

France: The lost year of industrial production

The 'yellow vest' crisis impacted manufacturing production in November, leading to a six month of decline in 2018. With any hopes of a second-semester rebound now gone, we now expect industrial production to grow by a mere 0.5% in 2018



Paris, France. Demonstrators during a protest against rising cost of fuel and oil prices by people wearing yellow vests.

Source: Shutterstock

0.5%

Likely performance of industrial production in 2018

French industrial production declined by 1.3% in November.

Manufacturing production decreased by 1.4%, while the largest drop was measured in the manufacturing of consumer durables (-2.4% MoM), which is 10% below last years level. This figure reflects the lack of consumer spending as a result of the numerous road and shop closures because of the 'yellow vest' protests.

A more general slowdown can also be seen in intermediate goods production which declined by 2.2% in November and 4.0% in 2018. The decline in investment goods production was less severe as corporate investments shows more signs of resilience than consumer spending, which limits the manufacturing production drop. Besides, construction activity rebounded by 1.4% while energy declined on the back of a milder winter compared to last year.

These figures show that the rebound in industrial production that was expected for the second semester never really happened

After two quarters of negative growth, industrial production growth only reached 0.7% quarter on quarter in 3Q18, because of production problems in the automobile sector and is set for another 1.0% contraction in 4Q18 because of the 'yellow vest' crisis and its rising impact on domestic demand.

Therefore, after a dynamic 2.4% growth in 2017, French industrial production is likely to grow by only 0.5% in 2018 and 1.0% in 2019, which is only slightly higher than previous years (0.3% in 2014-2016).

Some reasons to be positive

At the moment, the main strengths we are still seeing come from the current level of business investments. Industrial surveys show that despite the decline in the economic outlook, capacity utilisation hasn't declined significantly in the fourth quarter while export order books remain elevated. The catching-up effect in the automobile industry should also support manufacturing in 2019.

Another argument supporting the idea that the blip in durable consumer production is temporary is the fact that private consumption should rebound in 2019 on the back of lower energy prices, lower unemployment and higher purchasing power

However, we expect the rebound to be limited by the current levels of anxiety, which we believe will strengthen saving behaviours rather than consumption in the coming months. We, therefore, revise our private consumption forecast from 1.5% to 1.1% in 2019.