

France

Industrial sector sees steepest quarterly downturn for almost four years

- Industrial production down 1.8% in Q4, led by 2.5% drop in manufacturing output
- Steep downturn in auto sector
- PMI suggests downturn persisted in January
- Muted recovery since 2008 compared with Germany

The French industrial sector suffered the steepest decline in output since the height of the financial crisis, official data for the end of last year indicated. The data confirm the message from gloomy business surveys which also suggest that the sector's downturn persisted, and possibly steepened, at the start of 2013.

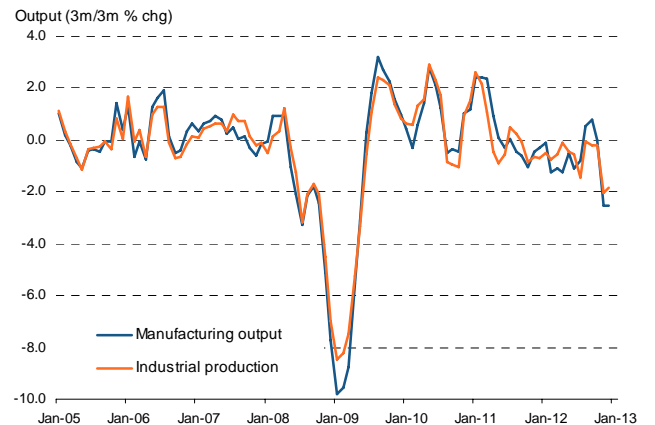
Industrial production fell 1.8% in the final three months of last year compared to the previous three months, led by a 2.5% drop in manufacturing output. In both cases, the quarterly contractions were the steepest seen since the height of the financial crisis in early-2009.

The largest deterioration was seen in the autos sector, where output fell 10.1% in the fourth quarter, its largest decline since the first quarter of 2009. However, the decline was by no means limited to the poor performing car industry. Production of electronic and electrical goods and basic metal goods also endured the sharpest contractions of output since early-2009. In fact only two manufacturing sectors – food and drink and timber-related manufacturing – saw higher production in the fourth quarter, pointing to a broad-based weakening of demand for manufactured goods (though energy and mining and quarrying output also rose).

The worsening picture painted by the official data in the fourth quarter correspond with PMI survey data, which have shown the French manufacturing sector to have been undergoing the fiercest downturn since the 2008-09 recession in the latter half of last year. Worryingly, although the official data showed a 0.1 monthly increase in manufacturing output in December, the PMI remained firmly in contraction territory in

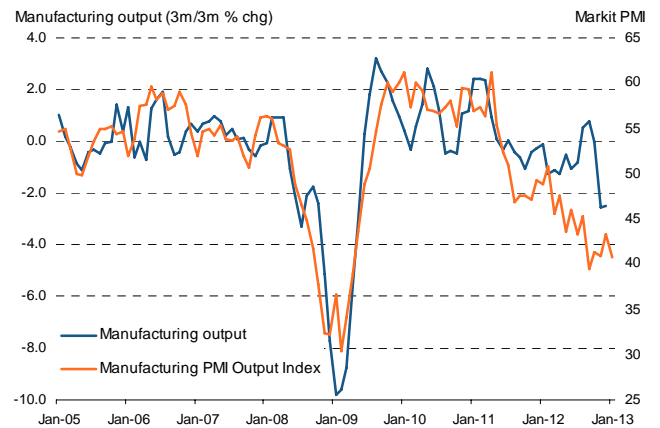
January, suggesting the sector continued to act as a severe drag on the economy.

Production



Sources: Markit, INSEE via Ecwin.

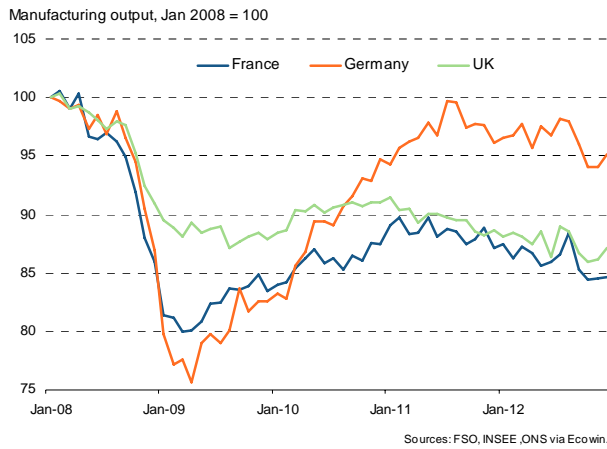
Manufacturing



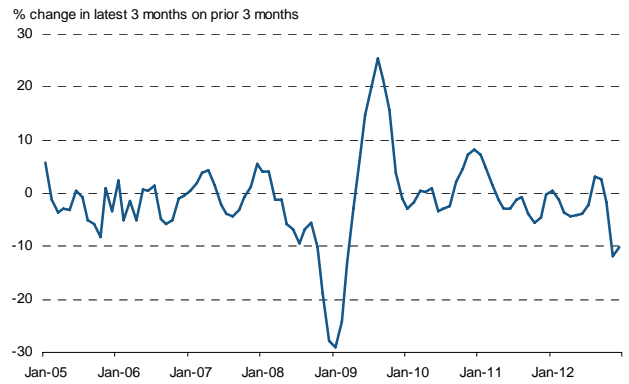
Sources: Markit, INSEE via Ecwin.

The latest data leave the French manufacturing sector's output 15.8% smaller than the peak before the financial crisis struck, though some reassurance can be sought from the 5.9% increase compared to the depths of the 2008-09 recession. In the UK, in contrast, production was at the same level as the low seen during the crisis, remaining some 13.7% below its pre-crisis peak. Both countries fared badly compared to Germany, however, where production is running just 4.9% below its pre-crisis high, up from 25.8% on the recession low.

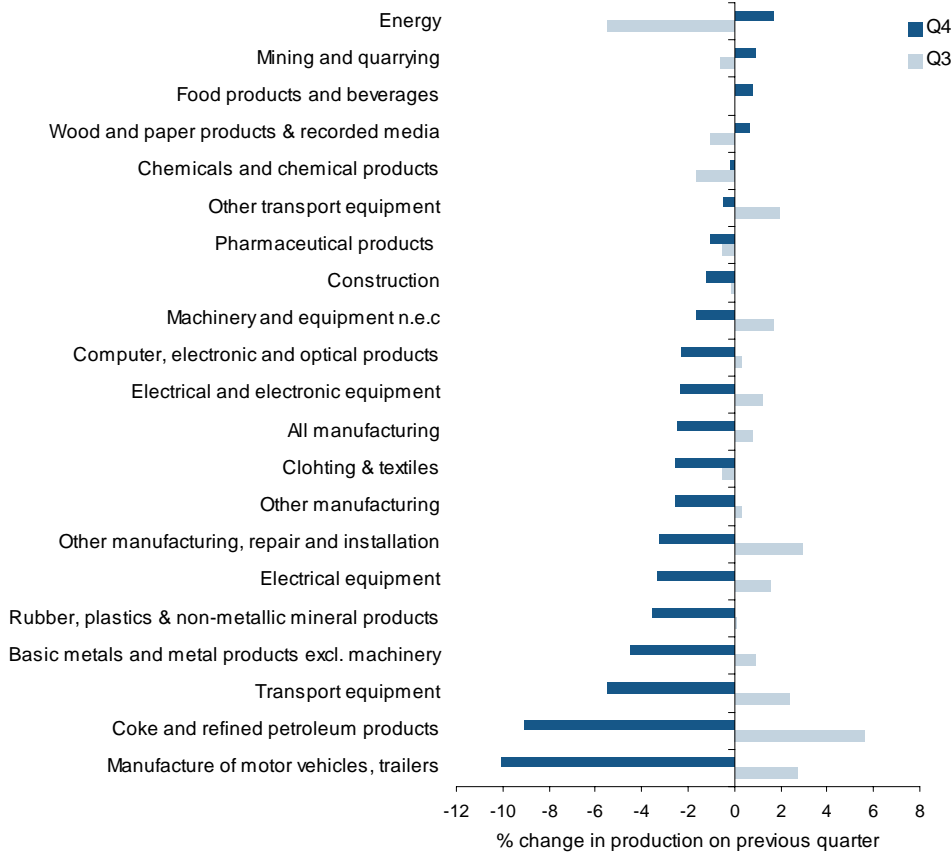
'Recoveries' compared



Auto sector



Sector growth rates



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