Economic activity

In a year of economic fluctuations on an unprecedented scale, GDP fell by 8.3% as an annual average in 2020, according to the first estimates from the quarterly accounts. This contraction, the strongest recorded since the start of the national accounts series in 1949, is slightly below the 9% drop forecast in the last Economic Outlook. The end-of-year lockdown, which was less strict than that in the spring, resulted in a lower than expected loss of activity (–8% in November then –4% in December) compared to the pre-crisis level (Q4 2019). Services, which were more exposed to restrictive lockdown measures, were more affected than industry, although industry may have suffered in December from a deteriorating international environment.
The start of 2021 remains strongly affected by the uncertainty surrounding the health situation. Measures to fight the epidemic have been gradually reinforced (curfew brought forward to 6pm in some departments then across the whole country, restrictions on travel outside the EU, closure of non-food stores in large shopping centres, teleworking encouraged).
In this context, activity would seem to have been stable overall in January, remaining at the December level of 4% below the pre-crisis level. Across all of Q1 2021, any change in activity will be dependent on change in the health situation and the possible tightening of restrictive measures. Keeping restrictions at their present level would lead to activity progressing slightly compared to Q4 2020, with

industry continuing to recover gradually, while some services would still be penalised. Tighter restrictions, on the other hand, would lead to stable activity at best, or even a further decline in Q1.

In Q4 2020, French economic activity was affected by the second lockdown but to a lesser extent than in the spring

After a stable month of October, at –3% of loss of activity compared with the pre-crisis level (Q4 2019), the lockdown put in place between 30 October and 14 December, with notably the closure of "non-essential" businesses until 27 November and restrictions on travel, led to a further fall in economic activity. In November, it stood at 8% below its pre-crisis level; this loss was then reduced to 4% in December (► **figure 1**). This revision of the forecasts in the Economic Outlook of 15 December (–12% and –8% of loss of activity forecast for November and December respectively) can be explained by, among other things, a smaller than anticipated fall in activity in services, both in November and December.

Among the branches most affected since the start of the health crisis, transport and storage and accommodation-catering have seen their activity fall drastically, although to a lesser extent than expected (–15% and –37% of loss of activity respectively compared to the pre-crisis level

► **1. Estimated then forecast monthly losses of activity**
difference in economic activity compared to Q4 2019, in %
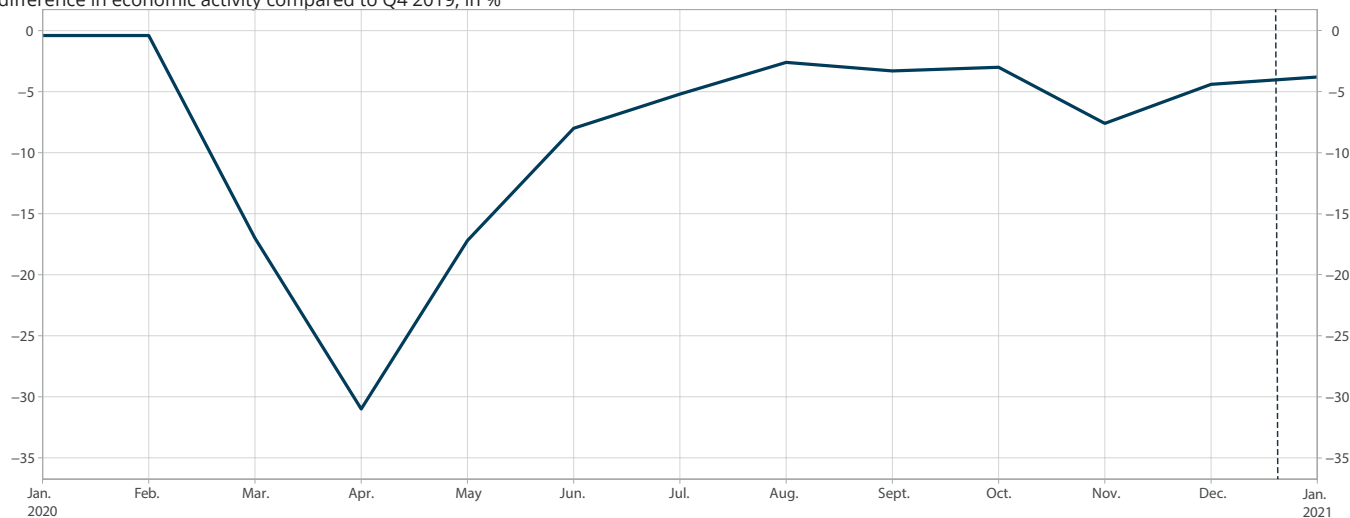
How to read it: in November, economic activity was down by about 8% compared to its Q4 2019 level. In January, it would appear to be settled at –4%.
Source: Insee calculations from various sources

for these two sectors over the entire quarter, against –23% and –49% forecast). In the holiday period, despite the advice to limit get-togethers, people still moved around, whereas restaurants had already adapted to their extended closure and probably simply continued in the same way (especially with deliveries). However, other service activities (leisure, culture, sport, etc.) did suffer a shock in November, in line with the forecast: for example, the rebound in December was a little greater than expected, with the loss of activity established in Q4 at –29% (against –32% forecast). Services to businesses (scientific and technical activities and administrative and support services) experienced a loss of activity that was only half that forecast in November, or a loss across the entire quarter of –6% (against an expected –9%). Trade, however, was more affected than forecast in November (especially the trade and repair of automobiles and motorcycles, and wholesale trade), but much less than forecast in December.

The activity of mainly non-market services returned to its pre-crisis level in Q4 2020 (against a loss of activity forecast at –3%), driven mainly by the buoyancy of health services, with no new postponements of treatment.

Industrial activity resisted better than forecast in November, particularly in the manufacture of equipment (especially electrical) and machines and in textile-clothing-footwear, chemical products and metallurgy. It fell back in December, however, perhaps associated with the health situation that was deteriorating for a number of our partners. Across the entire quarter, the loss of industrial activity compared to Q4 2019 stood at about –5% (against –7% forecast). Finally, construction was more affected in November than in December with a loss of activity across the whole quarter of –6% (against –9% forecast).

The breakdown of the different demand items also shows that, compared to the forecasts in the Economic Outlook of 15 December, household consumption declined slightly less than forecast in Q4 2020, and in particular that investment (especially household investment) and foreign trade continued their rebound, despite expectations of a further decline. The contribution of foreign trade was thus positive in Q4, at around 1 point. At the end of the year, GDP had therefore declined by –1.3% as a quarterly variation, and by –5.0% year-on-year (▶ **table 2**).

In a context that remains very uncertain, economic activity is expected to be stable in January 2021

In January 2021, companies' expectations, as expressed in early January in INSEE's business tendency surveys and in the ACEMO-Covid flash survey[1], carried out by DARES in association with INSEE, suggest an overall

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1 This survey questioned businesses on their expectations regarding their pace of recovery. Their responses are aggregated at sector level, so that a trajectory can be established for change in activity for the months to come, provided there is no new shock to activity related to a tightening of restrictive health measures in the event of a return of the epidemic.

▶ **2. Road traffic in France**
loss of road traffic compared to a pre-crisis situation, in %
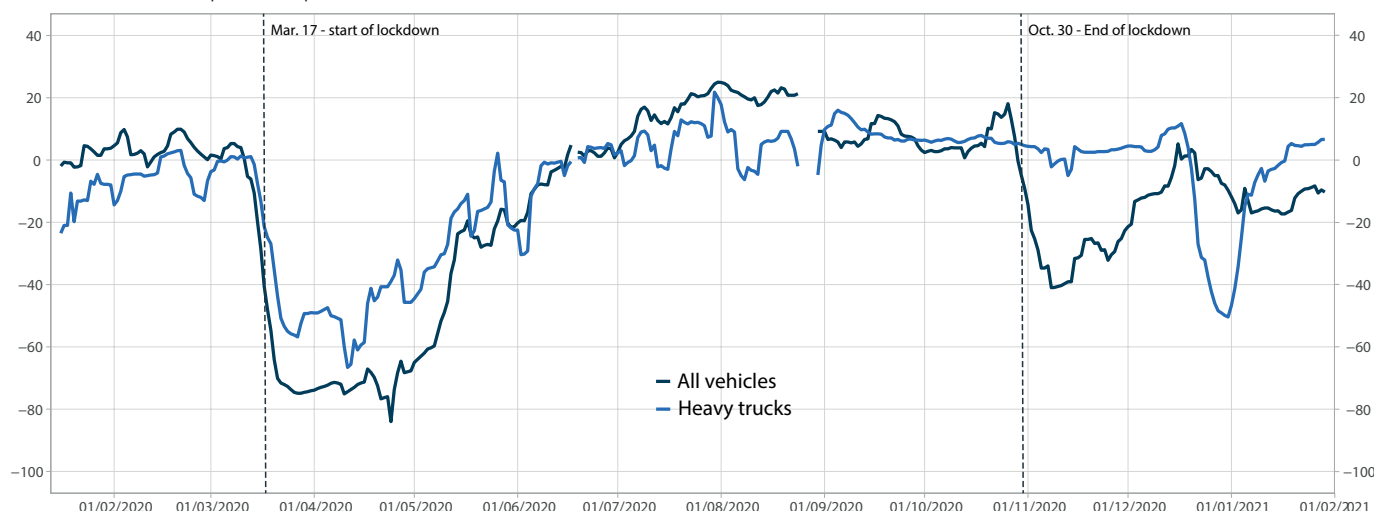
How to read it: on 8 November 2020, road traffic in France was -2% lower for heavy goods vehicles and -41% lower for all vehicles combined, compared to a similar day before the crisis.
Note: the index is constructed by comparing current traffic with "pre-crisis" traffic. In order to make this reference as "fair" as possible, it is calculated on the average daily flow from 13 January to 2 February 2020 to avoid effects related to school holidays in February and the start of lockdown. For more clarity, the series has been smoothed with a 7-day moving average. The last point represents 29 January.
Source: Cerema, INSEE calculations

stabilisation of economic activity compared to December 2020. The curfew in force since 15 December reduced the amount of movement, onsite work and consumption opportunities in the evenings, first after 8pm, then after 6pm: this earlier deadline concerned only a few departments at the beginning of January but was gradually extended to the entire country.

The high-frequency indicators available for the first weeks of January also suggest virtual stability in activity. Heavy goods traffic, which was not affected much during the second lockdown due to the lesser impact of the restrictive measures on movement related directly to industrial activity, seems to be returning to stability after the seasonal lull associated with the Christmas holidays (► figure 2). In addition, the close correlation seen up until Q3 between the indicator of time spent weekly at home and the loss of economic activity seems to be weakening, perhaps linked to the increase in teleworking (► figure 3).

However, in the sectors where activity is still restricted, the number of related keyword searches in the Google search engine is still a little higher than in November, but apart from the word "train", for which searches were dynamic during the end-of-year holiday period, searches for other sectors remain very much in decline compared to October ("restaurant", "hotel", "theatre" and especially "cinema") or at a similar level ("flight"), reflecting the significant loss of activity in these sectors (► figure 4). Overall, these searches are in decline since the start of January.

All in all, activity in January would seem to have been around –4% compared to its pre-crisis level (Q4 2019), a similar level to December. In industry, it appears to have increased slightly compared to December (► table 1). In mainly market services, activity is expected to be stable: it is likely to remain very much depressed in sectors directly affected by the restrictions (accommodation-catering, transport and storage, leisure activities). In non-market services, activity is likely to be slightly dynamic, driven by health services, as in Q4.

What are the scenarios for the coming months?

The health context for the start of the year remains very uncertain. Restriction measures have been tightened since 31 January (closure of non-food stores in shopping centres larger than 20,000 m2, control of movement outside the metropolitan area, etc.). Uncertainty remains over the duration of these measures and the possibility of their being reinforced further in the form of another lockdown, if the health situation deteriorates once again.

At this stage, it seems as if only scenarios can be put forward, as an illustration, to provide orders of magnitude for the various hypotheses that can be considered.

For example, if the current restrictive measures were maintained until the end of the quarter, activity could continue to grow slowly, mainly due to the industrial branches. Activity in services, on the other hand, would continue to be penalised by the activity in those sectors that are still affected by the restrictive measures

► **3. Indicator of total time spent at home monthly (compared to a normal situation) and estimated and forecast monthly losses of activity**
deviation from a normal situation
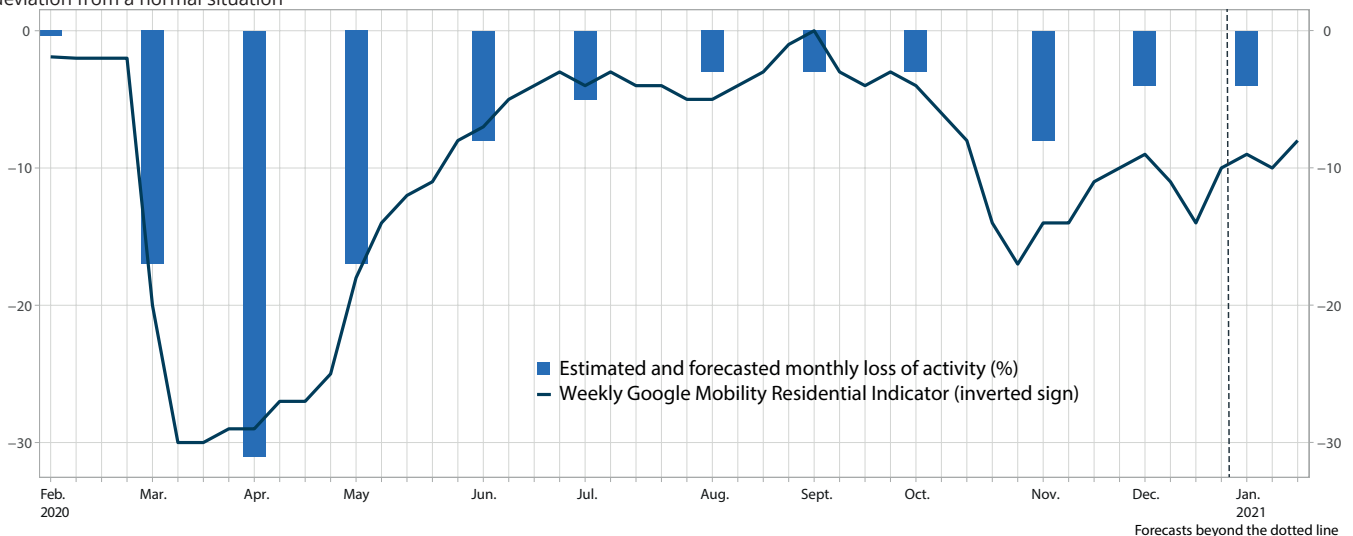
How to read it: during the first week of December, time spent at home was 10% more than in a normal situation.
Note: the data for the indicator are currently available up to 26 January. Weekly values are the average of daily indicator values.
Source: Google Mobility Reports, INSEE calculations

(accommodation-catering, leisure activities, transport services to a lesser degree). GDP would increase by around +1½% in Q1 2021 (see scenario 1 in ► **table 2**), i.e. a loss of activity across the whole quarter of –4% compared to the pre-crisis level (after –5% in Q4 2020).

However, if the restrictive health measures were strengthened, this could once again put a stop to recovery or, depending on the severity of the measures taken, it could even cause a further drop in activity. In addition to the nature of any measures to be taken, there is uncertainty over their duration:

in the event of lockdown for one month, under the same conditions as in November (scenario 2 in ► **table 2**), and assuming that the rest of the quarter experiences the same level of activity as in January, GDP growth would be zero overall in Q1 2020, with a loss of activity of –5% compared to the pre-crisis level;

in the event of 7 weeks of lockdown (scenario 3) with the same conditions as in November, GDP would decline by around 1% over the quarter, and loss of activity would then be 6% on average compared to Q4 2019.

For Q2 2021, the forecast at this stage is as uncertain as for Q1. By way of illustration, we assume that the level of activity overall for this quarter is similar to that in Q3 2020 (almost 4% below the pre-crisis level). The annual growth overhang for 2021, depending on the scenario, would then be between +4% and +5% at mid-year. ●

► **4. Frequency of keyword searches on internet**
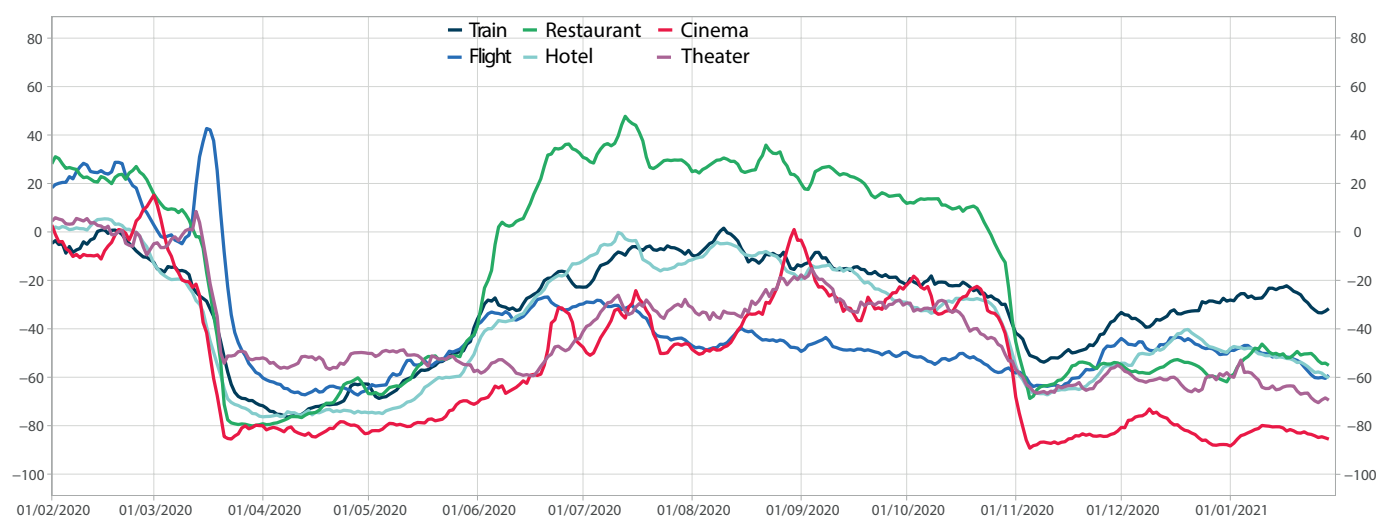
How to read it: the 7-day moving average for the number of searches for the word "restaurant" on Google in France was 55% lower on 29 January compared to the average of the 7-day moving averages for every 29 January between 2016 and 2019.
Note: the last point represents 29 January.
Source: Google Trends, INSEE calculations

► 1. Estimated then forecast losses of economic activity in 2020 and in January 2021 by branch

différence compared to Q4 2019, in %

Branch	weight	Q4 2020	Oct. 2020	Nov. 2020	Déc. 2020	Jan. 2021	Contrib. Jan. 2021
Agriculture, forestry and fishing	**2%**	**–0.8**	**–1**	**–1**	**–1**	**0**	**0**
Industry	**14%**	**–4.6**	**–4**	**–4**	**–7**	**–4**	**–1**
Manufacture of food products, beverages and tobacco-based products	2%	–3.8	–4	–2	–5	–3	0
Coke and refined petroleum	0%	–20.0	–1	–3	–56	–32	0
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1%	–4.0	–3	0	–9	–6	0
Manufacture of transport equipment	2%	–16.7	–18	–17	–16	–12	0
Manufacture of other industrial products	6%	–3.2	–3	–2	–5	–3	0
Extractive industries, energy, water, waste treatment and decontamination	2%	–1.1	3	–4	–3	–2	0
Construction	**6%**	**–5.9**	**–8**	**–7**	**–3**	**–2**	**0**
Mainly market services	**57%**	**–7.2**	**–5**	**–11**	**–6**	**–6**	**–3**
Trade; repair of automobiles and motorcycles	10%	–4.9	–2	–12	–1	–2	0
Transport and storage	5%	–15.5	–12	–18	–16	–14	–1
Accommodation and catering	3%	–36.5	–22	–48	–41	–41	–1
Information and communication	5%	–2.1	–2	–1	–3	–3	0
Financial and insurance activities	4%	–2.3	–1	–4	–2	–2	0
Real estate activities	13%	0.4	1	0	1	1	0
Scientific and technical activities; administrative and support services	14%	–6.1	–5	–8	–5	–4	0
Other service activities	3%	–29.2	–18	–44	–26	–25	–1
Mainly non-market services	**22%**	**0.3**	**1**	**–1**	**0**	**1**	**0**
Total VA	**100%**	**–5.0**	**–3**	**–7**	**–5**	**–4**	**–4**
Taxes and subsidies		**–4.9**	**–1**	**–11**	**–2**	**–4**	
GDP		**–5.0**	**–3**	**–8**	**–4**	**–4**	

▮ Forecast
Source: INSEE calculations from various sources

► 2. Scenarios for Q1 2021

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021		
					Scenario 1 (status quo same as January)	Scenario 2 (lockdown like Nov. 2020, lasting 1 month)	Scenario 3 (lockdown like Nov. 2020, lasting 7 weeks)
Quarterly variation (in %)	–5.9	–13.7	18.5	–1.3	1 ½	0	–1
Difference compared to pre-crisis level (Q4 2019)	–5.9	–18.8	–3.7	–5.0	–4	–5	–6

▮ Forecast
Source: Calculs Insee à partir de sources diverses