

## France: Manufacturing output rebounds in May and could rise again in June

In France, manufacturing production rose by 0.8% in May compared to April. Indicators suggest that the rise could continue in June. However, the outlook for the post-summer period has become much bleaker



Manufacturing production rebounded dynamically in May

### Manufacturing output increases, but industrial production stagnates

In May, French industrial production stagnated compared to April. On the other hand, manufacturing production rebounded dynamically, by 0.8% over one month, after the 0.5% drop observed in April, which allows it to return to its January level. Manufacturing output nevertheless remains 5.1% below its pre-pandemic level (February 2020). The rebound in May was due to an increase in production in the manufacture of other industrial equipment, particularly in the chemical and metal industries, but also in coking and refining and in the automotive industry.

Despite supply chain difficulties and lockdowns in China, automotive production jumped by 15.3% in one month. However, it remains 20.5% below its pre-pandemic level. The difference between industrial and manufacturing output was mainly due to energy production, which fell by 5.6%

month-on-month. Construction output continued to rise in May, up 0.4% on the month.

## Another increase expected in June, but a difficult winter ahead

This increase in manufacturing output is good news for the French economy and is likely to continue in June. Indeed, the business climate indicator shows a recovery in June, thanks in particular to an improvement in business leaders' assessments of their recent production. In addition, supply chain difficulties seem to have eased somewhat in June, although they remain at a high level. Nevertheless, even if a rise is expected in June, it is unlikely to be enough to push manufacturing output up quarter-on-quarter in the second quarter, given the low level in April. We therefore believe that manufacturing output will contribute negatively to GDP growth in the second quarter. Other elements could make a positive contribution to GDP growth, notably services, which could help narrowly avoid a further contraction of GDP in 2Q.

While there is still a chance that the French economy will escape recession in the spring of 2022, the outlook for the winter of 2022-23 is much bleaker. The slowdown in global demand could weigh more and more heavily on the industry. In addition, domestic demand is increasingly weakening in the context of uncertainty, high inflation and declining real incomes. Possible gas shortages could also weigh heavily on French industry, and thus on the whole economy. Taking all these factors into account, we expect GDP to contract in the fourth quarter of 2022, as well as in the first quarter of 2023, before a very gradual recovery. This implies that, after an expected GDP growth of around 2.1% on average over the year 2022, growth could be close to 0% over the whole of 2023 (we currently expect 0.3%).

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