Falling French industrial production dampens growth hopes

French industrial production fell sharply in February, despite strong confidence indicators. This unpleasant surprise casts doubt on the hope that the industrial sector will be a driving force for the French economy in the first quarter and raises fears that GDP growth will be weaker than expected

Source: Shutterstock

A heavy fall

In February 2021, production fell in French manufacturing (-4.6% after +3.3% in January) and industry as a whole (-4.7% after +3.2%).

Compared to a year ago, manufacturing output is down by 7.1%, while industrial production as a whole is down by 6.6% over a year. The fall in February 2021 is mainly due to the manufacturing of transport equipment. Production of both motor vehicles and other transport equipment has collapsed over a month and is now 13.5% and 33.6% below their pre-crisis levels, respectively.

The shortage of chips was probably one reason, but industrial products and capital goods manufacturing also fell sharply. Construction also fell sharply over the month, by 6%, and is now 4.7% below its pre-pandemic levels.

A big surprise

Let's be clear, this drop in industrial production in February is a bad surprise.

It is a surprise because the confidence indicators were robust in February but also in March. For example, the PMI for the manufacturing sector rose from 51.6 in January to 56.1 in February before reaching a very high level of 58.8 in March. Business sentiment in industry also rose from 96 in January to 98 in February and March.

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These business confidence indicators were therefore pointing to a good performance by the industrial sector in February. It is now clear that this was not the case. The drop in industrial production may be partly due to supply chain disruptions and the harsh winter that probably impacted at least the construction sector in February.

The engine of the French economy is no longer

Nevertheless, we cannot rule out that this poor performance is not the result of temporary factors but rather an illustration that the industrial sector is less resilient than expected. The lockdowns and restrictive health measures are indeed weighing heavily on the services sector, which until now has contrasted with the good performance of the industrial sector.

This discrepancy allowed us to hope that the overall economic performance in the first quarter of 2021 would not be too unfavourable despite the complicated health situation in France and Europe. But this doesn't seem to be the case now.

> Today's data suggest that French GDP will perform worse than expected in the first quarter of 2021.
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> In our view, we cannot expect positive quarterly growth, with growth around 0% at best if a recovery in industry is seen in March. If we were to see a further fall in industrial production in March, then it is unlikely that the French economy could escape a further fall in GDP in Q1 and a new recession after the fall in GDP in Q4 2020.
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> Given the third lockdown in April, poor economic performance is likely to continue well into the second quarter of 2021, postponing the much-hoped-for economic recovery.

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