

International developments

Economic activity rebounded strongly in Q3 in the main advanced countries, after an unprecedented fall in H1. Supported mainly by the upswing in private consumption, which was itself preserved by budgetary measures, this recovery nevertheless seemed to be only partial: in general, neither output nor employment returned to pre-crisis levels. In Q4, the new restrictive measures taken in Europe in response to the second wave of the epidemic will once again hamper economic activity, especially the consumption of services.

Activity rebounded in Q3 in the major advanced economies

In the summer, the upswing in activity was confirmed in Europe. In the Eurozone, GDP grew by 12.6% in Q3 2020, after –11.8% in Q2. There was a strong rebound in activity in the main Eurozone countries, but the levels of their respective GDPs are still lower than those of 2019, of the order of 4 to 5% in Italy, France and Germany. Spain and the United Kingdom are still suffering more, with a much greater deviation compared to the pre-crisis level (Graph 1).

In Spain, growth increased to 16.7% in Q3 (after –17.8%). Nevertheless, the Spanish GDP remained well below its Q3 2019 level (–8.7%). The recovery in production came to a halt in August: after a 9% increase in July, manufacturing output stagnated in August (Graph 2). Regarding retail sales, after a strong increase at the end of lockdown, recovery was slower than in the other

countries. This was the only country where the level of retail sales was lower in August than in 2019 (–2.6%, Graph 3). In addition, they fell by 0.4% during September, affected by the new health measures.

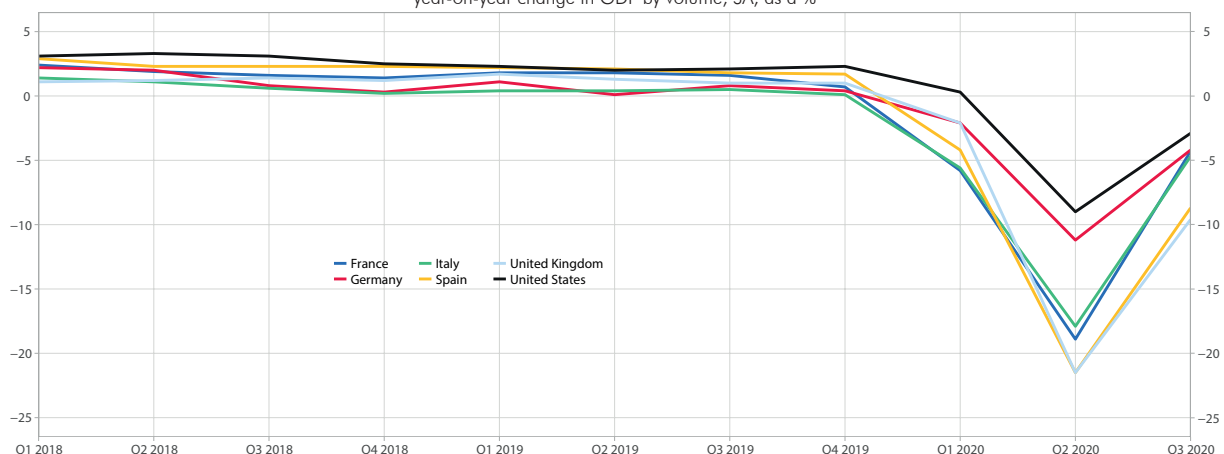
Activity in Italy also caught up significantly in Q3 (+16.1% after –13.0%). As in neighbouring countries, GDP remained lower than its Q3 2019 level (–4.7%). Nevertheless, Italy stood out for its manufacturing output which returned to its August 2019 level in August 2020 (Graph 2). Production came down in September (–5.7%), however, after a decline in July when the summer sales were delayed, retail sales increased by 8.2% in August, which was slightly above the 2019 level (+0.2%, Graph 3). In September, they declined slightly (–0.3%) returning to a little below the 2019 level.

After declining less in the spring than in the other main European countries (–9.8%), activity in Germany increased by 8.2% in Q3. This upswing benefited from the rapid recovery of household consumption: retail sales exceeded their pre-crisis level in Q3 (+5.1% year-on-year, Graph 3). However, as in the other Eurozone countries, GDP has not returned to its pre-crisis level: it is still 4.2% lower than in Q3 2019. German manufacturing output stalled in August before recovering in September (+2.0%, Graph 2). On average over Q3, the manufacturing output index was still down on its 2019 level (–10.2%).

After falling dramatically by 19.8% in Q2, the UK GDP grew by 15.5% in the summer, resulting in a growth overhang of –10.7% for 2020. Activity remained at a much lower level than before the

1 - In Q3, activity remained the furthest from its pre-crisis levels in Spain and the United Kingdom

year-on-year change in GDP by volume, SA, as a %



Source: INSEE, Destatis, Istat, INE, ONS, BEA

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crisis (−9.7% compared to Q4 2019). In line with activity, manufacturing output recovered strongly: +14.3% in Q3. However it did not catch up to its pre-crisis level (−6.3% over one year in September, *Graph 2*). Concerning demand, the recovery was more evident: the retail sales index increased by 15.6% in the summer after −9.4% in Q2 (+4.4% over one year in September, *Graph 3*).

Due to a smaller decline in Q2 than in Europe (−9.0%), GDP in the United States rebounded more slowly in Q3 (+7.4%). This rebound was largely due to the upswing in household consumption (+8.9% in Q3), as can be seen from retail sales which overtook their pre-crisis level during the summer (+5.4% in September, *Graph 3*). The housing sector rebounded to record levels since the 2008 crisis, especially building permit requests and housing starts, driven by the effect of low rates and strengthened demand. However, the rebound in activity remains incomplete, with GDP in Q3 still 2.9% lower than its Q3 2019 level, threatened by the spread of the epidemic

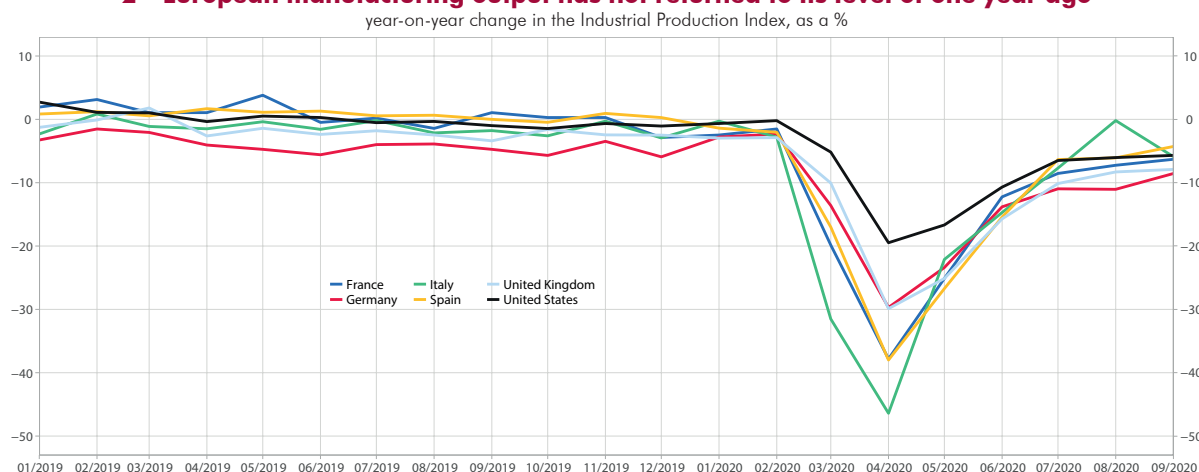
and the imminent expiration of support measures aimed at household consumption. As in Europe, production remains very strongly affected by the epidemic: after a substantial rebound until July, manufacturing output seems to be at a standstill, still below its pre-crisis levels (−6% in September, *Graph 2*).

Before the new health measures, the labour market is set to improve slightly in Europe

While the decline in employment in H1 was more severe in the United States than in Europe, the rebound in Q3 was also more vigorous. Among the main Eurozone countries, Spain appears to be particularly badly affected, in terms of both employment and economic activity.

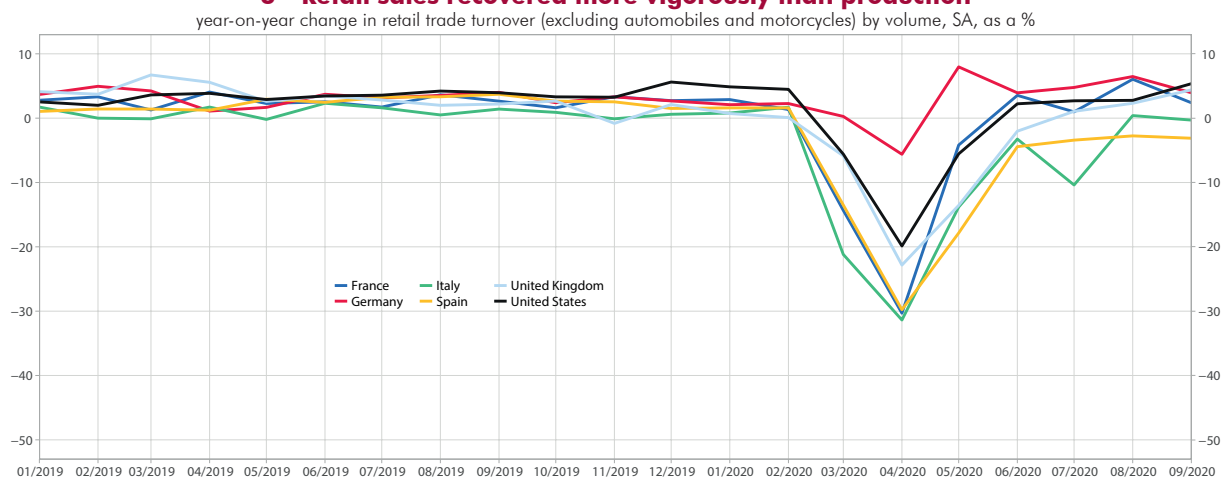
In Germany in Q3, the number of jobs remained stable overall, according to an initial estimate, after 574,000 jobs lost in Q2 (−1.3% compared

2 - European manufacturing output has not returned to its level of one year ago



Source: Eurostat, ONS, Federal Reserve Board

3 - Retail sales recovered more vigorously than production



Source: Eurostat, Census Bureau

to Q1). The unemployment rate increased, affecting 4.4% of the active population in Q3 (against 3.1% in 2019). Faced with the economic consequences of the crisis, the government extended the short-time working scheme by 24 months for requests submitted in 2020.

In Italy, the number of jobs rebounded by 113,000 in Q3, according to ISTAT. Over the same period, the number of ILO unemployed increased by 379,000, resulting in an increase in the unemployment rate of 1.3 points in Q3, with 9.7% of the labour force affected. In September, unemployment was still around 387,000 below its September 2019 level. The government also extended the measures associated with short-time work until the first few months of 2021.

The Spanish labour market suffered more from the effects of the health crisis: the creation of 580,000 jobs in Q3 was only partly able to offset the loss of almost one and a half million jobs in H1. The unemployment rate went up for the third consecutive quarter (16.3% in Q3, after 14.4% and 15.3% in Q1 and Q2 respectively) according to the first estimates by the INE. Between January and October 2020, the number of ILO unemployed increased by 570,000. In addition, the government extended the short-time working measures until 31 January 2021.

In the United Kingdom, the ONS estimated the number of job losses between March and October at 782,000. Despite an increase of 88,000 between July and September, the number of job vacancies remained one third below its level of a year ago, and layoffs reached an all-time high: 314,000 in Q3. The number of hours worked stayed at 12.0% below its pre-crisis level. Unemployment reached 4.8%, a rise of 0.7 points in Q3. The current short-time working scheme is extended until December at least.

In the United States, the upswing in employment continued more steadily than in Europe, with 638,000 jobs created in October, around the same volume as in September (+672,000), bringing the total number of job creations to 12 million since May. However, the job deficit compared to February figures was still 10 million in October, while the pace of job creations seems to be slowing. Unemployment was down for the sixth consecutive month (6.9% in October, after peaking at 14.7% in April), but is still a long way from its pre-COVID levels (around 3.5%). The employment market continues to cause concern, especially due to the rise in the number of long-term unemployed (up by almost half in September, then as many again in October of people unemployed for more than 27 weeks) in a mood of uncertainty surrounding the extension of the special aid for the unemployed.

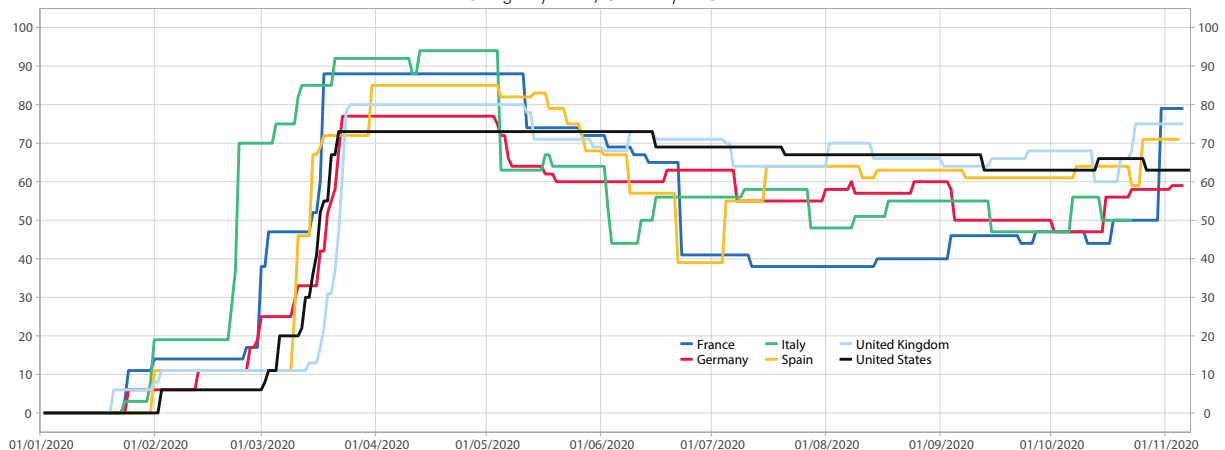
Faced with a second wave of the epidemic, the economic rebound is on hold

Faced with a rebound in the epidemic in several countries, especially in Europe, restrictions have once again been tightened from the end of the summer onwards. This trend is illustrated by the Stringency Index produced by the University of Oxford and the Blavatnik School of Government, which identifies and combines into a single indicator all lockdown health measures, such as restrictions on movement of the population and closures of businesses, administrations and schools (*Graph 4*).

In Germany, the closure of bars, restaurants and sports and cultural establishments was announced from 2 to 30 November across the country. In

4 - October saw the return of health restrictions

Stringency Index, University of Oxford



Source: Hale, T., Webster, S., Petherick, A., Phillips, T., et Kira, B. (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government

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Italy, the epidemic quickly intensified from the beginning of October, requiring the adoption of restrictive measures (national curfew, closure of cinemas and sports centres, end of service in bars and restaurants at 6pm, distance teaching for high schools and universities, closure of non-essential businesses in a “red” zone corresponding to 32% of Italian GDP). In Spain, the continuing rise in the daily number of cases led to the introduction of a national curfew on 26 October from 11pm to 6am. In addition, 10 of the 17 regions put regional lockdowns in place, in three economic hubs in particular: the community of Madrid, Catalonia and the Basque Country.

Across the Channel, several English metropolitan areas were classified as being at a “very high” risk level in October, requiring the closure of pubs and restrictions on travel. Stricter measures were applied in Scotland and Wales and since 5 November a general lockdown has been in place in England. However, schools remain open. In the United States, the change in the national Stringency Index partially reflects the disparity between local situations, while the health situation is deteriorating rapidly, with more than 150,000 cases daily. The epidemic is now affecting the Midwest in particular, and notably a curfew has been introduced in Chicago. Political uncertainties also remain following the elections: it is still not clear which party will hold the majority in the Senate, while political tensions around the transition process could have economic consequences.

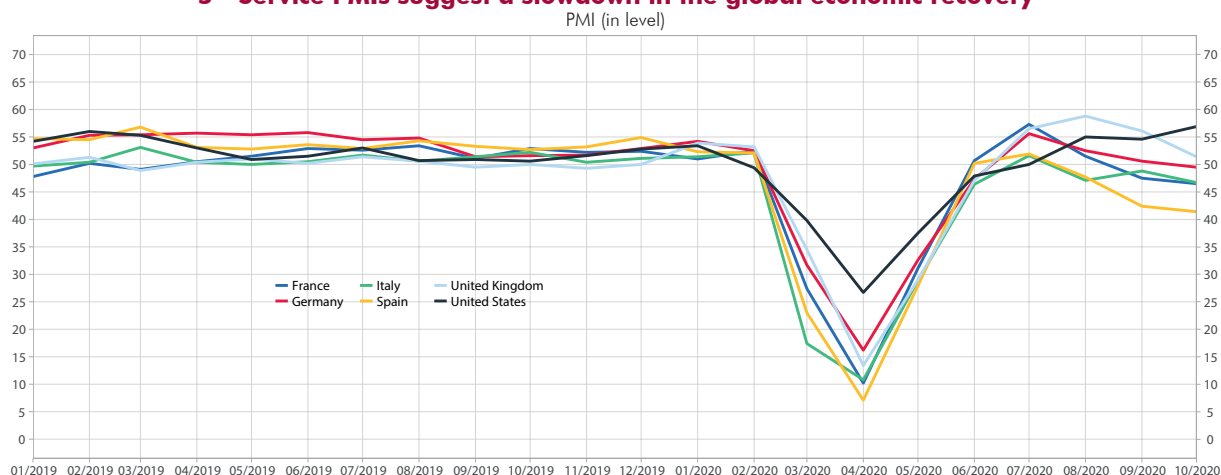
This context of tightening restrictions can be felt in the October PMIs, which reflect a weakened recovery. In Germany, despite the manufacturing PMI continuing to rise above its expansion threshold (58.2 in October), construction and services PMIs have declined since the end of the summer (*Graph 5*). In Italy, service and construction PMIs fell in October, moving below

the expansion threshold (–2.1 points for services, to 46.7 and –3.1 points for construction, to 48.1). Meanwhile, the PMI for the manufacturing sector reached 53.8 in October, or 0.6 points more than in September, suggesting a better resilience in this sector. In Spain, the economic indicators suggest that the recovery has come to a halt with PMIs mostly below the expansion threshold: 41.4 and 44.1 for services and composite PMIs respectively, while only the manufacturing index exceeded the threshold in October (52.5). The manufacturing sector PMI declined in October in the United Kingdom (52.9 after 57.5 on average in Q3) where there is still uncertainty over the outcome of negotiations with the European Union regarding Brexit, less than two months before the end of the transition period. Finally, in the United States, PMIs are above their expansion thresholds (in October, 56.9 for services, 53.4 for manufacturing) suggesting a continuing recovery in Q4, although at a slower pace.

The introduction of restrictive health measures once again reduces mobility in Europe

The tightening of restrictive measures in Europe affects public transport use. The Apple Maps Mobility Trend indicators show a drop in the use of public transport since mid-September, especially in France with the introduction of a curfew in some major cities, and even more so since the start of the second lockdown (*Graph 6*). However, at the moment, public transport use in the different countries remains higher than in April, including in countries that have introduced lockdowns at regional levels (Spain, United Kingdom) or national level (France). Since the United States never reached levels as high as those in Europe, it shows no recent decline and remains at half its pre-crisis value.

5 - Service PMIs suggest a slowdown in the global economic recovery



Source: Purchasing Manager's Index, IHS Markit

In line with public transport use, the TomTom congestion index¹ tumbled, especially in France (from 36.3 in the week of 28 September to 15.3 in the week of 2 November), also in Italy (from 35 to 20) and in Germany (from 37.7 to 27.7), to a level higher than the averages for April (7.4, 8.1 and 18.1 respectively). This index remains at low levels in Spain (15.3 for the week of 2 November), the United Kingdom (25) and the United States (16). Finally, after a partial recovery in the summer, air traffic in the main western countries fell back once again in the autumn: in

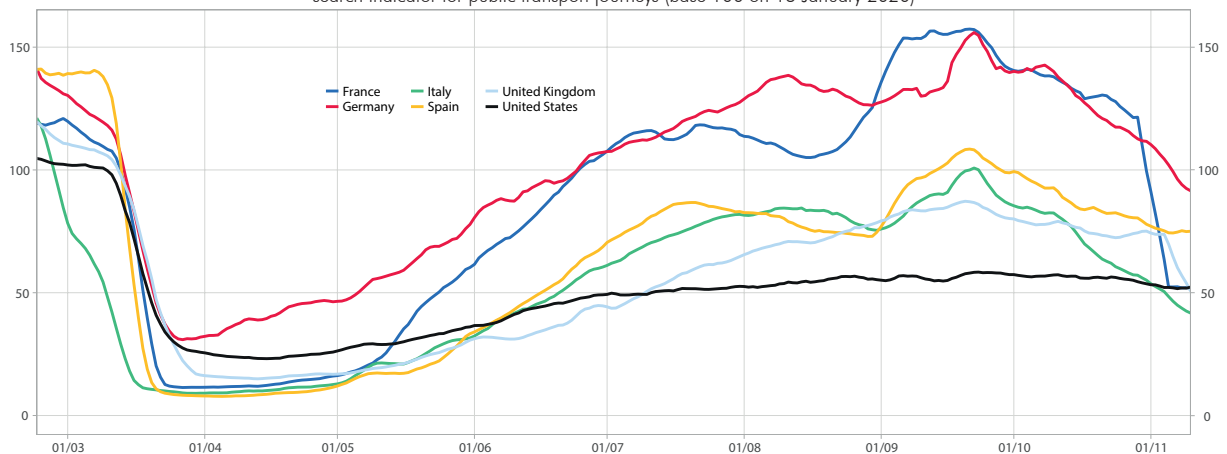
November, it stands between a third and a half of its level of one year ago.

The consequences of the new restrictive measures can also be seen in journeys to the workplace. After an upward trend overall until September, they stabilised in October in various European countries, with the exception of France, where they fell sharply from mid-October (Graph 7). Even without a sizeable reduction, they remained between 60% and 70% of the pre-crisis level in the United States.

1. Between January and March 2020, the TomTom Traffic Index of road congestion for France was between 30 and 45. A congestion index of 30 means that the travel time for a given route is 30% more than in a situation with no traffic.

6 - Public transport use plummeted in France at the end of October

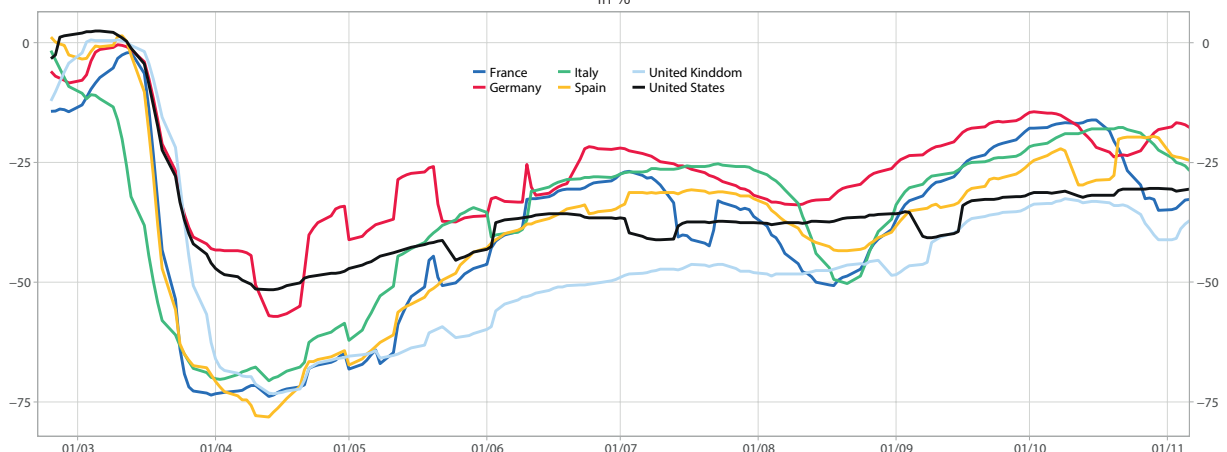
search indicator for public transport journeys (base 100 on 13 January 2020)



Source: Apple Maps Mobility

7 - Travel to the workplace stagnated in Europe and seemed to be starting a decline at the end of October

in %



How to read it: travel to the workplace in Italy on 11 November was 25% lower on average over 7 days compared to the median value calculated by Google between 3 January and 6 February.

Source: Google Maps Mobility

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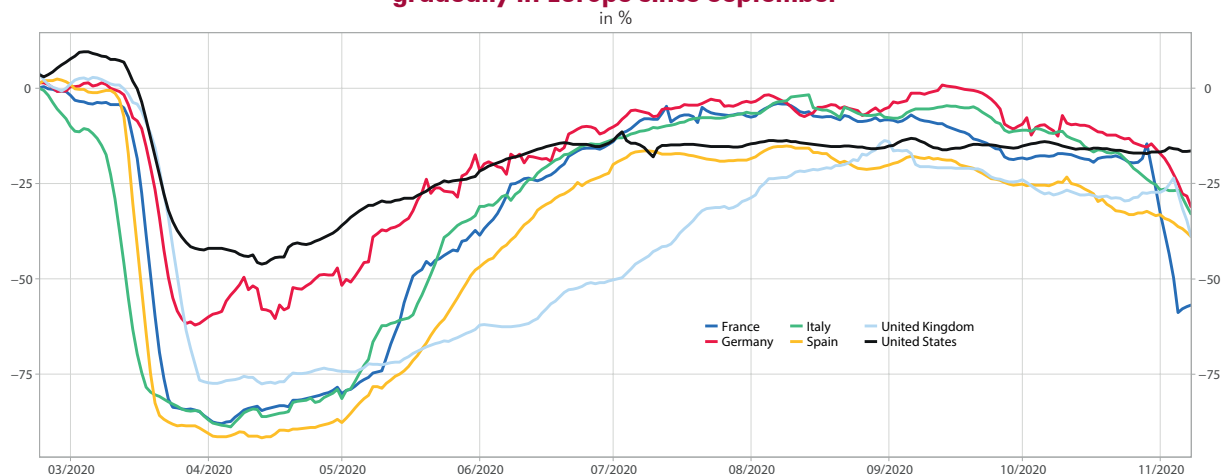
The rebound in the epidemic is causing recreational activities and accommodation-catering to slip back further

After a period of recovery in recreational activities, accommodation and catering since the end of the first lockdown, high-frequency indicators now show a deteriorating situation, as a direct consequence of the tightening of health measures in the different countries. The Google Maps Mobility indicators show a small but steady decrease in the numbers using non-food retail outlets and places of recreation in all the western countries, which began in September.

The introduction of a second lockdown in France, resulting in the closure of non-essential businesses, predictably caused a sharp drop in visitors to non-food retail outlets and places of recreation (*Graph 8*).

Another illustration specifically of catering activity, was that the number of searches on Google for the word "restaurant" in the European countries this summer returned to pre-crisis levels (*Graph 9*), with the United Kingdom supported in August, for example, by the "Eat out to help out" government programme providing reductions in restaurants. However, these queries have declined since the beginning of September, falling drastically even in the European countries since the new restrictive

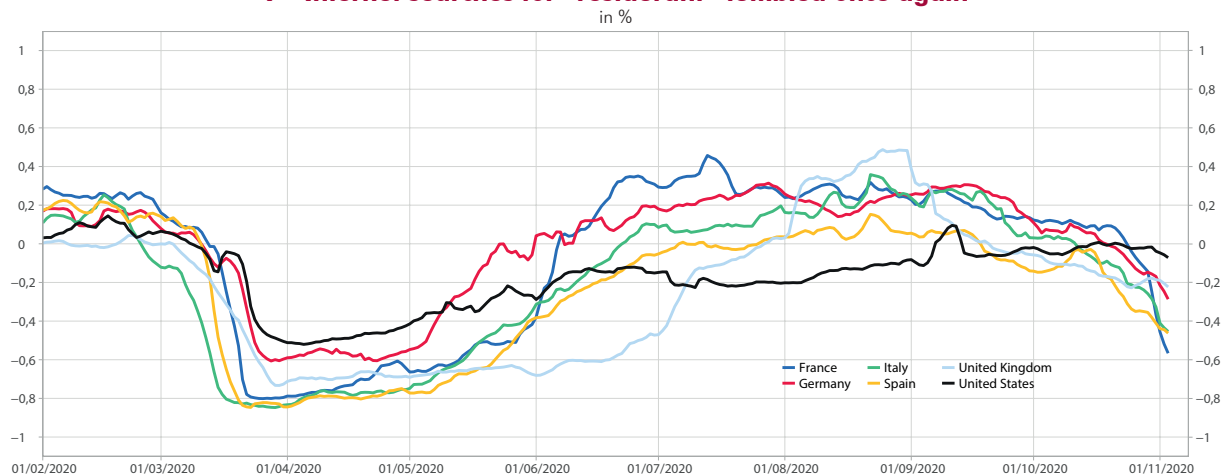
8 - Numbers of people using non-food retail outlets and places of recreation have declined gradually in Europe since September



How to read it: The numbers of visitors to non-food retail outlets and places of recreation in the United Kingdom on 11 November was 25% lower as a 7-day moving average compared to the median value calculated by Google between 3 January and 6 February.

Source: Google Maps Mobility

9 - Internet searches for "restaurant" tumbled once again



How to read it: the 7-day moving average of the number of searches for the word "restaurant" on Google in the United Kingdom on 28 October was 25% lower compared to the average of the 7-day moving averages on 28 October between 2016 and 2019.

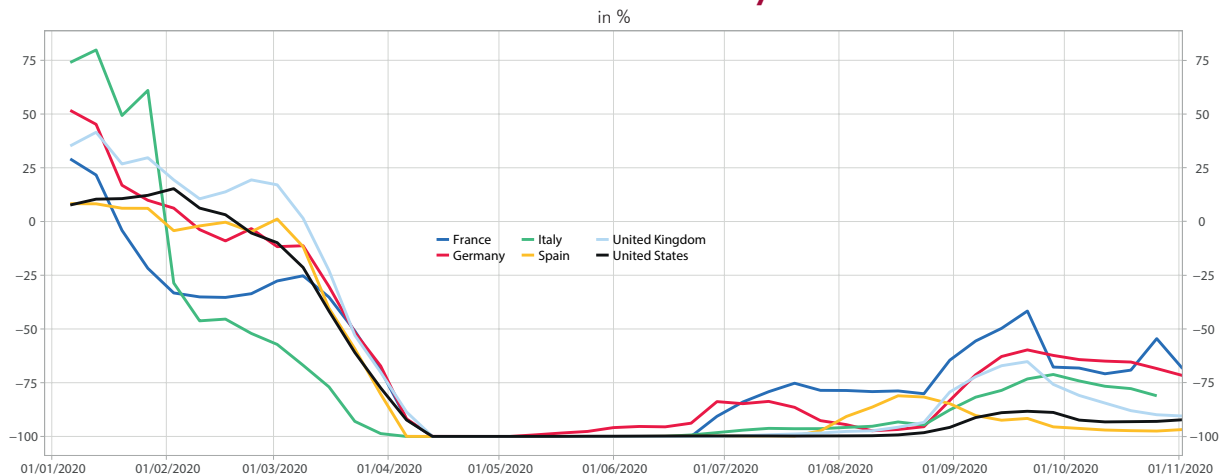
Source: Google Trends

measures came into force. As they never returned to their pre-crisis level, the United States is less affected overall by this recent decline because of new restrictive measures taken more locally and thus not affecting all the States simultaneously.

In the same way, cinema admission revenue reached a break-even point in April and May then brightened slightly, in France in particular, but fell once again in all western countries

(*Graph 10*). This decline has been the most severe in France and the United Kingdom since the end of September, and was already underway in Spain since August. There was a very slight recovery in the United States with many cinemas still closed. This revenue is expected to drop to zero in November, given that cinemas are closed in France, Germany, Italy and the United Kingdom. ■

10 - Revenue from cinema admissions was still very low at the end of October



How to read it: On average over the 4 weeks of October, revenue from cinema admissions was 90% down on its level one year ago.

Source: Box Office Mojo

Box

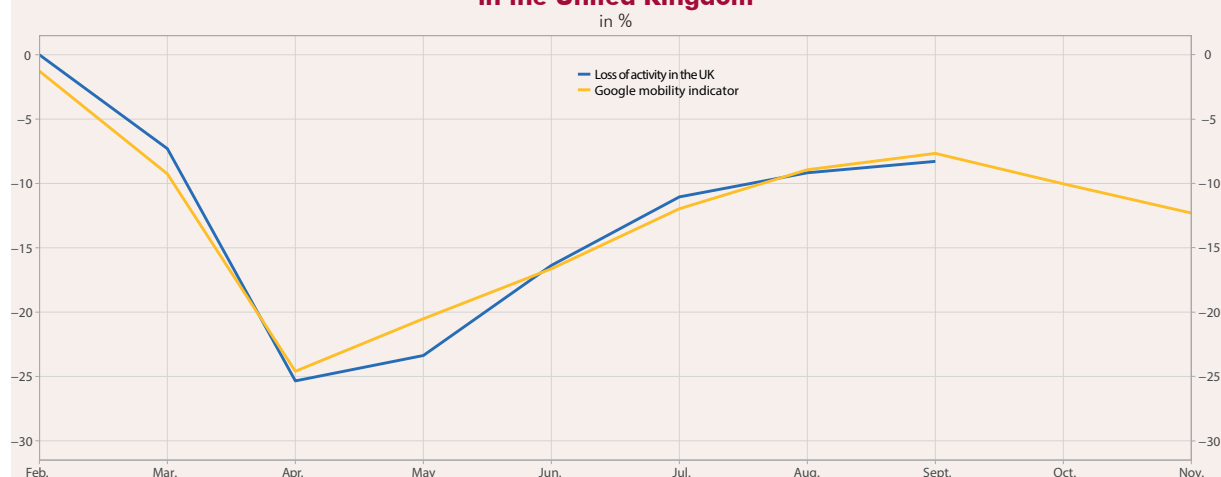
The high-frequency indicator “Google Mobility Residential” seems to provide an accurate record of the global loss of economic activity

The high-frequency indicator “Google Maps Mobility Residential” measures time spent in the place of residence compared to a normal situation, in this case the month of January.

In the case of France, this indicator, taken as a monthly average, shows a strong correlation with the estimated and forecast monthly loss of economic activity (Economic Activity Sheet). This correlation is confirmed in the case of the United Kingdom, which publishes monthly estimates of GDP (Graph 11). In general, time spent in the place of residence increases as attendance at the workplace or places of consumption decreases. The ramping up of teleworking is likely to cause this indicator to increase, without necessarily reducing economic activity.

Although it is not possible to verify whether this correlation remains significant at frequencies higher than monthly, it could be interesting to observe the weekly change in this indicator in different countries (Graph 12). The upward trend since September in time spent in the place of residence is common to all the European countries considered, reflecting the gradual spread of the second wave of contamination. At the beginning of November, time spent in the place of residence increased sharply in France, as the population entered a second lockdown. In the other European countries, where new health restriction measures have also been introduced, the indicator increased significantly but more gradually. This suggests a drop in economic activity in Q4 for the countries concerned. ■

11 - Google Mobility “Residential” indicator and monthly loss of economic activity in the United Kingdom

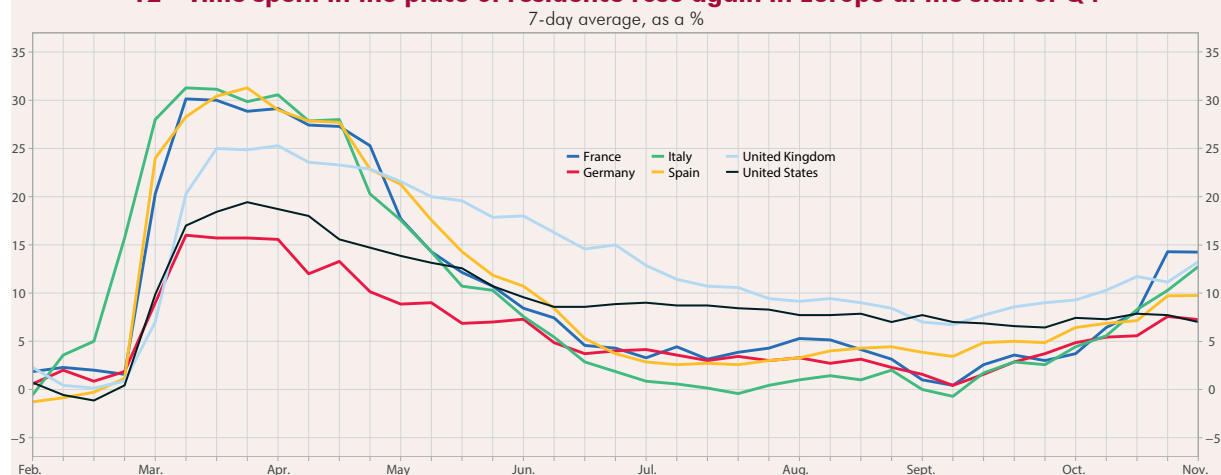


How to read it: the September GDP in the United Kingdom was 9.2% down compared to its pre-crisis level (February 2020), whereas the Google Mobility Residential indicator for the same month shows an average increase in time spent in the place of residence of 8.9% compared to the median level calculated by Google between 3 January and 6 February.

Note: the sign of the Google Maps Mobility Residential indicator has been reversed for easier comparison with monthly loss of activity.

Source: Google Mobility Report, Office for National Statistics

12 - Time spent in the place of residence rose again in Europe at the start of Q4



How to read it: In France, the average number of people visiting their place of residence during the week of 31 October to 6 November was 14% higher than the median value calculated by Google between 3 January and 6 February

Source: Google Mobility Report