

## French manufacturing looks in better shape

Manufacturing confidence was back above its long term average in February - and this together with the latest industrial production figures show the French economy is slowly coming out of the soft patch it has been in since November. The first quarter seems to be starting on the right foot



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In France, the main manufacturing confidence indicator published by the Bank of France rebounded in February. The rebound was weaker than expected, but the indicator was nevertheless back above the 100.0 threshold, where it has been observed twice since November 2016. In the coming months, we expect the index to stabilise above 100.0 - its long-term average which would be in line with a gradual industrial production recovery.

The January industrial production figures were already giving some positive signs for the first

quarter, especially, as durable consumer goods production increased for two months in a row (+2.6% MoM in January), after months of a downward trend induced by the “yellow vest” protests and their impact on consumer confidence. Investment goods production also bounced in January (by 3.3% MoM) and was up by 3.5% on the year.

Therefore, the most recent figures indicate the French economy is slowly coming out of the soft patch it has been in since November. Domestic demand should strengthen, especially as the ECB just guaranteed the continuity of accommodative credit conditions for investments, while so far external demand from the Eurozone, the US and UK has also remained strong.

In the coming months, we think the weak euro outlook for the first half of this year should continue to help the French industry. This should contribute to the rebound in GDP growth expected for 1Q19 at 1.5% QoQ (annualised). However, the external demand support will probably fade in the second half of the year on the back of slowing international trade and Brexit stress, which is why we keep a cautious stance as far as our 2019 GDP forecast is concerned - at only 1.3%.