

France: Industry drives the recovery

French industrial production recovered strongly in January but remains 1.7% below its pre-crisis level. This good performance should continue in the coming months and help the French economy avoid a new recession



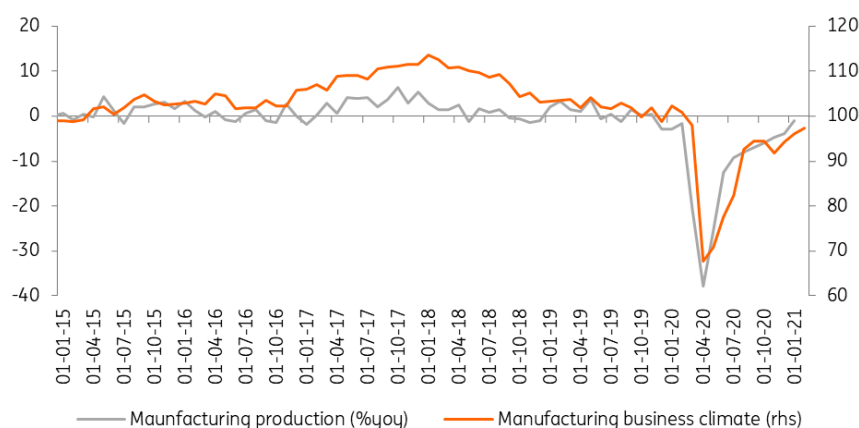
A good start to the year

In France, industrial production recovered strongly in January, posting monthly growth of 3.3%, after declines in December (-0.7%) and November (-0.3%). Compared with the pre-crisis level (February 2020), production is still down 1.7%. Within the industrial segments, manufacturing production recovered in January (+3.3% mom), thanks to a very strong recovery of the pharmaceutical industry (+30.7% mom) which now largely exceeds its pre-crisis level (+25.6% compared to February 2020), but also a very good performance of capital goods manufacturing (+8.4% month-on-month and +1.2% compared to the pre-crisis level). The food-processing, mining, energy and water industries, as well as coking and refining have also contributed favourably to the evolution of industrial production. However, these segments are still well below their pre-crisis levels. The construction sector is in a very good position, posting a level 4.4% above its pre-crisis level and a monthly growth rate of 16.3% in January.

It seems that the French industrial sector has got off to a good start in 2021. Relatively little impacted by the restrictive measures put in place to fight the pandemic, it can fully play its role as

a driving force for the French economy at a time when the service sector remains severely hampered. This good performance of French industrial production could continue over the coming months. Indeed, the business climate and the PMI indices in industry improved in February, which should coincide with an increase in production that could continue in March and in the coming months.

The recovery in industrial production is expected to continue in the coming months.



Source: INSEE, ING Economic Research

A stagnation expected

The good performance of the industrial sector will probably enable the French economy to avoid a new recession after the fall in GDP observed in 4Q, but will not completely offset the negative effects of the restrictions. The economy is expected to stagnate throughout the first quarter at a level of activity 5% below its pre-crisis level, leading to quarterly GDP growth close to 0%. The recovery of the French economy should take place from the second quarter onwards, provided that the vaccination campaign really speeds up to allow for a relaxation of the constraints. This will enable the service sector to join the industrial sector as the driving force behind France's economic performance and GDP growth of around 5.3% over the year.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

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