

Snap | 5 April 2022

# France: industrial production falls in February

Industrial production fell in February, just as the Ukraine war was beginning, raising fears of a contraction in output in the first quarter



The first half of 2022 will be difficult for economic growth in France

## Production down in February, before the expected drop in March

It's bad news for French economic growth in the first quarter. Industrial production declined in February, dropping by 0.9% in a month, after a 1.8% rise in January. Manufacturing output was down 0.5% on the month (+2.2% in January). Although the figures have been revised upwards for January, the revision is not sufficient to erase the February decline. In February 2022, the level of industry activity remains 4.6% below its pre-pandemic level (February 2020).

Overall, this data is bad news as it indicates that French industrial production was already falling in February when the war in Ukraine had only just begun. And, the sharp decline in industrial confidence indicators since the start of the war suggests that industrial production will deteriorate even further in March. This implies that it is not impossible that industrial production will contract in the first quarter. Thanks to the lifting of health restrictions, the services sector probably performed better than industry in the first quarter, which should help avoid a contraction in GDP. However, dynamic growth is not to be expected, and a figure close to zero seems most likely.

## A contraction of GDP in the second quarter is expected

For the second quarter, things will probably continue to go wrong, at least if the war continues. Rising energy costs and supply chain problems will weigh on industry, while the sharp drop in

confidence and high inflation will slow household demand and thus the services sector. We expect second quarter growth to be negative. The first half of the year will therefore be difficult for economic growth in France, while inflation will continue to rise until the summer, probably exceeding 5% for the national CPI measure. At this stage, we continue to expect a recovery in the second half of the year, but this will of course depend on developments in Ukraine. We expect growth of 2.7% for the year as a whole, a figure that is heavily influenced by the momentum at the end of 2021 (the carryover effect is 2.4%).

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