

## French industrial production continues to catch up

French industrial production continued to grow in December but still hasn't returned to its pre-pandemic level. While the shock of 2022 has yet to be fully digested by French companies, the outlook for 2023 remains moderate



The French labour minister, Olivier Dussopt, being shown round a factory in southern France last month

### Increase in industrial production

French industrial production increased by 1.1% over one month in December 2022, after +2% in November, thanks largely to a rebound in electricity production. Manufacturing output rose by 0.3% Month-on-Month in December, after +2.4% in November. The rebound was driven primarily by transport equipment manufacturing, which continues to recover after months of supply chain disruption. However, transport equipment production is still 14% below its pre-pandemic level. In December, coking and refining also grew rapidly, continuing its recovery from the October strikes which saw output fall by 47% over a month. The manufacture of capital goods fell by 3.3% in December, and the production of foodstuffs fell by 1.7%.

Over the year, French manufacturing production increased by 3.6%. This is faster than GDP (+2.6% in 2022). Nevertheless, we still haven't fully recovered from the disruption of 2020 and 2021. At the end of 2022, French manufacturing output was still slightly below its pre-pandemic level, while

GDP was 1.2% higher. It is also worth noting that, according to detailed GDP data published this week by INSEE, the value added of the manufacturing sector fell by 0.5% in the fourth quarter of 2022, despite the increase in production over the same period.

## 2023 expected to be a minor year

What can we expect in 2023? Thanks to supply chains easing, the production of transport equipment should continue to catch up and that should boost the whole of French manufacturing production. On top of that, since the beginning of the year, optimism seems to have returned thanks to the fall in energy prices on the international markets and the reopening of China, leading to upward revisions of the growth outlook.

But beware of over-optimism. The shock of 2022 has yet to be fully digested by French companies. In a recent study that takes into account the types of contracts existing in France, INSEE estimates that most of the increase in electricity bills for companies has yet to take place. While bills rose by an average of 30% in 2022 for companies in the agricultural and industrial sectors, a rise of 92% is expected in 2023. As the INSEE study is based on data collected in November before the plunge in international energy prices, the rise in bills for 2023 may be overestimated. Nevertheless, there is little doubt that business energy bills will rise more in 2023 than in 2022 in France, despite the fall in spot prices on the markets. This is likely to hamper industrial production. In addition, the global economic slowdown, particularly in Europe and the United States, and the rise in interest rates, which increases the cost of financing for companies, are also likely to weigh on the industrial outlook in 2023. So, the contribution of industry to growth is likely to be subdued at best. We expect GDP to grow by 0.4% in 2023, after +2.6% in 2022.

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