

## French industrial production rebounds

French industrial production rebounded in May more than expected, reaching its highest level since the start of the pandemic



Riots across France have caused significant damage, but events like these generally have an insignificant effect on economic growth

### Widespread rebound

In May, French industrial production rebounded more than expected, increasing by 1.2% over the month, following a rise of 0.8% in April. Manufacturing output also rebounded, by 1.4% over the month (+0.6% in April). This rebound enabled manufacturing output to reach its highest level since the start of the pandemic, up by 2.9% year-on-year. March's weakness, due to strikes and production disruptions caused by protests over pension reform, has therefore been fully offset.

Growth in May was seen across all the major product categories, although the energy-intensive industrial branches continued to suffer from the context of high energy costs. Production levels in steel, paper/board and basic chemicals remain between 13% and 24% lower than a year ago.

### The outlook for industry remains difficult

The rebound in industrial production is good news for the French economic outlook. In the short term, this should ensure that industrial production does not contribute negatively to GDP growth in the second quarter. Weak but positive growth seems most likely.

Nevertheless, the outlook for industry over the next few quarters remains cloudy. According to survey results, business leaders' assessment of order books has remained very weak for several

months, a sign of a major slowdown in global demand for industrial goods. At the same time, inventories of finished goods remain high. This means that production is likely to decline over the next few months as companies see no new orders coming in and have stocks to clear. The PMI indices for the manufacturing sector have been in contraction territory (below 50) since January.

## Weak growth in 2023 and 2024

Ultimately, growth in the second quarter should be weak, but positive. Growth in the third quarter should have been better, supported by the strength of the tourism sector. However, the tense social context, with the recent protests and damage, means that there is a risk that this support will be slightly weaker than expected. Despite their significant microeconomic impact, events of this kind generally have an insignificant effect on economic growth. The fact that they took place at the beginning of the summer, at the height of the tourist season, may have a slightly greater negative effect (but probably no more than a 0.1 points reduction in growth).

Finally, the end of 2023 and 2024 look weak, against a backdrop of a global economic slowdown, still-high French inflation, and rising interest rates, all of which will have an increasing impact on demand. We are still expecting growth of around 0.5% this year and in 2024.

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