

## French industrial decline not dramatic, but the economic outlook is darkening

The decline in industrial production in July masks a fairly solid underlying trend at the start of the third quarter. However, against a backdrop of weak consumption, growing political uncertainty and pressure on public finances, the economic outlook for France remains fragile



### Industrial production is doing rather well despite the decline

According to data published by INSEE, France's industrial output fell by 1.1% in July, but this decline follows a sharp 3.7% rise in June, driven by a surge in aerospace and aviation manufacturing. The volatility of production in the "other transport equipment" category, down 16% in July after jumping 26.1% the month before, highlights the sector's erratic momentum. Still, the broader picture is more reassuring: production levels across all industrial sectors remain above those seen in May.

Over the past three months, industrial output was 0.6% higher than the average for the previous three months and 0.8% above the same period last year. Even construction, which has struggled recently, posted a 0.6% increase in July. However, it remains 3.6% below its level a year ago.

## Economic momentum may weaken

These figures suggest a decent start to the third quarter, but the underlying economic momentum is weak. Household consumption of goods dropped sharply in July, and business sentiment remains subdued. [Political uncertainty is adding to the gloom](#). Since the announcement of a confidence vote on 25 August, uncertainty has risen. While updated confidence indicators are not yet available, a deterioration seems likely.

Investment, hiring and consumption decisions could be delayed, further slowing economic activity. Rising market interest rates are pushing up financing costs, impacting some sectors such as real estate and construction. After a mildly positive third quarter, stagnation looks increasingly probable in the final months of the year.

Annual GDP growth is expected to slow to 0.6% in 2025, down from 1.1% in 2024. That leaves the starting point for 2026 on shaky ground, with growth likely to remain below potential. Political instability is likely to continue to weigh on France's economic outlook in the next quarters, and growth is expected to remain below the European average. This persistent weakness will continue to weigh on public finances.

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