

## French industrial production continues to fall

French industrial production fell again in March, and the February figure was revised downwards, illustrating the impact of the Ukraine war on the French economy. The outlook for industry in the coming months is bleak



### War dampens industrial production

In France, industrial production fell in March by 0.5% compared to February. Manufacturing output fell by 0.3% over the month. This decline follows the sharp and downward revised fall in February of -1.2% for industry and -0.9% for manufacturing production.

These data are interesting because they are the first hard data available that illustrate the impact of the war in Ukraine on French industry. It is now clear that the war has important consequences on the French productive apparatus. Most affected by the disruptions to supply chains caused by the war are the machinery and equipment and automobile manufacturing sectors. They saw their production fall the most, by 3.9% and 7.3% respectively over one month. As a result, automotive production is now 34.2% below its pre-pandemic level. This is a monumental gap, which illustrates the extent of the crises in the sector over the last two years, but also the distance to be covered for a possible recovery.

## Further production declines to be expected

More generally, today's data shows a gloomy picture of French industry. Over the last seven months, industrial production has fallen five times. Although the year started very well, the war has put a new and violent brake on the growth of French production. It is now 5.5% below its pre-pandemic level and the outlook for the coming months is not bright.

Although order books are still full, production could seize up even more in the next months. Supply chain disruptions are already on the rise due to the war (according to the Banque de France, 60% of manufacturers were facing such disruptions in March, compared to 54% the previous month). Lockdowns in China will further deteriorate the situation. In addition, French industry will be confronted with the global slowdown of the world economy caused by uncertainty and inflation, which will lead to a decrease in external demand. This will not be compensated by dynamic domestic demand, as French GDP stagnated in the first quarter due to a sharp fall in household consumption. As a result, we expect further declines in industrial production in the coming months. This means that, in the best case scenario, the stagnation of GDP should continue in the second quarter. A decline in GDP seems even more likely. All in all, the French economy is on the verge of a technical recession. Nevertheless, GDP should grow by 2.7% over the year due to the significant carryover effect from the end of 2021.

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