

Snap | 5 December 2025

FRANCE

## French industrial rebound loses steam

After a dynamic summer, French industrial production shows signs of slowing in October, pointing to a more modest contribution to GDP growth at year-end



France should continue to benefit from rising global military spending

### Momentum weakens

Manufacturing output in France edged down slightly in October, falling by 0.1% after a strong 0.9% increase in September. Across the broader industrial sector, production rose by 0.2% on the month, following a 0.7% gain in September. Sector performance was mixed: output in electrical, electronic, and IT equipment dropped sharply by 2.2%, while coke and refining surged by 3.6%, and most other sectors remained broadly stable.

Over the past three months, manufacturing output has been up 0.2% compared to the previous three-month period and 1.1% year-on-year. The picture is far bleaker in the construction sector, where output fell by 0.6% on the month and 1.4% over the year.

These figures paint a mixed picture of French industry. After a rebound since June, momentum appears to be fading, and business sentiment does not point to an imminent recovery. Production expectations among manufacturers declined in November, while order books contracted sharply. As a result, industrial output is likely to make a smaller contribution to GDP growth in the fourth quarter.

### Military spending and uncertainty in 2026

Looking ahead to 2026, the outlook remains mixed. On the positive side, France should continue to benefit from rising global military spending. As the world's second-largest arms exporter, with defence accounting for nearly 5% of total industry, France is the European country most exposed to this trend. Between 2022 and 2025, defence-related production grew by more than 20%, while overall industrial output remained flat. Order books and sentiment in the defence sector remain strong, suggesting that military spending will continue to support industrial production and GDP growth.

On the downside, political and fiscal uncertainty is likely to weigh on domestic investment and moderate activity growth, putting pressure on industrial production for domestic use. Overall, industrial growth should remain subdued in the first half of the year, with a possible pickup in the second half, supported by Germany's infrastructure plan – provided it delivers.

We forecast GDP growth of 0.9% in 2026, following 0.8% in 2025.

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