

French industrial production solid in August, before an expected slowdown

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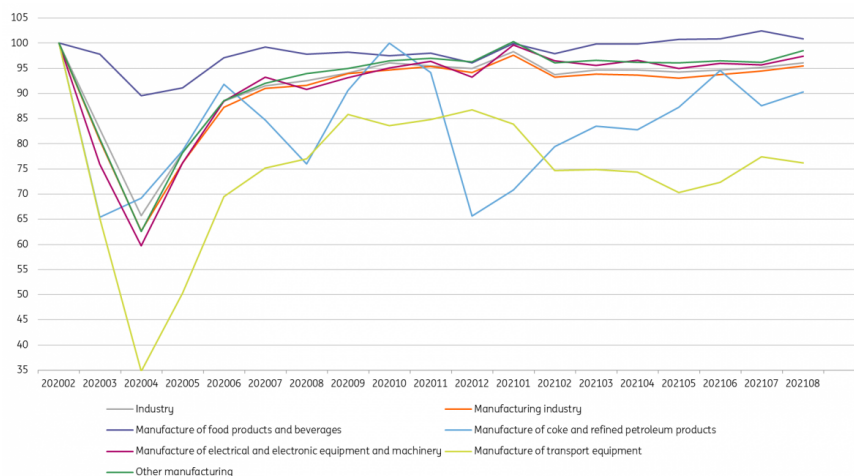


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Better than expected

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.

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