	267
England (UK)	267	266
France	**258**	**253**
United States	261	251
Korea	268	246

*In 2016, average score in numeracy and literacy
Source : OECD

If, in addition, energy prices remain high and political instability means that important reforms (such as lowering the tax burden on businesses, pension reform, etc..) must be abandoned, there won't be much incentive for companies to invest in France.

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