France: Industry mirrors the economy

The 2018 industrial production figures mirror the French economy. While investment goods production remains dynamic, the picture is much grimmer on the consumer side. With only 0.7% growth in 2018, 2019 is unlikely to be worse

House construction in Orleans, France

-0.5% Industrial production contraction in the fourth quarter of 2018

Production rebounded in December

French industrial production rebounded by 0.8% month-on-month in December. Manufacturing increased by 1.1% despite a further drop in consumer durable goods production. The rebound was not sufficient to avert a 0.5% quarter-on-quarter decline in 4Q18. Industrial production contracted in three quarters of 2018 and ended the year 1.4% below its level of December 2017. On the year, industrial production probably grew by 0.7% (the same growth rate as that seen in manufacturing) well below the 2.4% pace reached in 2017.

The industrial production figures reflect to a large extent the situation in the French economy. Manufacturing production of investment goods increased by 2.3% in 2018 but this was outweighed by a drop in consumer durable goods production and construction activity, which declined by 4% and 0.4% in 2018, respectively. These figures confirm that while households were holding back spending, French companies continued to invest thanks to low financing costs, filled order books and high capacity utilisation. As such, even the “yellow vest” crisis did not hamper high capacity usage in the fourth quarter, mainly thanks to foreign demand. However, the high level of anxiety shown in consumer surveys in recent months has depressed demand in construction even with the current low level of mortgage interest rates: household investment declined by 0.4% in the fourth quarter for the first time since 2015, preliminary 4Q18 GDP figures showed. Private consumption weakness also bodes ill for consumer good production.

Early 2019 should bring more of the same

We therefore expect similar patterns to be repeated at the beginning of 2019, with investment leading domestic demand. Currently, we think that industrial production should reach 1.0% in 2019, a pace which is only slightly higher than in previous years (0.3% in 2014-2016). The catching-up effect in the automobile industry should also support manufacturing in 2019. Another argument supporting the idea that the blip in consumer durable good production is temporary is the fact that private consumption should rebound slightly in 2019 on the back of lower energy prices, lower unemployment and higher purchasing power. Again, we expect the rebound to be limited by the current level of anxiety, which we believe will fuel saving rather than spending in the coming months. Private consumption growth should be limited to 1.2% in 2019, with GDP growing slightly quicker, at 1.3%.