

Industrial rebound continues in France, but the pace is slowing

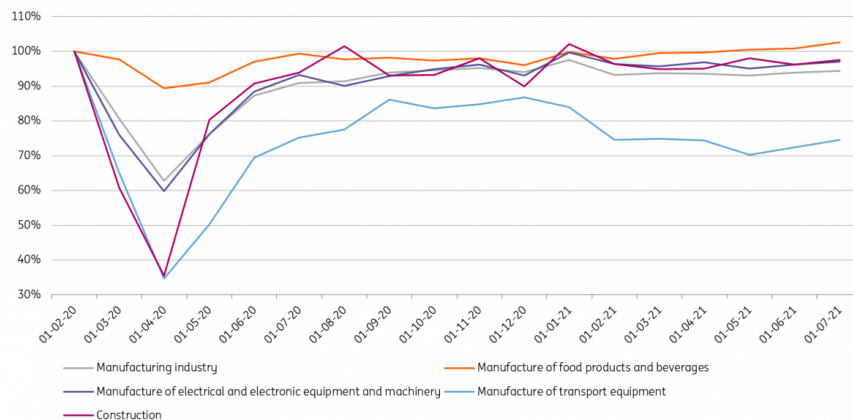
French industrial production rose by 0.3% in July after a 0.6% increase in June. The rebound continues, although the pace is expected to slow in the coming months due to a slowdown in the recovery and supply constraints



The industrial rebound continues in France

Industrial production rose by 0.3% in July 2021, following a 0.6% increase in June. Manufacturing output also increased: +0.6% after a 1% rise in June. After the sharp fall in February 2021, which wiped out some of the progress seen at the end of 2020, manufacturing output is now rising steadily and is now 5.5% below its pre-crisis level.

Industrial production by sector, compared to pre-crisis level (February 2020 = 100%)

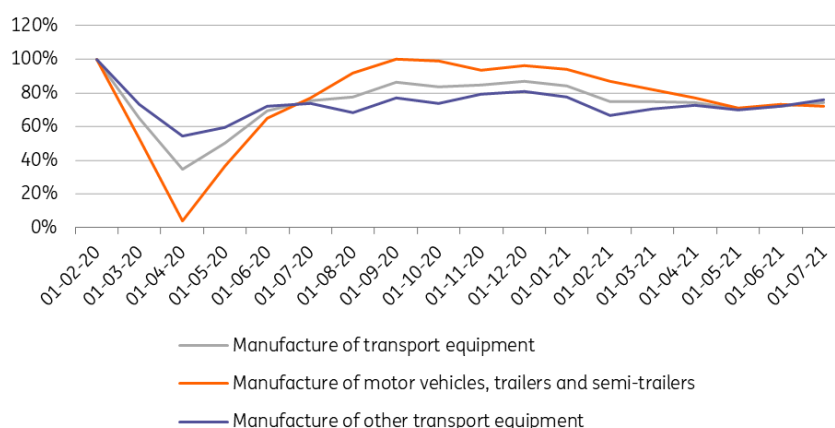


Source: INSEE, ING Economic Research

Significant disparities

Nevertheless, this hides strong disparities between the different branches of French production. While the food industry has already recovered and exceeded its pre-crisis level by 2.6%, this is not the case for other segments. The manufacture of capital goods in July was 3% below its pre-crisis level, while the manufacture of transport equipment was still 25.5% below its pre-crisis level. The manufacture of transport equipment is suffering from two concomitant phenomena: on the one hand, the production of automobiles has been very strongly slowed down by supply problems and on the other hand, production linked to the aeronautical sector is still strongly slowed by the weak recovery of travel after the health crisis.

Industrial production in the transport sector, compared to pre-crisis level (February 2020 = 100%)



Source: INSEE, ING Economic Research

A good start for 3Q

Overall, this data bodes well for 3Q GDP growth. It indicates that the economy continued to grow

at the start of 3Q, although the pace of growth has slowed compared to June. We expect this trend to continue in the coming months. Overall, industrial production should continue to grow, but the pace of growth is likely to slow as the months go by, in line with overall activity in France. We also expect household consumption to grow less as the post-lockdown boost of April 2021 fades. This will have the effect of slowing the growth of industrial production of goods for households, especially durable goods. These have already seen production fall by 2.2% in July compared to June.

Supply constraints limit the pace of growth

Industrial production is currently limited by supply constraints, notably disruptions in supply chains. Banque de France surveys indicate that 49% of industrial companies are affected by supply difficulties, particularly in the automotive, equipment and raw materials sectors. As a result, inventories are at historically low levels. We believe that supply problems are likely to continue in the coming months, limiting the pace of industrial production growth throughout the second half of 2021. Added to this are recruitment difficulties, which, according to Banque de France surveys, affected 31% of industrial companies in July. These factors reinforce our forecast of industrial activity growing over the next few months, but at a slower pace. Nevertheless, as supply constraints ease, we should see a catch-up effect in production, particularly in the transport equipment sector, which will have a significant effect on industrial production in 2022.

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