

Economy

Focus France

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France: a case of the deep blues

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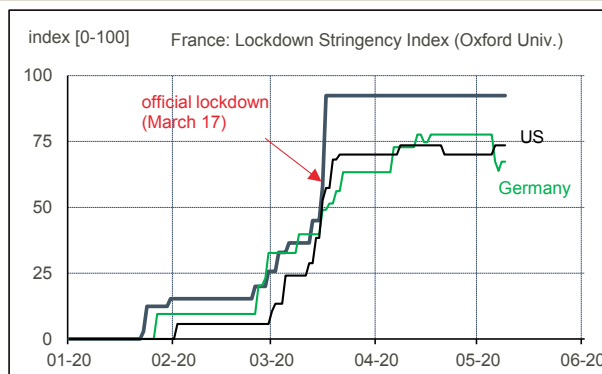
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Two months ago, the French economy took a dive. Almost overnight, production was cut by 35%, as was household consumption. The ascent to the surface began on 11 May, but before reaching the surface, it will be necessary to go through many decompression stages. This is an uncertain operation that depends in part on how the pandemic evolves (risk of a second wave). The productive system and the income of economic agents will remain under pressure (risk of bankruptcies). The economic, political and social situation at the beginning of this new phase is reviewed in the present document.

The fortnight's focus

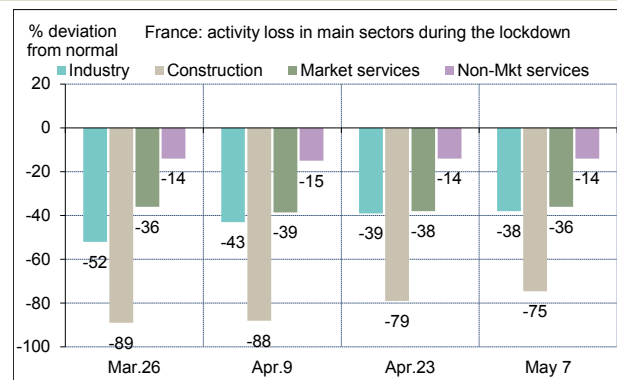
On **17 March**, a healthcare emergency forced France to close schools, creches, restaurants, museums, libraries, places of worship, cinemas, beaches, parks and retail outlets apart from those providing essential goods and services; travel (with a few rare exceptions) and any gatherings of over 10 people were banned, and the provision of public transport means sharply reduced. According to the synthetic index calculated by Oxford University, the lockdown was very severe in France, at 92 points on a scale of up to 100. This is similar to the stringency observed in Italy and Spain but much more severe than in Germany, other European countries or the US (chart lhs). Compared to the initial situation, production has fallen by 35% on average, and by almost 50% when only the market sectors are taken into account. There are significant differences between sectors. The introduction of health protection measures has made it possible to reopen certain industrial facilities and construction sites, leading to a slight improvement in the sectors concerned in recent weeks (chart rhs). However, the overall situation has changed little in two months.

France: lockdown stringency index



Sources: Blavatnik School of Government, INSEE, ODDO BHF Securities

France: loss of activity by major sectors



The **11 May** marks the start of the lifting of lockdown measures¹. Almost all restrictions are maintained in most areas of social life. Transport provision is slightly increased. The reopening of schools is only partial, concentrating on creches and primary schools, but in practice the constraints on organising the return of children to school are such that the resumption of on-site education will be minimal (which hinders the return to normal for the activity of millions of parents). Travel restrictions are being eased.

¹ The plan divides the French territory into two zones, "red" and "green", depending on whether the epidemic risk is deemed high or low in light of three criteria: active circulation of the virus, hospital intensive care capacity and the rate of coverage of testing needs. The entire north-eastern quarter of the country (including Paris) is classified as a red zone, which means that many restrictions must be maintained, in particular the closure of secondary schools.

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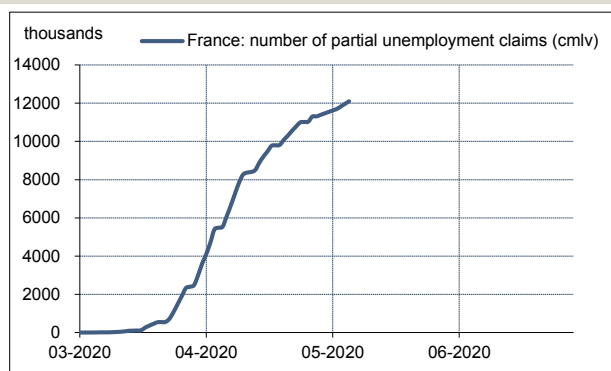
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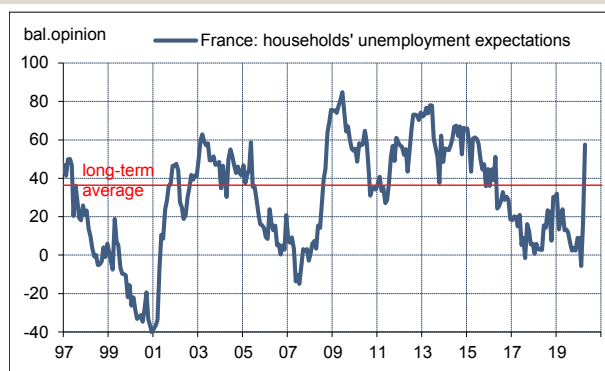
The French economy will not be suddenly be reopening. The lockdown and the lifting of lockdown measures are not symmetrical shocks: one sudden the other gradual. The sectors remaining subject to almost total lockdown measures during this first phase (up to and including 1 June) represent 5% of GDP. This is the case in the hotel and catering sector and, by extension, tourism activities. For other sectors, even though the shock will not be entirely wiped out, it is clear that the easing of restrictions will lead to a marked rebound in the pace of activity and spending, as we have observed in other countries (China) or in other circumstances (the reopening of an economy after a natural catastrophe). In most cases, the magnitude of the rebound will be proportionate to the decline that preceded it.

Over the past two months, households have considerably increased their savings. The savings rate stood at 15% of disposable income at the end of 2019, and we can estimate that it is twice that currently, since a number of items of spending have been rendered high-on impossible (certain leisure activities, catering) or unnecessary (spending on petrol). The substitution to other spending (food) or other distribution modes (e-commerce) has been only partial. At the same time, even though the partial unemployment claims have surged (chart lhs) the net salary of those concerned has been largely protected, in a range of 84% to 100% of the total. The shock could nonetheless modify spending behaviour beyond the period of lockdown. On the one hand, a number of the jobs saved thanks to short-time work measures may be lost later on. On the million business, particularly small and medium sized enterprises, with employees concerned by these measures, there will be bankruptcies. Unemployment fears rose sharply in April² (chart rhs). This prompts precautionary savings at a higher than normal level. On the other hand, even though social distancing and good hygiene practices are maintained, a second wave of infection that is strong enough to prompt the authorities to call for a fresh lockdown, cannot be ruled out. Here again, this maintains the structurally higher level of economic uncertainty.

France: number of partial unemployment claims



France: unemployment expectations



Besides its economic and social implications, the health crisis also has political repercussions. It is broadly recognised that the government's communication in this period of crisis has been imprecise, inadequate, even plainly misleading. The government organised the first round of the municipal elections on **15 March**, asserting that there was no risk in bringing millions of voters to the same places while it had planned to begin a full lockdown of the population two days later³. It should be remembered as well that at the start of the epidemic, to deflect criticism of the manifestly insufficient stock of masks, the same government defended the view that the widespread wearing of masks in public spaces served no purpose. The reluctance to organize mass testing may also be due to the same unpreparedness.

In short, for public opinion, which is naturally inclined to make accusations after the fact, the reaction of the French authorities may be seen as having been overly complacent at the start (incidentally this is what has happened in a number of other countries) and then too radical. The most recent polls suggest that Emmanuel Macron's approval ratings have fallen after rising briefly in April. He had already been weakened by the "yellow vests" crisis (end-2018 and early 2019) and then by the strikes protesting against pension reform (end-2019). The least we can say is that his political standing has not been enhanced by the coronavirus crisis. In recent weeks, moreover, the press has reported disagreements between the president, his prime minister and certain ministers. Whether or not these tensions are real, the fact that they are being reported is not a sign

² It is notable that the fear of unemployment, despite the rebound in April, remains well below the level observed in the 2009 recession and the double-dip of 2012, which could be an indication of the effectiveness of the system of employment protection. See our Eco Note of 29 April: "Partial activity, an airbag to survive an economic crash"

³ The second round scheduled for 22 March did not of course take place. The government is set to decide when it will be held next week.



of great political stability. Within the LREM majority, there have been defections in the parliamentary group. There are persistent rumours that once the health crisis is over, a broad ministerial reshuffle will take place. The current crisis also changes the priorities of government action. This time pension reform is well and truly dead and buried – even though the question of the simplification of the current system and its financing in the long term have still not been resolved. Generally speaking the end of Emmanuel Macron's mandate out to spring 2022 now can but be dedicated to erasing the traces of the coronavirus crisis as fast as possible, rather than launching major reforms.

Economic news over the last fortnight

- The health crisis has had an impact on the production of statistical information. The response rate for the surveys that serve as the basis for estimating a whole host of economic data has been reduced, which affects the quality of the results. Also, the usual tools are ill suited to capturing the shock of the lockdown in (near) real time. To address these failings, the French office of statistics (INSEE) has made extensive use of daily frequency data (bank card transactions, electricity generation, road traffic, air pollution) as well as qualitative information from trade federations. Every 15 days the impact on household supply and demand at a fine sector level is updated. The national accounts for **Q1 2020** were constructed using this new approach. Real GDP is thus shown to have plummeted by 5.8% q-o-q, which is a historical record since the quarterly series was created in 1949 (table). This record, it goes without saying, will be smashed in **Q2 2020** (GDP is likely to be down by twice as much, even taking account of a recovery in the second half of May and in June).

(q/q% or y/y%)	2019				2020		2016	2017	2018	2019	2020e
	Q1	Q2	Q3	Q4	Q1	Q2*					
Real GDP	0.4	0.3	0.3	-0.1	-5.8	-	1.0	2.4	1.7	1.3	-7.8
- o/w Household consumption	0.5	0.2	0.4	0.3	-6.1	-	1.6	1.6	0.9	1.3	-7.7
- o/w Household investment	0.2	1.7	0.9	-0.3	-13.7	-	2.8	6.6	2.0	2.0	-18.5
- o/w Business investment	0.8	1.3	1.5	0.2	-11.4	-	2.7	5.0	3.9	4.3	-15.5
Inventories (contribution, %pt)	0.2	-0.2	-0.1	-0.5	0.9	-	-0.4	0.2	-0.2	-0.4	-0.9
Private employment	0.4	0.3	0.2	0.5	-2.3	-	0.9	1.5	1.2	1.2	-
Business climate INSEE (level)	103	106	106	105	101	62	101	107	106	105	-
PMI-composite index (level)	49.2	51.3	51.9	52.2	44.0	11.1	50.9	57.1	55.0	51.2	-

* April only - 2020e is our forecast as of May 7

- In **March**, industrial production fell by 18.2% m-o-m, consumer spending by 17.9%, and private sector employment by 2.3% (-37% for the staffing segment alone).
- In **April**, the number of short-time working claims exceeded 11 million, vs 3.6 million at end-March. Vehicle sales are down 88% y-o-y. The PMI-composite activity index has fallen to 11.1 points (critical threshold = 50pts), and the INSEE business climate index for all sectors stands at 61.7 (critical threshold = 100pts).

Forthcoming events

- The next PMI indices are due out on **22 May**, the INSEE business survey is due on 26 May and the household confidence indices on **27 May**. All of these surveys will have been largely conducted prior to the lifting of lockdown, but at a time when the exit plan was already being drawn up. It would be natural to see a strong rebound in the business climate.
- The healthcare emergency status (created by the bill of 20 March 2020) which set restrictions on travel and business has been extended out to **10 July**. The second phase of the lockdown plan is set for **2 June**. At this date, depending on the development of the healthcare crisis, there are plans to reopen high schools, restaurants and the easing of restrictions on gatherings in the regions in the "green zone" in which the spread of the epidemic is low. At the **end of May**, government should detail the criteria for reopening beaches, major museums, holiday resorts and for lifting the restrictions on long-distance travel (more than 100km), all things that will be essential to saving the tourist season for 2020.



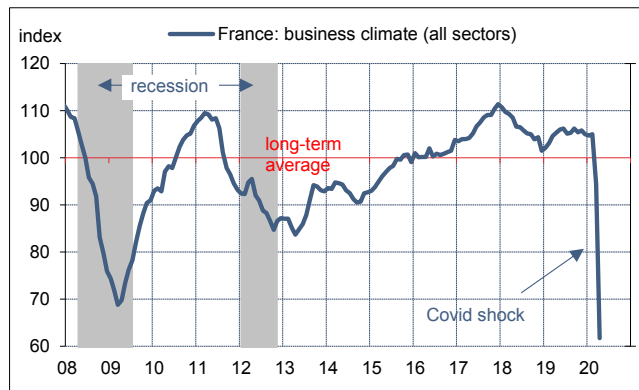
Appendix chart: business climate, confidence, households

Confidence indicators

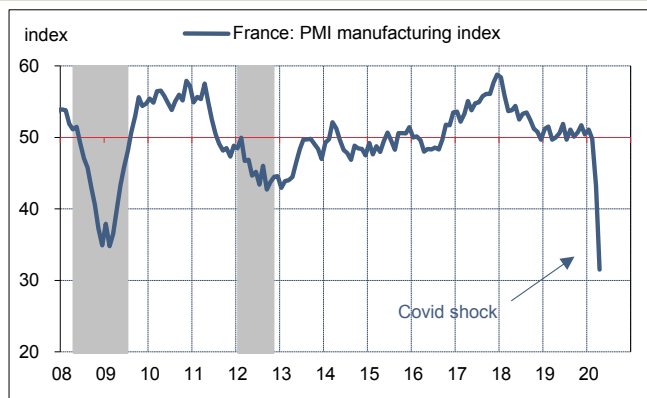
France: survey data and the business cycle							
Index	Current			Expansion	Recession*		
	Apr.	Mar	Feb		2008-09	1992-93	
PMI manufacturing	31.5	43.2	49.8	52.0	42.6	-	
PMI services (output)	10.2	27.4	52.5	55.2	46.8	-	
PMI composite (output)	11.1	28.9	52.0	54.5	44.9	-	
INSEE manufacturing	82	98	101	102	84	81	
INSEE services	55	92	106	101	84	84	
INSEE construction	-	111	112	103	102	85	
INSEE retail sector	67	90	105	101	86	85	
INSEE wholesale sector	-	99	101	101	85	87	
INSEE consumer conf.	95	103	105	101	84	101	
BdF manufacturing	-	51	93	103	79	86	
BdF services	-	73	94	101	91	83	

*from Q2 2008 to Q2 2009; and from Q2 1992 to Q2 1993

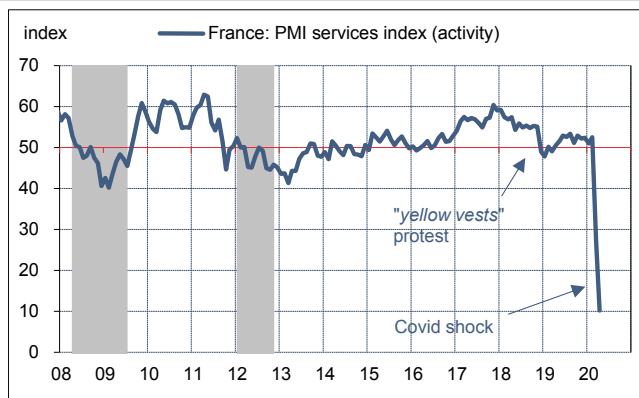
Business climate



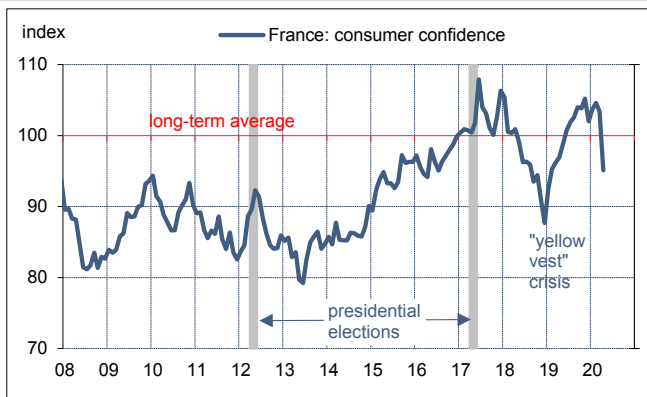
PMI-manufacturing survey



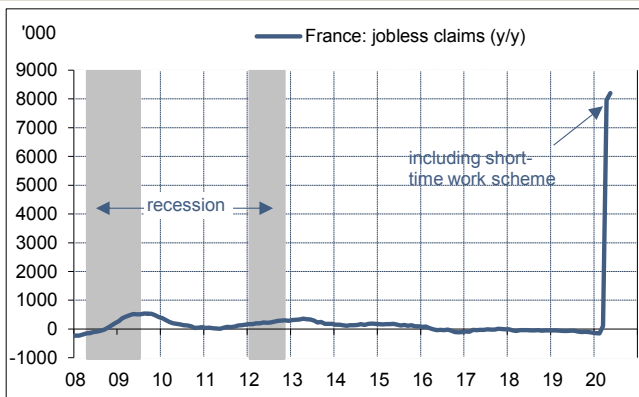
PMI services survey



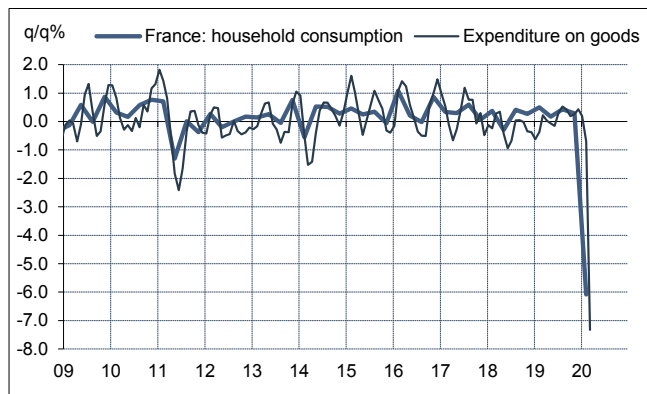
Consumer confidence



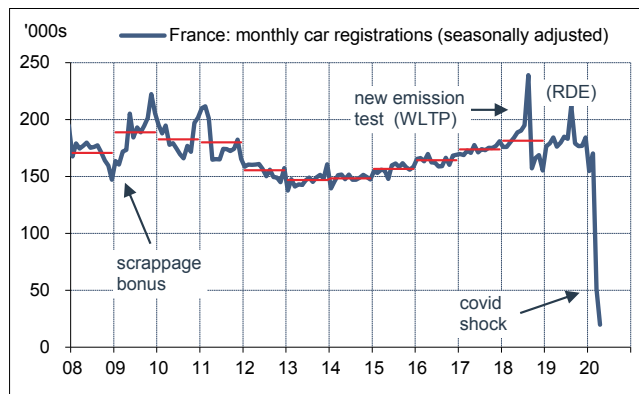
Jobless claims



Household spending



Vehicle sales

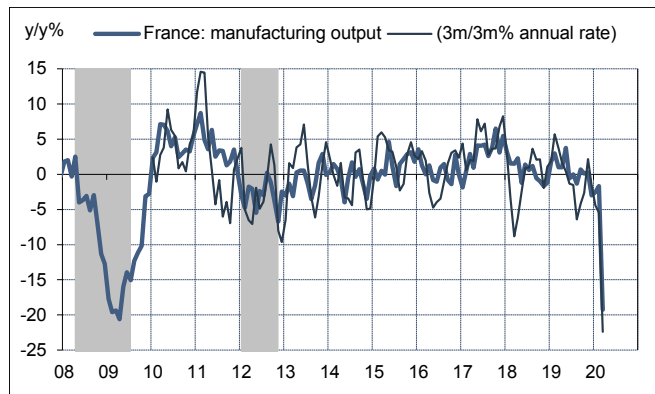


Sources: Thomson Reuters, Markit, Oddo BHF Securities

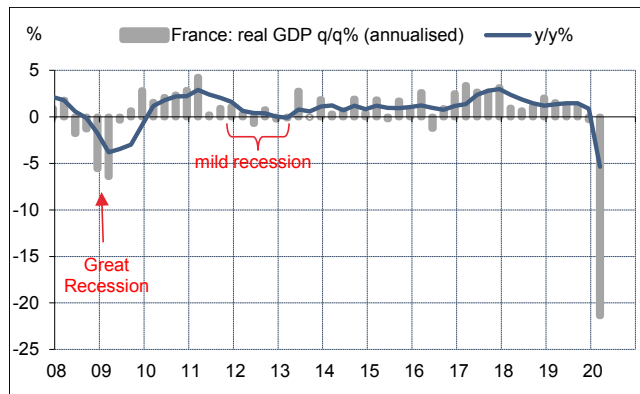


Appendix chart: activity, inflation, credit, finances

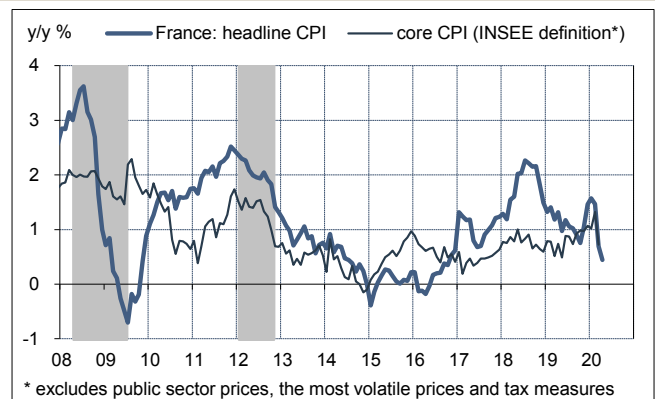
Industrial output



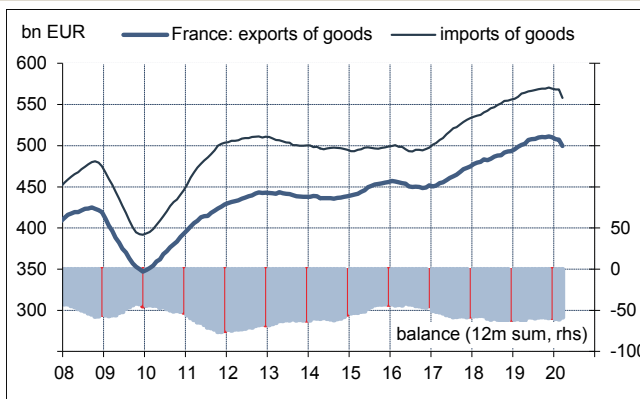
Real GDP



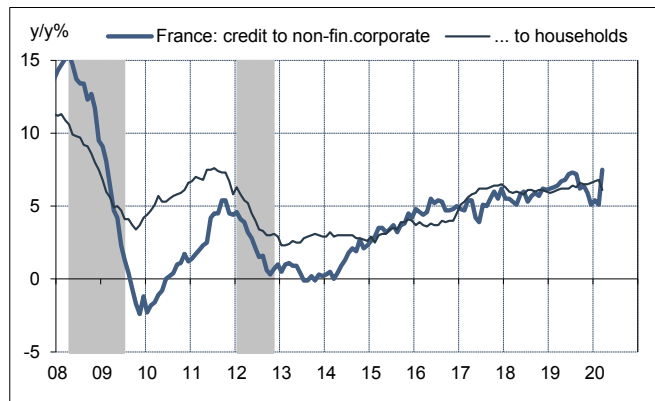
Headline and core inflation



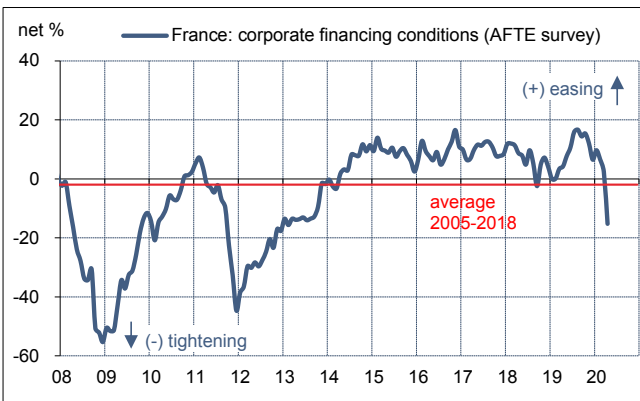
Trades of goods



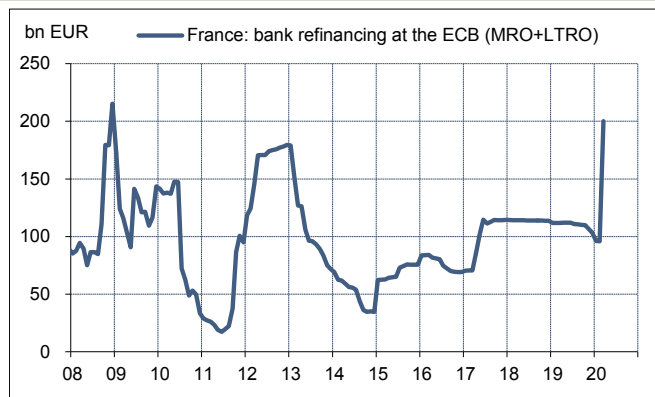
Private sector credit



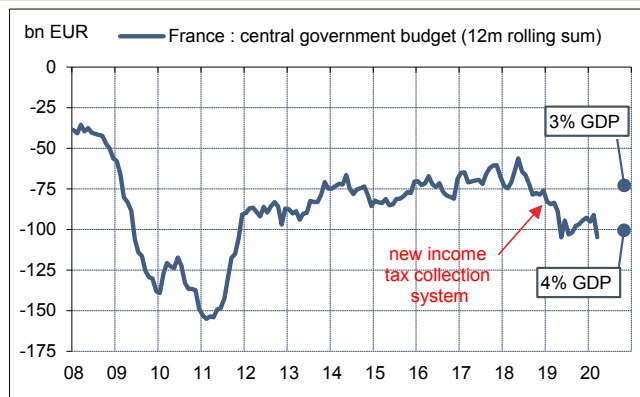
Credit conditions for businesses



Bank refinancing at the ECB



Government budget



Sources: Thomson Reuters, AFTE, Oddo BHF Securities



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