

## France: Industrial production rebounds

Industrial production rebounded more than expected in August, by 2.4% over the month, thanks to the easing of supply constraints. As a result, economic activity could narrowly avoid a contraction in the third quarter, but a recession remains more than likely for this winter



### A broad rebound

After falling by 1.6% over a month in July, French industrial production rebounded in August, increasing by 2.4% over the month. Over a year, the increase was 0.4%. Manufacturing output rose by 2.7% (after -1.6% in July). All branches of industry saw their production increase over the month, except for construction. The rebound was particularly dynamic in automotive production, which increased by 15.6% over the month, thanks to the easing of supply constraints. The August rebound allows industrial production to erase the losses accumulated during 2022 and return to its pre-war level. Nevertheless, output remains 3.5% below its pre-pandemic level.

August's strong performance gives hope that industrial production will make a positive contribution to economic growth in the third quarter, which could narrowly avoid a contraction in activity.

## Headwinds are too strong for the rebound to last

Nevertheless, looking ahead, it is to be feared that the effect of reduced supply constraints will not be sufficient to allow the French industry to continue to rebound. In fact, further contractions in industrial activity can be expected. Indeed, the sharp decline in global growth, the contraction in order books since February, the high level of finished goods inventories, high uncertainty, high energy and raw material prices and potential disruptions in energy supply clearly point to a deterioration in the outlook for the French industrial sector in the coming months. The business climate indicator for the sector fell further in September. Since the beginning of the year, it has lost more than 10 points, falling back to the level of spring 2021, thus erasing all its post-lockdowns gains.

Moreover, the outlook is not much better in the services sector, which is weighed down by worsening purchasing power, declining consumer confidence and the fading positive effects of the post-pandemic reopening. There is therefore little doubt that France, like its European neighbours, is heading straight for recession. Given the developments of the last few weeks, it is to be feared that French GDP growth will move into negative territory in the fourth quarter, after a probable stagnation in the third quarter. The recession is likely to last throughout the winter, and the prospects for a rebound in the spring of 2023 are fading by the day. We therefore expect growth of 2.4% for the whole of 2022 and -0.4% for the whole of 2023.

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