

French industrial production solid in August, before an expected slowdown

French industrial production rose by a stronger than expected 1% month-on-month in August which bodes well for GDP growth in the third quarter. However, we expect industrial production to weaken somewhat from September onwards and to be less dynamic in the fourth quarter than in the summer

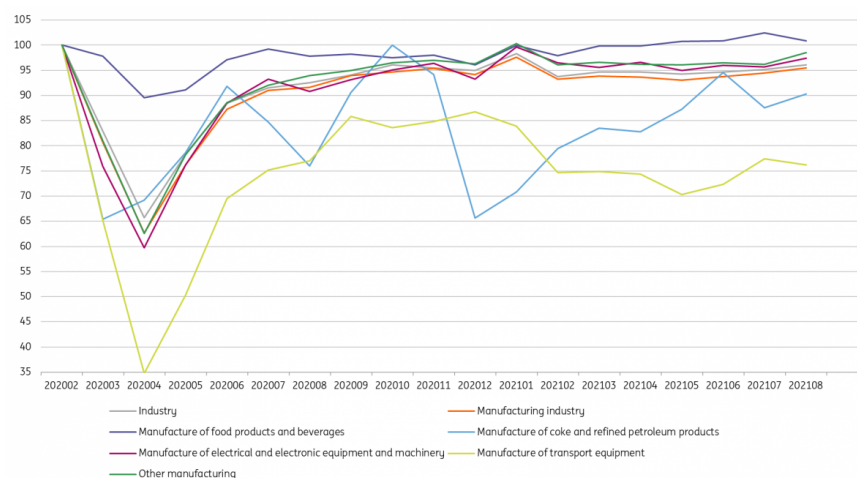


Source: Shutterstock

Better than expected

French industrial production rose by a stronger than expected 1% month-on-month in August after a 0.5% increase in July. It is still 3.9% below its pre-crisis level. Manufacturing output rose by 1.1% mom after 0.7% in July. In detail, it is mainly certain branches of manufacturing industry that have progressed in August, in particular the manufacture of pharmaceutical products, as well as metallurgy and other manufacturing industries. The manufacture of computer and electronic products also rose strongly. As since the beginning of the health crisis, some branches of industry are suffering strongly, notably the manufacture of transport equipment, which is still 23.8% below its pre-crisis level, and the textile industry (9.1% below its February 2020 level).

Industrial production in France, level compared to pre-crisis level (February 2020=100)



Source: INSEE, ING Economic Research

Good news for GDP growth in Q3

This dynamic increase in industrial production is good news and bodes well for GDP growth in the third quarter. As July and August were quite strong, we expect strong quarterly growth and a more dynamic growth rate than in the second quarter. We expect growth to be around 2%, compared with 1.1% in Q1. However, from September onwards, the recovery should slow down. Confidence indicators weakened in September, especially in industry. For example, the business climate fell to its lowest level in five months. We expect industrial production to weaken somewhat from September and to be less dynamic in the fourth quarter than in the summer. This is because the global economy is facing a series of difficulties that are having a strong impact on the industrial sector. Supply chain disruptions continue to pose significant problems. We see little improvement in this aspect in the coming months as the fragile health situation in some regions, notably in Asia, and the restrictions imposed to deal with it, are severely slowing down local economic activity and impacting all supply chains which ultimately affects French manufacturers. The rise in energy prices is also a risk for companies that cannot pass on the increase in costs in their selling prices.

All in all, the good performance of industrial production in August reinforces the forecast for strong progress of the French economy in the third quarter. September should nevertheless mark the beginning of a gradual slowdown in French industry, and more generally in economic activity in the country. We have entered a new phase, that of normalisation after the post-lockdown catch-up. This does not mean that we should be pessimistic, after all France should easily exceed 6% growth this year, but it does imply that the limits and risks will become increasingly apparent in the coming months.

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.