

## French industrial production, stronger than it seems

French industrial production declined by 0.5% in November. Despite the minus sign in front of this figure, the report is very positive and confirms that French manufacturing is back at full speed



### Only two components contributed to the decline...

French industrial production declined by 0.5% month-on-month in November. It is less than what was expected given the strong rebound registered in October (+1.7%), but there are very encouraging figures in the report. The decline is due to a blip in investment goods production (-0.9% MoM) and construction activity (-0.5%). In October, investment goods production reached its highest level in ten years with a 4.4% MoM rebound, so growth in the quarter overall is likely to be healthy--at almost 4% QoQ-- despite November's decline. The building sector is somewhat more worrying as the recovery seems to have peaked in February. Yet, activity in this sector will grow by 2.5% this year, the second positive growth rate in ten years. Moreover, confidence indicators published this week by the European Commission showed that confidence in the sector remains at its highest level of the last ten years and that hiring intentions have not been higher since the end of 2008.

**2.4%** The yearly growth of manufacturing activity we expect for 2017

### **...with the rest of the report pointing to a strong fourth quarter**

Other elements of the industrial production report were very positive. The strong rebound in consumer goods production (+6.9% MoM) is particularly encouraging. Even if last summer's peak in production will not be replicated before 2018, we think that consumer goods production should rebound by 2.9% in 2017, a sign that higher consumer confidence is finally fuelling stronger demand and activity.

All in all, the November figures confirm that the manufacturing sector is set for a 2.4% rebound in 2017 (after 0.4% YoY in 2016). It starts 2018 at the same level as in October 2008, so there is room for further recovery. Given that confidence indicators are at a ten year high, we expect 2018 manufacturing growth to reach 4%, supporting a strong 2.0% GDP growth. The path to reform hasn't been this clear since 2007, an opportunity that President Macron intends to seize.