

Economic activity

Economic activity fell dramatically with an unprecedented decline in Q2 2020, to -18.9% compared to Q4 2019, then a strong rebound brought this gap to -3.7% in Q3. The last quarter of 2020 was notable for a second wave of the epidemic and the introduction at the end of October of a new lockdown of the population, although the measures were a little less restrictive and it was shorter than in the spring. The difference in activity compared to the pre-crisis level would appear to have widened further in November, to -12% , although still to a lesser extent than in April (-31%).

The easing of restrictions was more gradual than in May, starting with the reopening of “non-essential” retail outlets and the extending of the radius of movement on 28 November. A second stage, starting on 15 December, allows unrestricted movement once again but imposes a curfew, and cultural activities, restaurants and bars are not reopening. The rebound in economic activity is likely to be somewhat tempered by these extended restrictive measures: as a result, the loss of activity is expected to be -8% in December, and -8% also across all of Q4 2020.

All in all for 2020, our forecast for the annual contraction in the French GDP remains unchanged at -9% compared to 2019. At the turn of the year, forecasts for 2021 are affected by some major uncertainties. The prospect of a vaccination campaign should begin to be confirmed but the risks that the virus could start to circulate again are still expected to be present between now and mid-2021. However, if we

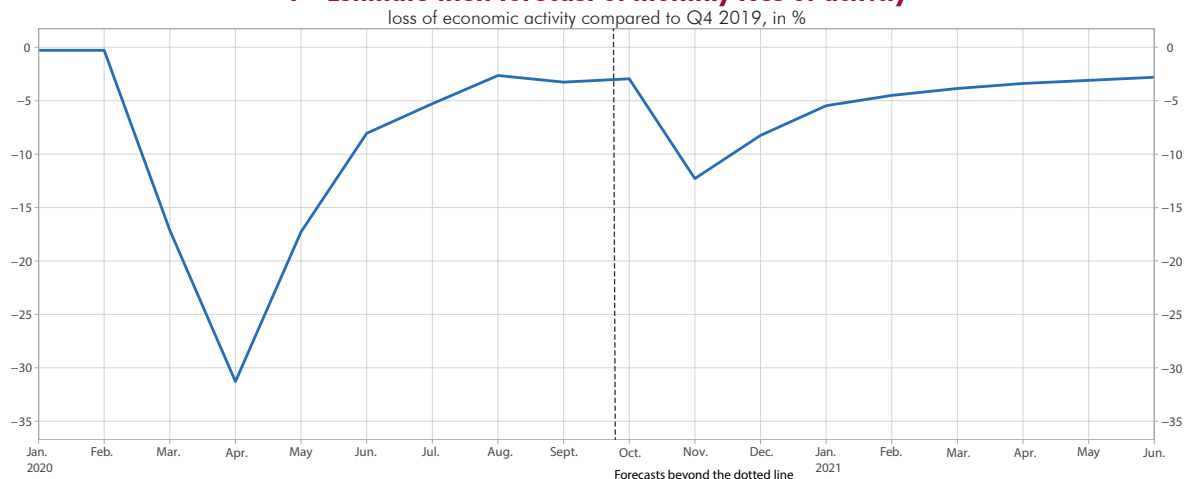
assume that the epidemic situation will be stable and under control and health restrictions will be lifted according to the timetable announced, then the rebound at the start of 2021 is expected to result in a difference in activity of -5% in Q1 compared to the pre-crisis level, then -3% in Q2. The annual growth overhang for 2021 is then expected to be $+6\%$ at the end of June.

After a sharp decline in November, French economic activity looks set to start to bounce back in December, with the gradual easing of restrictive measures

After a very low point during the first lockdown in April (-31% compared to pre-crisis) and a very vigorous rebound until August (gap reduced to -3%), the recovery in economic activity settled down in September-October (*Graph 1*).

Following the lockdown introduced on 30 October, and the improvement in the health situation, some restrictive measures could be eased from 28 November (reopening of “non-essential” retail outlets, less restriction on movement). A second phase is scheduled for 15 December (end of restrictions on movement during the daytime and introduction of a curfew) but it is stricter than expected: in particular, some cultural activities (cinemas, theatres, museums, etc.) will remain closed until the beginning of January at least, given the anxieties that persist over the health situation.

1 - Estimate then forecast of monthly loss of activity



How to read it: in November 2020, economic activity would appear to be down by around 12% compared to the level in Q4 2019. It is expected to settle at -8% in December 2020 and at -3% in June 2021.

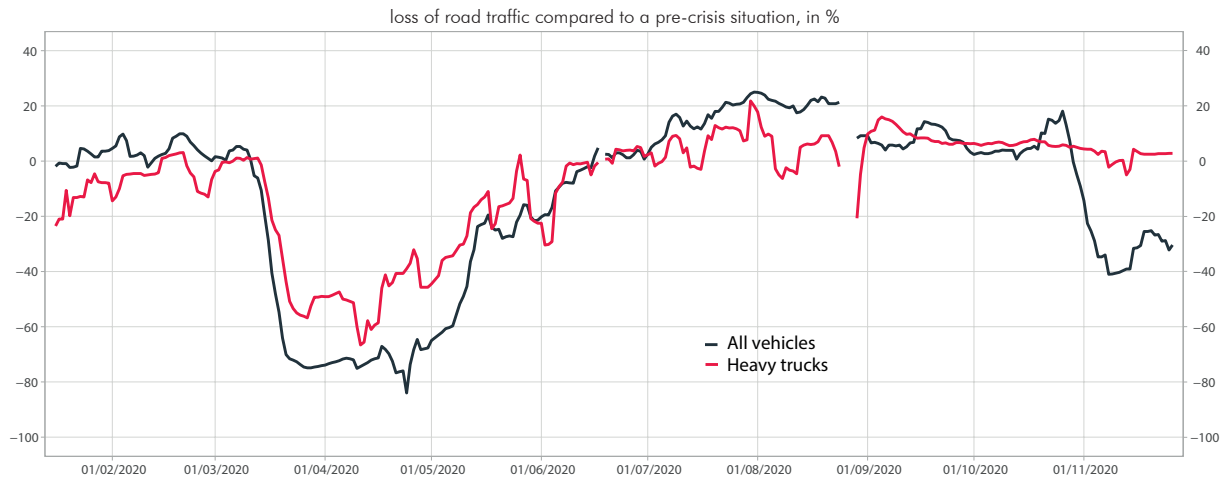
Source: INSEE, calculations from various sources

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The high-frequency indicators available for the start of December reflect the gradual recovery in activity. All-vehicle road traffic in France, which had contracted by a third in November, has now started to climb again since the end of the month, although it is still well below its pre-crisis level (*Graph 2*). Heavy goods traffic, which was not very much affected during the second lockdown, still remains stable overall, a sign of the lesser impact of the restrictive measures on movement linked directly to industrial activity. In previous months, the indicator for total time spent at home compared to a normal situation has had a similar profile to loss of activity, but in the first week of December (30 November – 6 December) it showed a smaller proportion of time spent at home than in the previous four weeks under lockdown in November. This was related to the reopening of many shops before

the end-of-year holidays and the extending of limits on movement close to home (*Graph 3*). However, regarding those sectors that are still subject to restrictions on their activity, the number of searches for the words “restaurant” or “hotel”, “cinema” or “theatre” in the Google search engine remained very low compared to October, reflecting the significant loss of activity in these sectors (*Graph 4*). In contrast, the lessening of restrictions on travel has resulted in an increase in searches associated with “train” or “flight”, a small increase for the train but a much more noticeable one for the plane which probably reflects anticipatory behaviour before the end-of-year festivities. Lastly, data on electricity consumption by Enedis customers, for the period 1st January 2017 to 27 November 2020, can be used to distinguish “residential” consumption from “non-residential” (*Graph 5*).

2 - Road traffic in France

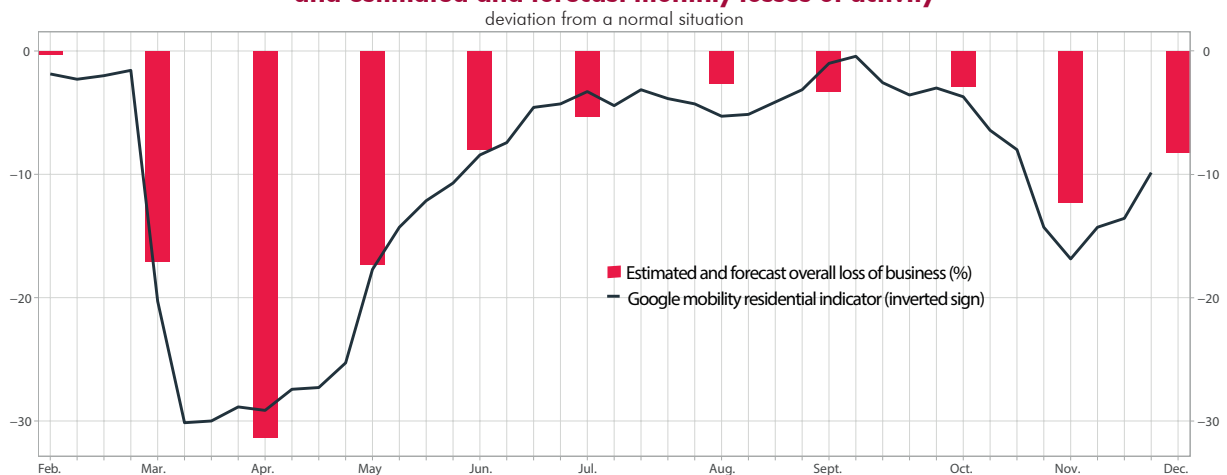


How to read it: on 8 November 2020, road traffic in France was down 2% for heavy goods vehicles and down 41% for all vehicles, compared to a similar day before the crisis.

Note: the index is constructed by comparing current traffic with “pre-crisis” traffic. For this reference to be “as fair as possible”, it is calculated on the average daily flow from 13 January to 2 February 2020 to avoid any effects related to school holidays and the start of lockdown. For more clarity, the series has been smoothed with a 7-day moving average.

Source: Cerema, INSEE calculations

3 - Indicator of total time spent at home weekly and estimated and forecast monthly losses of activity



How to read it: during the first week of December, time spent at home was 10% more than in a normal situation.

Note: data for this indicator are currently available up to 6 December. Weekly values are the average of daily indicator values.

Source: Google Maps Mobility

Between 30 October and 27 November, “non-residential” consumption was about 10% below average (against –22% between 17 March and 11 May, then a gradual upswing until a return to normal in August) – reflecting the easing of restrictions on activity, especially in industry. “Residential” consumption over the same period was higher than average, by a similar proportion to the first lockdown.

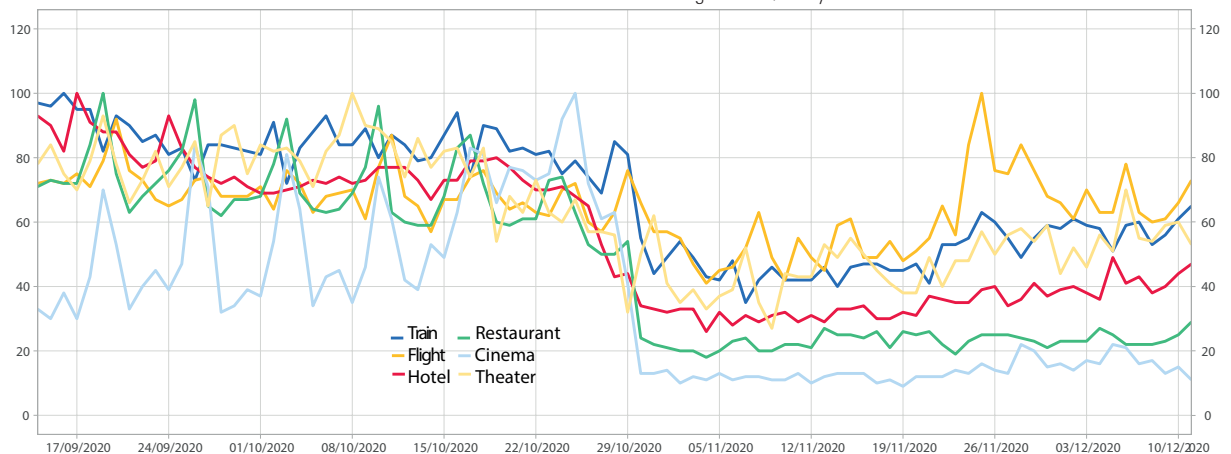
All in all, activity is expected to deteriorate in Q4, especially in the sectors most directly affected by the restrictive measures

Since the Economic Outlook of 2 December 2020, new statistical data for October have led us to revise the loss of activity slightly, to

–3% compared to the pre-crisis level (against –4% in the last Economic Outlook). The end-of-year scenario is similar, apart from new announcements on the delayed reopening of cultural activities. As a result, our estimates, although adjusted slightly for November and December, are expected to remain at –12% and –8% of loss of activity respectively, compared to the pre-crisis level. Across the full quarter the loss is likely to be –8% (Table 2). The branches most directly concerned by the restrictions put in place in November (accommodation-catering, transport services, leisure activities, etc.) would appear to have recorded the greatest decline, despite being able to adapt to some extent to the regulations (Graphs 6 and 7). Conversely, the branches less exposed directly to these measures (industry, construction, scientific and support activities) would appear to have been less affected, although negative expectations concerning

4 - Frequency of keyword searches on internet

% of maximum level in the series during the last 90 days



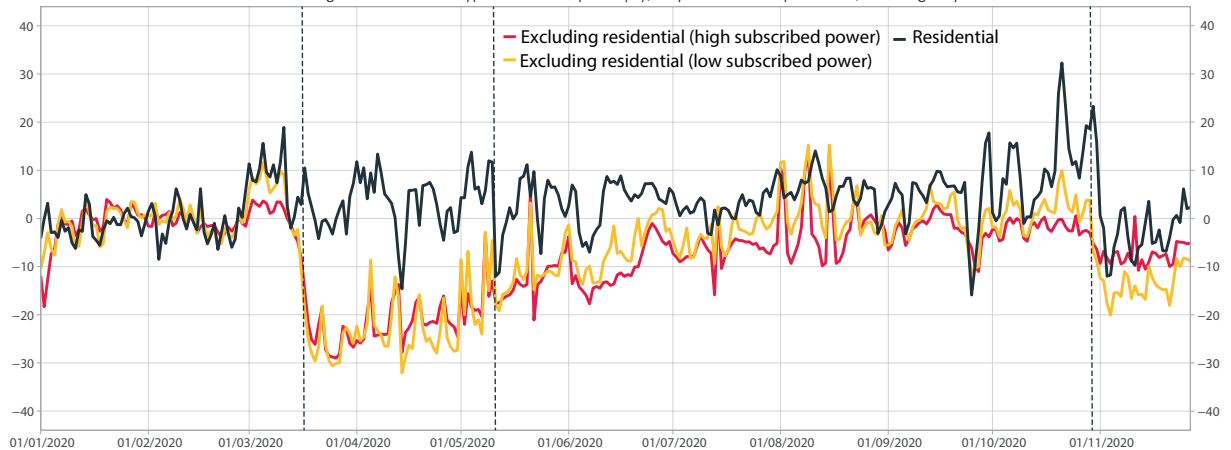
How to read it: on 11 December, the frequency of internet searches for the word “vol” (“flight” in English) on Google stood at 73% of its maximum level since mid-September, the level reached on 25 November

Note: for each series, the index is set at 100 for the maximum frequency observed during the last 90 days.

Source: Google Trends. INSEE calculations

5 - Electricity consumption according to type of Enedis customer

deviation from average level for each type of consumption (%), adjusted for temperatures, working days and months



How to read it: on Friday 27 November, electricity consumption by non-residential customers (high subscribed power level) was about 5% down on the average consumption level for a Friday in November with similar temperatures.

Note: Enedis is the main distributor of electricity (80% of consumption in metropolitan France). These consumption data by type of customer come from the dynamic profiling of consumption by all customers on the Enedis network.

Source: Enedis. INSEE calculations

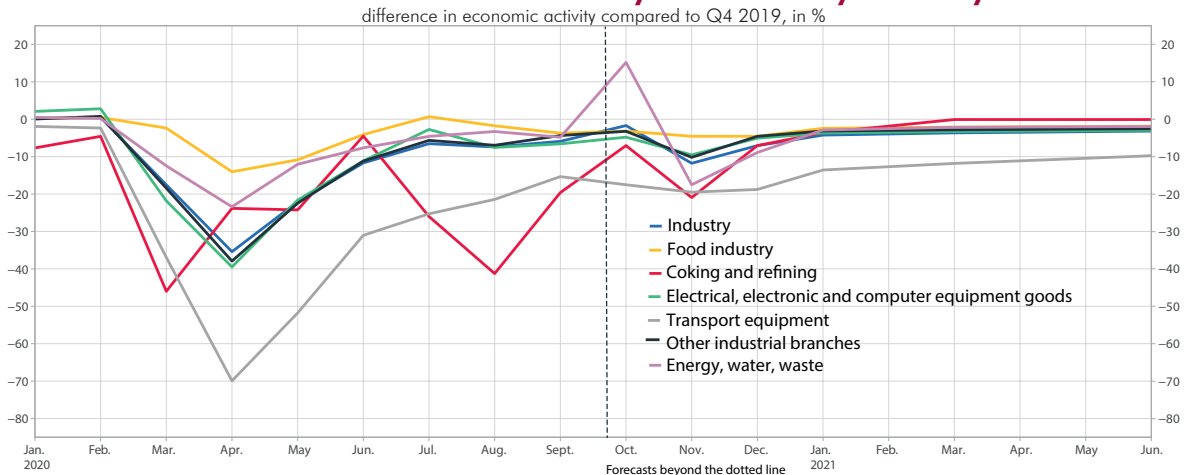
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the situation overall and interdependence with branches directly impacted could have affected their activity. The phased lifting of restrictions is likely to dictate the pace of the December rebound – with contrasting situations depending on the branch. The opening of “non-essential” businesses at the end of November should boost retail trade and the activity of the manufacturing industries, given the rebound associated with demand and the end-of-year festivities. Some other service activities and transport are likely to see a slight improvement in their situation, whereas catering and cultural activities, if they are unable to reopen, are likely to remain at the same level as in November.

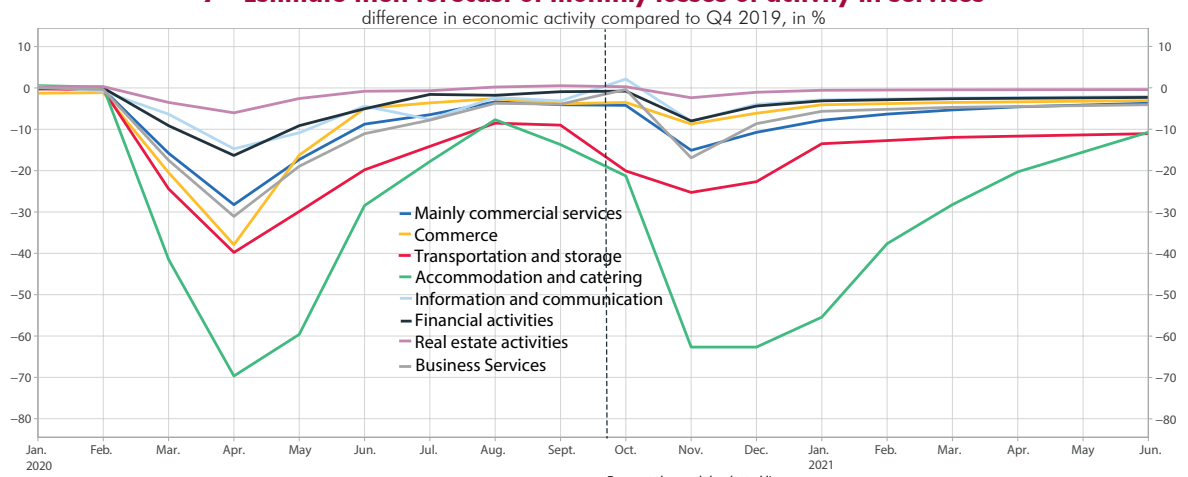
The forecast for the annual contraction in GDP remains at –9%

As reported in the Economic Outlook of October 2020, we propose a forecast for GDP in Q4 broken down according to the different items of demand, consistent with the framework for the national quarterly accounts (*Table 2*). All in all over 2020, the contraction in GDP is expected to be 9%, a similar forecast to that published last July, although changes month by month have been more irregular than anticipated: the rebound in Q3 was more vigorous than expected, whereas in Q4, conversely, the situation deteriorated more, due to the second lockdown. Household consumption, the main

6 - Estimate then forecast of monthly losses of activity in industry



7 - Estimate then forecast of monthly losses of activity in services



component of demand, looks set to decline by 7% over the year and will probably contribute about 4 points to the drop in GDP (Graph 9). Corporate investment is expected to fall back further (-9%). Finally, the contribution of foreign trade to the change in GDP is also expected to be negative, at around -2 points, as the decline in exports was more pronounced than that in imports – which was already significant (-18% and -11% respectively). The relative contributions to GDP of the main components of demand are expected to be different in Q4 from those observed in Q2 (Graph 8). Thus household consumption is likely to account for

around three-quarters of the decline in GDP (against a little over half in Q2). Conversely, corporate investment and the trade balance are likely to contribute less.

In March 2021, provided that the health situation stabilises, activity should return to its October 2020 level

As in the editions of Economic Outlook published before the second lockdown, the ACEMO-Covid survey, carried out by DARES in association with INSEE, was used to establish a projection for

Table 1 - Detailed forecast of loss of activity by quarter and yearly growth
compared to the pre-crisis level (Q4 2019), in %

Sectors	weight*	2020				2020**	Contrib. in 2020	2021		Achiev. 2021***
		Q1	Q2	Q3	Q4			Q1	Q2	
Agriculture, forestry and fishing	2	-1.3	-1.9	-1.6	-2	-3	0	-1	-1	1
Industry	14	-5.6	-23.1	-6.6	-7	-12	-2	-4	-3	8
Manufacture of food products, beverages and tobacco-based products	2	-0.6	-9.7	-1.6	-4	-4	0	-2	-2	2
Coke and refined petroleum	13	-19.4	-17.5	-29.0	-12	-30	0	-2	0	23
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-5.6	-24.1	-5.6	-6	-12	0	-3	-3	8
Manufacture of transport equipment	2	-13.7	-50.9	-20.7	-19	-28	0	-13	-10	20
Manufacture of other industrial products	6	-5.9	-23.9	-5.7	-6	-11	-1	-3	-3	9
Extractive industries, energy, water, waste treatment and decontamination	2	-3.9	-14.4	-4.2	-4	-8	0	-3	-2	5
Construction	6	-13.7	-31.3	-5.5	-9	-14	-1	-4	-4	13
Mainly market services	57	-5.4	-18.1	-4.6	-10	-9	-5	-6	-4	5
Trade; repair of automobiles and motorcycles	10	-7.6	-19.7	-3.3	-6	-9	-1	-4	-3	6
Transport and storage	5	-8.4	-29.8	-10.5	-23	-18	-1	-13	-11	7
Accommodation and catering	3	-13.6	-52.6	-13.1	-49	-32	-1	-40	-16	15
Information and communication	5	-2.3	-10.0	-4.3	-3	-4	0	-3	-2	3
Financial and insurance activities	4	-3.1	-10.2	-1.4	-4	-5	0	-3	-2	2
Real estate activities	13	-1.0	-3.1	0.0	-1	-1	0	-1	0	1
Scientific and technical activities; administrative and support services	14	-6.0	-20.4	-5.1	-9	-10	-1	-5	-4	6
Other service activities	3	-10.5	-41.9	-14.9	-32	-25	-1	-18	-7	21
Mainly non-market services	22	-4.4	-15.7	0.6	-3	-5	-1	-1	0	6
Total	100	-5.9	-18.9	-3.7	-8	-9	-9	-5	-3	6
of which mainly market	78	-6.0	-19.6	-5.0	-9	-10	-8	-6	-4	6
of which mainly non-market	22	-4.4	-15.7	0.6	-3	-5	-1	-1	0	6

■ Forecast

* sector weight in value added, in 2018.

** growth in 2020

*** growth overhang for 2021 corresponds to the annual growth rate that would be obtained if, in H2 2021, GDP were to remain at the level forecast for Q2 2021.

How to read it: in Q4 2020, economic activity is expected to be 8% down compared to Q4 2019. In 2020, GDP is expected to decline by 9% compared to 2019 before bouncing back in H1 2021, bringing the mid-year growth overhang in 2021 to 6%.

Source: INSEE calculations from various sources

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activity in the first six months of 2021 (Box). This projection is based on the pace of recovery that businesses expect to see, as expressed in the provisional results of the December edition of the Survey. Companies' responses are aggregated at sector level, and from them a trajectory can be built of change in activity for the months to come, in the different sectors.

According to this projection, and provided that the health situation stabilises, activity in March could be back to a level close to that of

October 2020, then in June it could reach a level only 3% below that of Q4 2019 (Graph 1). When considering major sectors, improvement in activity is likely to be very varied, as was already clear in the rebound in summer 2020. In industry, the gradual return to normal, which began from the end of the first lockdown and was moderately affected by the second, should continue into 2021 (Graph 6). However, the transport materials sector (especially aeronautical construction) is expected to

Table 2 - Goods and services : sources and uses at chain-linked previous year prices

Q/Q-1 variations (in %)

	2019				2020				2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Gross domestic product (GDP)	0.5	0.3	0.1	-0.2	-5.9	-13.8	18.7	-4	1.5	-9
Imports	1.2	0.1	0.6	-0.8	-5.6	-16.8	16.8	0	2.6	-11
Total resources	0.6	0.2	0.2	-0.4	-5.7	-14.4	18.0	-4	1.6	-10
Household consumption expenditure	0.6	0.5	0.4	0.2	-5.7	-11.4	17.9	-6	1.5	-7
General government consumption expenditure*	0.3	0.5	0.5	0.4	-3.4	-11.8	17.2	-4	1.6	-5
General government individual consumption expenditure	0.3	0.5	0.4	0.5	-3.3	-10.6	15.8	-7	1.7	-5
Collective consumption expenditure	0.3	0.4	0.8	0.2	-2.4	-10.7	14.9	0	1.7	-3
Gross fixed capital formation (GFCF)	1.2	1.3	1.2	0.3	-10.5	-14.5	23.9	-3	4.3	-11
Non-financial enterprises (incl. unincorporated enterprises)	0.9	1.0	1.2	0.2	-8.9	-13.1	20.7	-2	3.7	-9
Household	0.3	1.2	0.7	0.4	-14.2	-17.6	31.9	-4	1.8	-15
Government	2.4	2.0	1.4	0.2	-10.5	-15.8	26.8	-2	7.7	-10
Exports	0.5	-0.5	-0.4	-0.9	-6.5	-25.1	22.1	-1	1.8	-18
Contributions (in point)										
Domestic demand excluding inventory changes**	0.6	0.7	0.6	0.3	-6.3	-12.3	19.5	-5	2.2	-8
Inventories changes**	0.1	-0.2	-0.1	-0.4	0.7	0.9	-1.5	1	-0.4	0
Net foreign trade	-0.2	-0.2	-0.3	0.0	-0.2	-2.3	0.7	0	-0.3	-2

Forecast

* Consumption expenditure of general government (APU) and non-profit institutions serving households (ISBLSM).

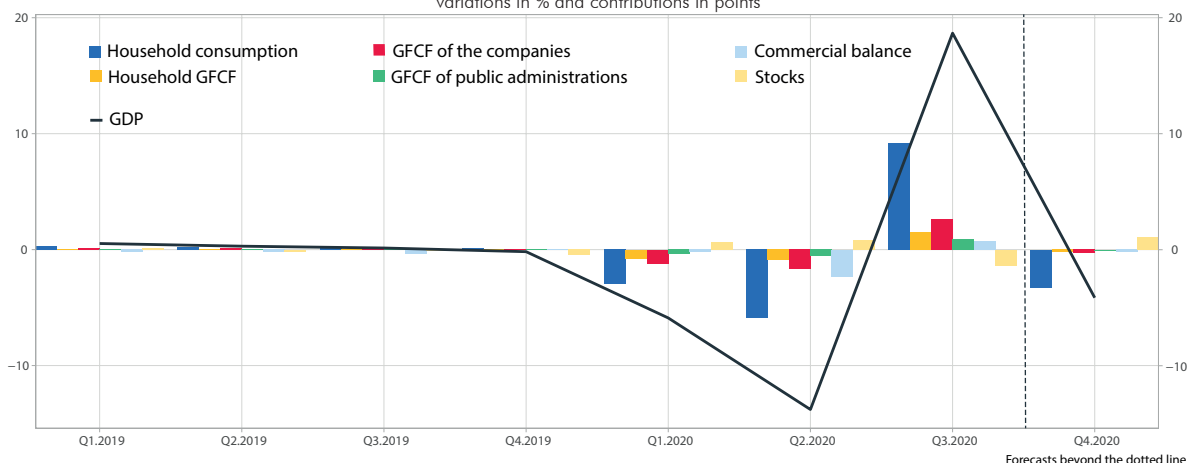
** Changes in inventories include acquisitions net of valuable items.

How to read it: in 2020, imports would appear to have declined by 11% compared to 2019.

Source: INSEE

8 - Quarterly variations in GDP and contributions of main items of demand

variations in % and contributions in points

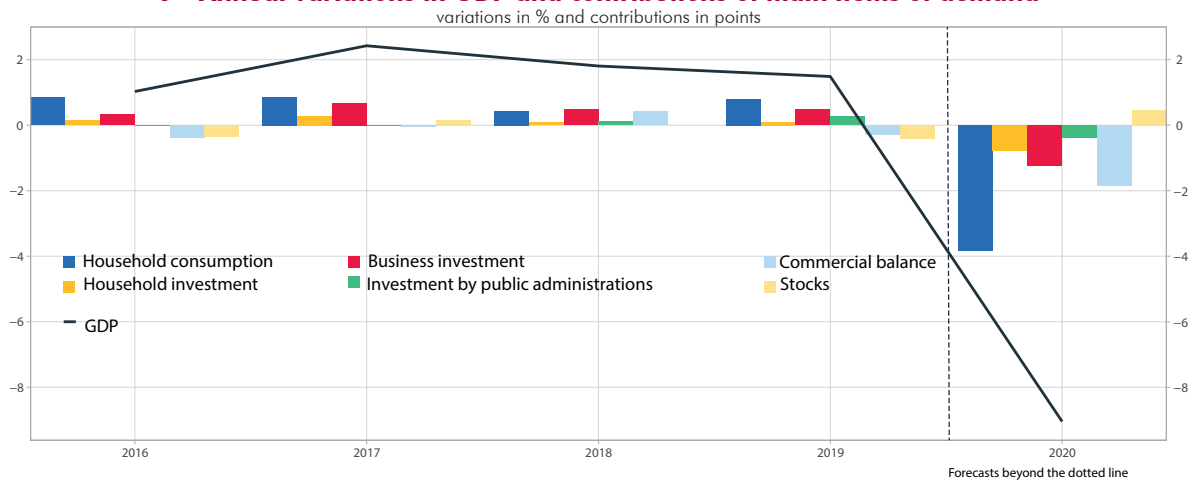


stand out from the rest, as it did last year, as its activity looks set to decline more than in the other industrial sectors. In services, the contrasts are expected to be even more significant: after the decline in November associated with the second lockdown -a decline that was certainly less than that experienced in April, but strong nonetheless- the upturn in activity is expected to result in most services being at less than 3% from their pre-crisis level in June 2021 (Graph 7). However, after their sharp decline in activity in 2020 and in a context where residual restrictive measures will probably continue during the first

half of the year, the services directly concerned by these measures (accommodation-catering, leisure activities, transport services) are likely to continue to be significantly more damaged than the others, with a loss of activity of between 7 and 10% in June 2021.

All in all, the return to activity over the first six months of 2021 is expected to lead to an increase in GDP of about +3% in Q1 then +2% in Q2. The growth overhang for 2021 at the end of June is likely to be around +6% (Table 3). ■

9 - Annual variations in GDP and contributions of main items of demand



How to read it: in 2020, GDP is expected to contract by about 9%; the contribution of household consumption is expected to be about 4 points.

Source: INSEE calculations from various sources

Table 3 - Estimate then forecast of loss of economic activity until middle-2021

	2020				2021		2020	acquis 2021
	Q1	Q2	Q3	Q4	Q1	Q2		
Change	-5.9	-13.8	+18.7	-4	+3	+2	-9	+6
loss of activities	-5.9	-18.9	-3.7	-8	-5	-3		

How to read it: in Q4, the loss of activity compared to the pre-crisis level is estimated at -8%, i.e. a fall in GDP of about -4% compared to Q3, after a rebound of 18.7% in Q3.

Note: the loss of economic activity in a given month or quarter is measured in relation to Q4 2019. However, the variation in GDP for a given quarter is, by definition, calculated from the level of activity in the previous quarter. The growth overhang for 2021 corresponds to the annual growth rate that would be obtained if, in H2 2021, GDP were to remain at the level forecast for Q2 2021.

Source: INSEE calculations from various sources

Box

Sectoral trajectories of activity forecast until June 2021 are based on provisional results from the December edition of the ACEMO-Covid survey, carried out by DARES with support from INSEE. The question asked is as follows: “How long do you think it will be before economic activity in your establishment is back to its normal level?”

1. Activity has not been affected or is already back to normal
2. Activity will return to normal within one to three months
3. Activity will return to normal within three to six months
4. Activity will need more than six months before it returns to normal
5. Activity has been affected in the longer term and will need more than a year to return to normal
6. Don't know

At the level of each sector, the responses businesses gave to this question were applied to the estimates of economic activity for the last few months to work out a trajectory for their return to normal. The response modalities are interpreted according to the latest hypothesis (for example, for the response “Activity will return to normal within three to six months”, we selected the hypothesis of a return after six months). In fact, the current uncertainty over the way the health situation will evolve is tending to dampen the pace of recovery based on the most optimistic interpretations of the response modalities: as businesses were questioned between the end of November and the first ten days of December, their expectations are situated in a context that is perhaps more favourable than that of mid-December, notably because of the fears of a new resurgence of the epidemic in several countries. For modality no. 5, we assumed a constant loss of activity in the medium term. The modality “Don't know” was treated in the same way. In addition, the accommodation-catering branch received special treatment, as we assumed that the level of activity will return to its June 2020 level at the end of Q1 2021. ■