

French industrial production falls

Optimism at the beginning of the year was probably premature. Manufacturing output fell sharply in January in France, confirming that industry is currently in a strong slowdown phase, which is likely to continue over the coming months



Unexpected fall in production

After the figures for household consumption of goods for January, INSEE published the second indicator of actual activity for the first quarter, industrial production, which finally gives a clear view of how the French economy has started the year. And the news is not very good.

Manufacturing output fell sharply in January, by 1.8% over one month, compared with a 0.2% rise in December. For industry as a whole, the fall was 1.9% over the month compared to +1.5% the previous month. The fall is due to the manufacture of transport equipment, which dropped by 6.7% over the month. The production of automobiles decreased by 2.6% and that of other transport equipment fell by 9.5%. This series is nevertheless still very volatile, as it is strongly influenced by the deliveries of ships or planes produced in France. More worryingly, the manufacturing of other industrial products was also in strong decline over the month (-2%) after having already decreased by 0.2% in December. The chemical, pharmaceutical, wood-paper and rubber-plastic industries saw their production fall over the month.

Slowdown

This data confirms the signals given by the business climate and PMI indices. The French industrial sector is currently in a slowdown phase, despite the continuous improvement in supply chains. However, the slowdown appears to be more significant than the confidence indicators suggested. It seems that demand, especially international demand, is slowing down sharply. The bad news is that the slowdown is likely to continue in the coming months, as indicated by the February PMI for industry, which fell back below 50 in February, dropping to 47.4 from 50.5 the previous month. The sharp fall in energy prices on international markets and the resulting improvement in the global outlook may be limiting the extent of the slowdown, but not erasing it completely. In this context of slowing demand, high inventory levels could negatively impact production, leading to weak manufacturing output in the coming months.

Premature optimism

More generally, all the data published so far suggests that the optimism at the beginning of the year was perhaps a little premature. Certainly, GDP growth could remain in positive territory in the first quarter, which would be a little better than expected at the end of 2022. However, better than expected does not mean good.

There are many risks to the French economy for the rest of the year. The inflationary peak has not yet been reached in France, so the shock to purchasing power is not over. Consumer confidence remains at a very low level and households' willingness to save is at its highest since May 2021. It seems that, in the face of inflation, households would rather strengthen their savings than dip into them. All this will continue to impact consumption. In addition, the support of fiscal policy for purchasing power will become less important in the coming months. At the same time, the construction sector remains under pressure and the rise in interest rates is likely to continue to weigh on household and business investment spending. Ultimately, the French economy is likely to remain weak throughout 2023, but also in 2024. We expect growth of 0.7% in 2023 and 2024.

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