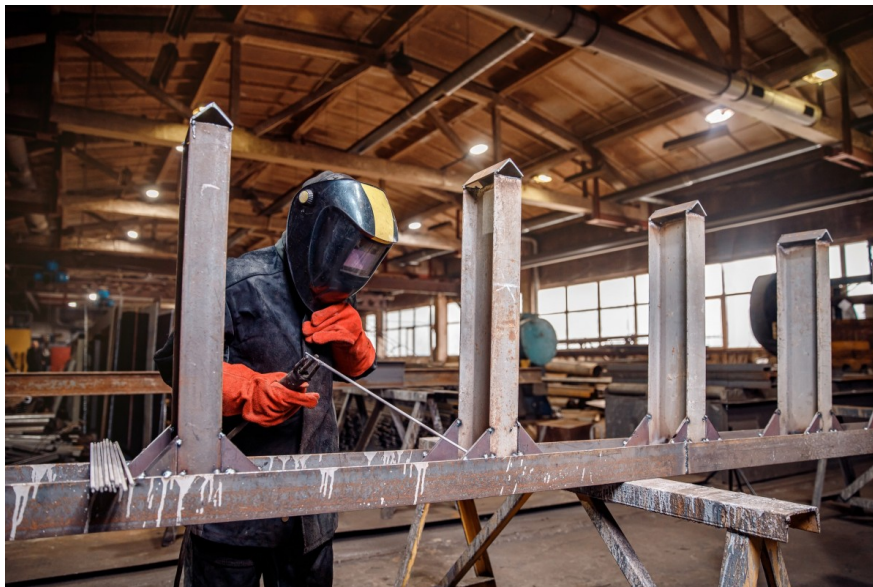


France: Industrial production rebounds but outlook remains sluggish

Industrial production rebounded in France in February, but not enough to compensate for January's decline. Energy-intensive activities remain heavily impacted by the energy shock. These data confirm rather lacklustre growth



Since the beginning of the year, it has been clear that economic activity in France is showing some signs of resilience. In particular, business confidence remains very solid despite the more unfavourable global context, the rise in interest rates and the social tensions surrounding the pension reform. The February industrial production data confirm this.

Indeed, industrial production rebounded in France, increasing by 1.2% over the month, after the (slightly upwardly revised) 1.4% decline in January. Manufacturing output is also up, by 1.3% after falling by 1.5%. Most branches of activity saw an increase over the month, with the rise being particularly strong in the manufacture of transport equipment. Over the last three months, manufacturing output has risen by 1.7%, thanks in particular to the rebound in automobile production linked to easing supply chains.

Energy-intensive activities are nevertheless down sharply over the year, by 25.9% for steel, 22.5%

for paper and cardboard and 19.9% for chemicals. From these data, we can conclude that the energy shock continues to have an impact on French economic activity, despite the drop in global energy prices. Given the time lag for international price developments to be reflected in companies' bills, it is likely that production in energy-intensive activities will continue to be held back in the coming months.

These data indicate that the trend for French industrial production is still sluggish, though it does not resemble a collapse, thanks in particular to supply chain pressures easing. Nevertheless, the increase in activity in February is not sufficient to compensate for the decline in January. In addition, it is likely that the social tensions surrounding the pension reform will result in less dynamic industrial activity in some sectors in March, before a rebound in the following months. Overall, industrial activity is likely to decline over the quarter, which will contribute negatively to economic growth in the first quarter. At the same time, the data indicate that the inflationary context is weighing on household consumption, mainly goods. With the volume of household consumption of goods falling by 0.8% month-on-month in February, growth momentum is likely to remain weak. We expect slightly positive quarterly growth in the first quarter of 0.1%.

The outlook for the French economy in the coming quarters remains moderate. The global weak growth is likely to weigh on exports and the industrial sector. The inflationary context could continue to weigh on household consumption. In addition, the full impact of monetary policy tightening is likely to begin to be felt, weighing on household and business investment. We expect growth of 0.7% in 2023 and 2024, after 2.6% in 2022.

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