

Snap | 4 July 2025

FRANCE

French economy under significant strain with no signs of recovery

French industrial production fell again in May, reinforcing the likelihood of a contraction in GDP in the second quarter. The outlook for the rest of the year remains bleak



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France lags behind its European peers

While some eurozone economies performed surprisingly well in the first half of 2024, France continues to disappoint. The latest industrial production figures confirm the ongoing deterioration in economic momentum.

In May 2025, manufacturing output declined by 1.0% month-on-month, following a revised 0.7% drop in April. Total industrial production fell by 0.5%, after a 1.4% contraction the

previous month. These figures came in well below expectations. Over the past three months, manufacturing output is now 0.4% lower than during the same period in 2024.

Most industrial sectors saw declines in May, with the exception of transport equipment (aerospace, shipbuilding, rail) and electricity production. Construction output also fell by 0.5% for the second consecutive month. Over the last three months, construction activity is down 3.8% year-on-year.

These figures paint a worrying picture of the French industrial sector and suggest that the economy is under significant strain. We now expect GDP to contract by 0.1% quarter-on-quarter in the second quarter.

No signs of a turnaround

What's more concerning is the lack of any meaningful recovery signals. Business sentiment in the industrial sector weakened further in June and remains subdued across the broader economy. With confidence low and demand expectations muted, a rebound in industrial output looks unlikely in the near term.

Several headwinds are weighing on the outlook:

- **Trade uncertainty:** With the 9 July deadline looming, there is still no clarity on potential US tariffs on European goods. Exporters remain in wait-and-see mode, delaying investment and expansion plans.
- **Euro appreciation:** Since the start of the year, the euro has appreciated by 5% in nominal effective terms (against 41 key trading partners), 4.3% in real terms, and 13.5% against the US dollar. This is eroding export competitiveness and weighing on production.
- **Geopolitical tensions:** Global uncertainty continues to dampen business confidence.
- **Domestic fiscal uncertainty:** France is entering a difficult budget negotiation phase. A significant fiscal adjustment appears inevitable, likely involving tax hikes that could affect both households and businesses. The risk of political gridlock – or even a government collapse – could push French bond spreads higher, raising financing costs for firms.

Growth to remain subdued

All in all, the French economy is facing a challenging environment with little sign of improvement ahead. We forecast GDP growth of just 0.4% in 2025, following 1.1% in 2024, with only a modest recovery to 0.8% in 2026.

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