

## France: Poor start to the quarter for industry

Industrial production fell sharply in July and remains 6% below its pre-pandemic level. Industry will probably contribute negatively to French economic growth in the third quarter



French industrial production fell by 1.6% over one month in July, and the decline was widespread across all branches of the industrial sector. Only construction increased its output by 0.5% over the month. Over a year, industrial production is down by 1%. It is therefore a difficult start to the third quarter for the French industrial sector, which is clearly suffering from the disruption of supply chains due to the war in Ukraine, lockdowns in China, and rising energy prices.

Looking ahead, the contraction in order books since February, the high level of stocks of finished goods, high uncertainty, high energy and raw material prices, and potential disruptions to energy supplies do not point to an improved outlook for the French industrial sector. Indeed, the business climate indicator for the sector fell further in August. It is therefore likely that industry will make a negative contribution to French economic growth in the third quarter.

The industrial sector only represents 15% of total French value added (20% if we include construction), so the weakness of industry is not enough in itself to conclude that the macroeconomic outlook for the next few quarters has worsened. However, the outlook is not much

more favourable in the services sector. The deterioration in purchasing power caused by inflation, the decline in consumer confidence, and the fading of the positive effects of the post-pandemic reopenings will weigh on the dynamism of services in the coming months. As a result, the question is no longer really whether France and other European countries are heading for recession, but rather how fast the recession is coming. Given the developments of the last few weeks, there is a risk that French GDP growth will turn negative in the third quarter. We expect growth of 2.2% for the whole of 2022 and -0.2% for the whole of 2023.

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