

France: Industrial catch-up remains very incomplete

French industrial production increased in August, but the pace is slowing down and seems to be driven solely by consumer demand, while business investment remains weak. Catch-up is expected to continue, but at a slower pace, and it could come to a halt in the fourth quarter, which is expected to be difficult, with the epidemic flaring up again

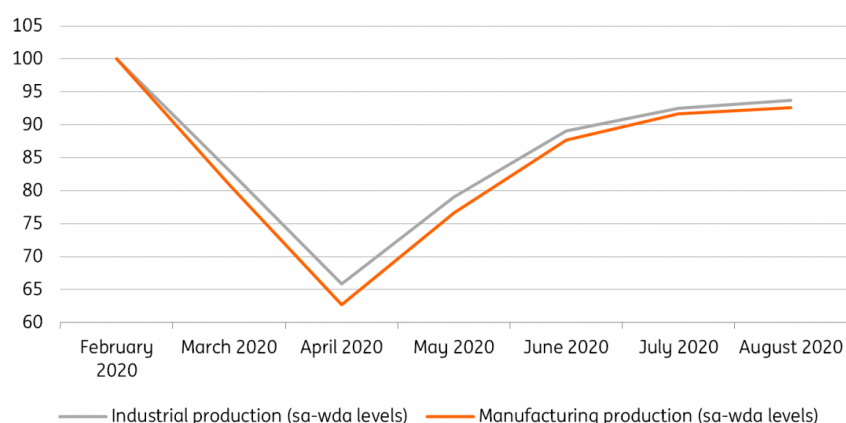


Production continues to grow in August

In France, industrial production increased by 1.3% month-on-month in August after 3.8% in July. The slowdown is less pronounced than in Germany where industrial production fell in August. In the manufacturing sector, growth in August was 1% month-on-month, compared with 4.5% in July. It should be noted that the 'catch-up' process has not been weakening in the production of durable consumer goods amid pent-up demand from consumers this summer: this share of production increased by 8.1% in August after 6.9% in July and is now only 4% below its February level. Conversely, the production of investment goods saw growth slow down sharply, the progression being limited to 1.3% in August against 7.1% in July. Only construction, which in

August posted growth of 4.9% after 4% in July, almost reached the level that prevailed in February (only 1.2% lower).

The catch-up of industrial production therefore appeared to be weakening at the end of the summer, aside from consumer durables and construction. Thus, despite the rebound, French industry has not yet caught up with the level of production that prevailed in February, before the confinement. Industrial production is still 6.3% below its February level, while manufacturing production is 7.4% lower.



Source: INSEE, ING Economic Research

Risks in the fourth quarter

Given the figures for August, the third quarter should show record growth for industrial production: even with stagnation in September, growth would exceed 20% for the quarter. However, this should not be seen as a guarantee of the sustainability of the move. Moreover, this dynamism will not erase the shock of the first half of the year, and production will still be below its February level at the end of the third quarter. Catch-up should continue, as industrial surveys show that stocks have fallen sharply while order books are filling up, but the recovery remains vulnerable, both from a supply point of view, if workers (or their children) were to be confined again, and from a demand point of view, if consumer purchasing intentions do not continue to recover. These vulnerabilities are real risks for the fourth quarter given the resurgence of the disease and the new restrictions on movement.

All in all, after a dynamic third quarter, we believe that growth could halt in the last quarter, leaving the French economy and industrial production at 95% of its pre-crisis level. The return to pre-crisis levels of production will therefore be long and slow, and will probably have to wait until the beginning of 2023.

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