

Unexpected decline in France's industrial output

French industrial production contracted sharply in January, confirming the poor start to the year



The economic situation in France remains very poor

Industrial production in France fell unexpectedly again in January, declining by 0.6% for the industry as a whole, following a downwardly revised fall of 0.5% in December. The decline was 0.7% for manufacturing, after a drop of 1% in December. Except for the production of transport equipment, which rebounded well from its sharp fall in December, most branches of industry saw their output decrease over the month.

This unexpected fall in industrial production confirms that the first quarter started poorly for French economic activity. We already knew that household consumption of goods fell by 0.5% in volume terms in January, despite the sales period. The contraction in industrial production suggests that a further decline in GDP in the first quarter is becoming increasingly likely, following the 0.1% contraction seen in the fourth quarter of 2024. Nevertheless, the slight improvement in business sentiment in February, particularly in the industrial sector, could indicate a slightly better performance in February compared to January. If this trend continues in March, GDP could stabilise in the first quarter and avoid a further contraction.

Overall, the economic situation in France remains very poor. While inflation is no longer a

significant problem for the French economy, the weakness in activity is a clear concern. The uncertainty surrounding the budget and the government has weighed on activity. Although uncertainty in this area has diminished, the more restrictive budget will impact the French economy in the coming months. The international context, including the risk of additional customs tariffs, is heavily weighing on business confidence.

At this stage, there is little sign of a real recovery for the rest of the year. The marked deterioration in the employment climate, which reached its lowest point since March 2015 following the weakening of the outlook for business hiring, is a significant indicator that economic momentum will remain weak in the coming quarters. In an uncertain environment and with a less buoyant labor market, the household savings rate is likely to remain high, weighing on consumption momentum. Finally, any additional defence spending and German budget plans are unlikely to have a major impact on French activity in 2025.

We expect GDP to grow by 0.6% in 2025, after 1.1% in 2024.

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