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France's manufacturing bounce may prove short-lived

France's March industrial rebound looks temporary as weak demand and energy risks threaten economic growth

Weak demand and energy risks threaten economic growth in France

A rebound boosted by inventories and temporary competitiveness gains

As expected, French manufacturing output rebounded in March, rising by 1.2% month-on-month after a 0.1% decline in February. Total industrial production was up 1% after -0.9% in February. The increase was visible across all branches of industry. Unsurprisingly, production rose sharply in coking and refining, up 6.3% month-on-month, reaching its highest level in seven years. However, this segment accounts for only 0.14% of total French industrial production. Year-on-year, French manufacturing output was up 1.5% in the first quarter.

Given the survey data, this rebound in industrial production had been expected. Since the start of the war in the Middle East, French industries have benefited from an improvement in their competitiveness relative to Asian competitors, which have been more severely and immediately affected by disruptions to energy supplies. In addition, the risks of shortages and price increases led manufacturers to bring forward their orders and increase inventories in March, boosting production.

These positive factors are likely to remain in play in April, but they are nevertheless temporary. On the one hand, the energy crisis is not improving, and the risk of shortages is also likely to affect Europe rapidly. The improvement in relative competitiveness could therefore come to an end quickly. Moreover, the rise in production has led to higher inventories of industrial goods, but not to higher sales. As indicated by the GDP data for the first quarter, both domestic and external demand are very weak. April survey data also point to a further deterioration in demand.

Weak demand raises the risk of a second-quarter contraction

While industrial production and inventory building allowed French GDP to narrowly avoid a contraction in the first quarter, the weakness in demand raises concern about the outlook. Without an improvement in the situation in the Middle East and a fall in energy prices, the risk of a GDP contraction in the second quarter is becoming increasingly significant. In this context, the government’s 2026 growth forecast of 0.9% now looks out of reach, which will clearly complicate fiscal consolidation efforts. Achieving a deficit of 5% of GDP in 2026, after 5.1% in 2025, as promised by the government, is becoming very difficult and will require further tense budget discussions, in an even more complex political environment, with the 2027 presidential election on the horizon.

Overall, despite the increase in industrial production in March, the outlook remains gloomy for the French economy. We expect GDP growth of 0.6% this year, compared with 0.9% last year.

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