

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.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.