

Economic activity

GDP was stable in Q1, then increased in Q2 2021 (+1.1%), according to the detailed results in the quarterly accounts published at the end of August. Although activity fell back in April as a result of the third lockdown, dropping to -5.7% compared to its pre-crisis level (i.e. by convention in Q4 2019), it went on to rebound briskly as restrictions were lifted, reaching -2.8% in May compared to pre-crisis, then -1.2% in June.

This June level was very close to the pre-crisis level, and was the highest reached since March 2020. Thus the growth overhang at mid-year is 4.8% (assuming that activity in H2 maintains at least the Q2 average). This overhang could even be as much as 5.9% if we assume that activity will not fall below its June level during the second half of the year. In a context of excellent progress in the rollout of vaccinations and the introduction of the health pass, the fourth wave of the epidemic (with the spread of the Delta variant in July-August) was not accompanied by the same stringent national restrictions as during the April 2021 lockdown. Assuming that developments in the health situation require no further restrictive measures, our scenario forecasts a continuing recovery until the end of the year, although at a more moderate pace than in Q2. In Q3, activity is expected to be between -1% and -½% compared to the pre-crisis level, then back to its pre-crisis level overall by the end of the year. All in all, for the whole of 2021, GDP should increase by 6¼% compared to 2020 (after -8.0%).

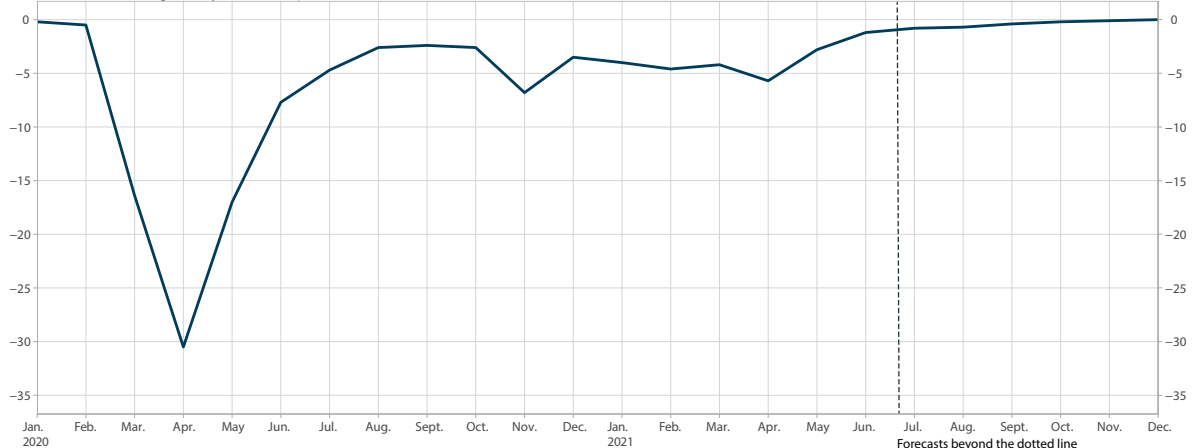
In Q2 2021, economic activity increased overall compared to the previous quarter

In Q2 2021, according to the detailed results of the quarterly accounts, economic activity was 3.2% below its pre-crisis level (after -4.3% in Q1). Lockdown was extended to national level on 3 April –with the closure of “non-essential” businesses and restrictions on movement– resulting in a drop in activity once again, although this was considerably less than in November 2020 (► **Figure 1**) and similar to that estimated in the *Economic Outlook* of 1st July 2021. The end of lockdown in May and June resulted in a gradual lifting of these restrictions, as well as most of those that had been in force since October 2020 (curfew, closure of activities like restaurants and recreational facilities). The rebound was stronger than forecast, with activity in June at -1.2% compared to pre-crisis (against -2½% forecast).

After a one-off peak in January and its after-effects in February, industry stabilised in March, and then improved only slightly: overall, its activity stagnated between Q1 and Q2, with a quarterly average of -2.7% compared to pre-crisis (► **Figure 8**). Agrifood remained above its pre-crisis level, while “other industrial branches” (chemical products, textiles, metallurgy, etc.) continued their recovery month by month. Activity in the manufacture of capital goods experienced a one-

► 1. Estimated then forecast monthly loss of activity

difference in economic activity compared to Q4 2019, in %



How to read it: in June, economic activity was lower by about 12% compared to its Q4 2019 level. In September it is estimated to be -0.4% from this level. Source: INSEE calculations from various sources

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off jolt in May, but in Q2 its level was a little below that of Q1, perhaps a reflection of the sourcing difficulties encountered in this sector. In the manufacture of transport equipment, also affected by sourcing difficulties and especially by shortages of electronic components, activity continued to decline in Q2 2021, compared to its already worsening level in Q1. After a substantial upward revision in Q1, activity in construction continued to pick up in Q2. Likewise, market services increased from -6.3% compared to the pre-crisis level in Q1 to -4.5% in Q2. In services already subject to restrictions before the third lockdown (accommodation-catering, transport services, other service activities – sport, culture, leisure), activity remained relatively stable in April compared to previous months; in trade, on the other hand, it fell dramatically. In all these branches, it rebounded strongly in May and June, reaching a much higher level than during the same months last year, although still not returning to the pre-crisis level. In June, other market services that were barely affected or not affected by the new restrictions (information-communication, real estate services, financial services and services to businesses) exceeded their pre-crisis level. In April, activity in non-market services declined, mainly linked to the closure of schools and nurseries; on average across the quarter, however, it was around the pre-crisis level.

According to the flash estimate published at the beginning of August, private payroll employment increased by 1.2% between the end of Q1 and the end of Q2 (i.e. about 240,000 net job creations). This is significantly more than what had been forecast in the last *Economic Outlook* (about 100,000 net creations expected in public and private payroll employment) but conversely,

it is less than the increase in activity estimated on a month-to-month basis over this period, mainly due to the reduced use of short-time working schemes (► **Box**).

In H2 2021, activity should continue to pick up, but at a more moderate pace after the high level reached in June

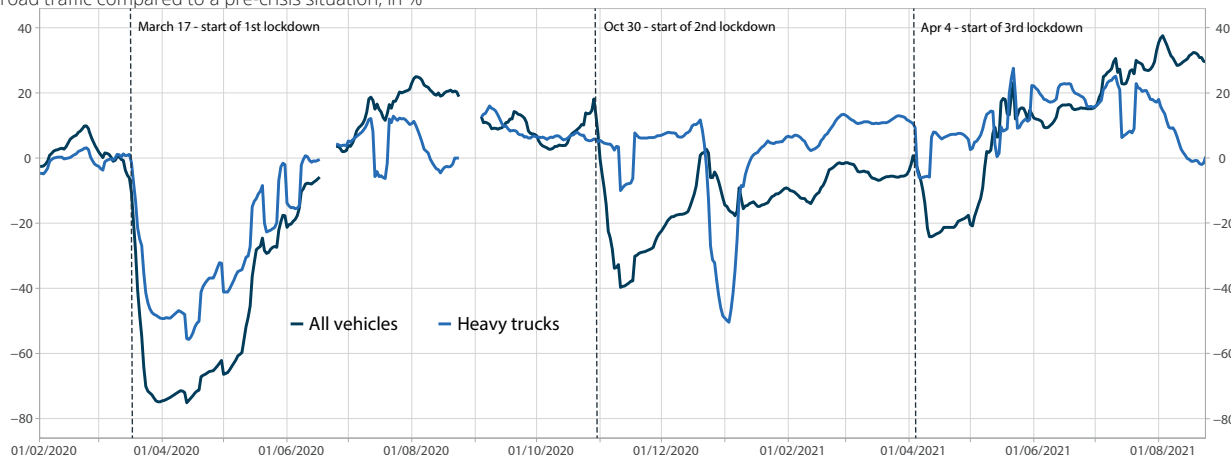
During the summer period, and for the first time since October 2020, the economy was almost fully reopened at national level – despite some local exceptions, notably in the overseas departments where the health situation had deteriorated – and this was despite some restrictive measures remaining in place (wearing masks indoors, social distancing) or being introduced (health pass) alongside the rollout of vaccination coverage.

Among the high-frequency indicators available over this time, road traffic has been significantly higher than the reference period (February 2020) since July 2021, and also exceeded last summer’s level (► **Figure 2**). Heavy goods traffic also reflects a situation that has returned to normal since the end of the third lockdown, with the drop in traffic recorded in August appearing to be more of a seasonal phenomenon.

Regarding services, the number of *Google* searches rebounded strongly from mid-May for all the semantic fields that are usually covered in the *Economic Outlook*, reflecting the buoyancy of demand in these sectors (► **Figure 3**). The number of searches was particularly high, above average, for the fields “restaurant” and “cinema”; it was around the average for “train”, “shop” and “hotel”, but remained low (around -25%) for “theatre” and “air”. At the end of July and the beginning of August we observed a downward trend for the first

► 2. Road traffic in France

loss of road traffic compared to a pre-crisis situation, in %



How to read it: on 22 August 2021, road traffic in France was 2% lower for heavy goods vehicles and 31% higher for all vehicles combined, compared to a similar day before the crisis.

Note: the last point represents 24 August 2021. The pre-crisis situation is defined as the average daily traffic over the period from 13 January to 9 February 2020.

Source: Cerema, INSEE calculations

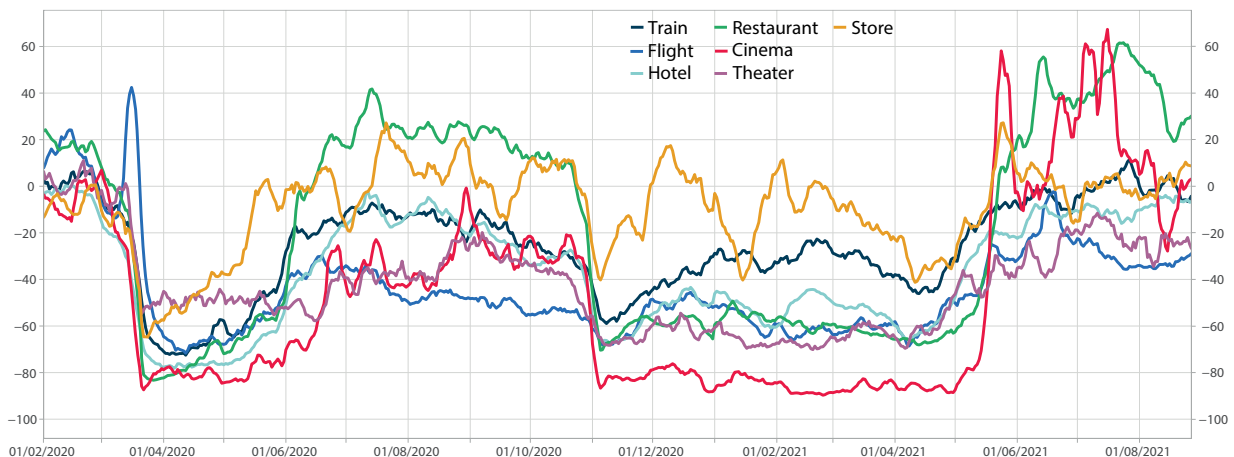
two of these terms, but this could not be linked to the introduction of the health pass, insofar as searches associated with these keywords were already trending downwards during previous weeks; in addition, they seemed to be moving up again by the end of August.

Since May, business climates have also been well above their long-term average (100) in all the main sectors, reflecting in particular the lifting of the most severe restrictions. In services, however, they are tending to slow down: after a very rapid rise linked to the reopening of businesses in May-June, it is clearly not surprising to see this later slowdown in activity (i.e. a slower rate of increase). On the other hand, the fourth wave of the epidemic (with the introduction of the health pass to help contain it) may raise concerns, in accommodation-catering and trade, for example.

Additionally, since the beginning of the year, the business tendency surveys have noted an increase in obstacles to production, especially with regard to sourcing –in the case of industry and building construction– and workforce –in all sectors, although situations differ. In fact, more and more companies in industry and construction are saying that their production is limited because of sourcing problems (► **Figure 4**). In most sectors, the proportion of companies affected represents a high point compared to previous years. This is particularly the case in the manufacture of capital goods (more than one in two companies are concerned) and building construction. In the manufacture of transport equipment, the proportion of companies concerned is approaching its highest levels, with problems particularly in the automobile sector, where production was reduced in H1.

► 3. Frequency of keyword searches on internet

in %



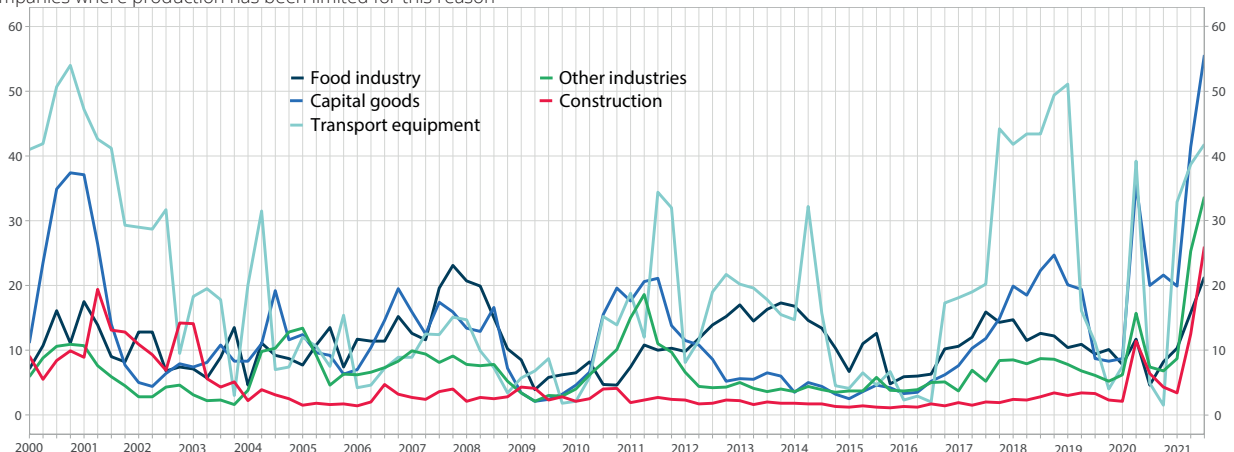
How to read it: on 27 August 2021, the 7-day moving average for the number of Google searches in France in subject "restaurant" was 30% higher compared to the average of the 7-day moving averages for every 27 August between 2017 and 2019.

Note: the last point represents 27 August 2021.

Source: Google Trends, INSEE calculations

► 4. Sourcing difficulties in major industrial sectors and building construction

% of companies where production has been limited for this reason



Note: results are weighted according to turnover. The last point: June 2021

Source: INSEE, business surveys

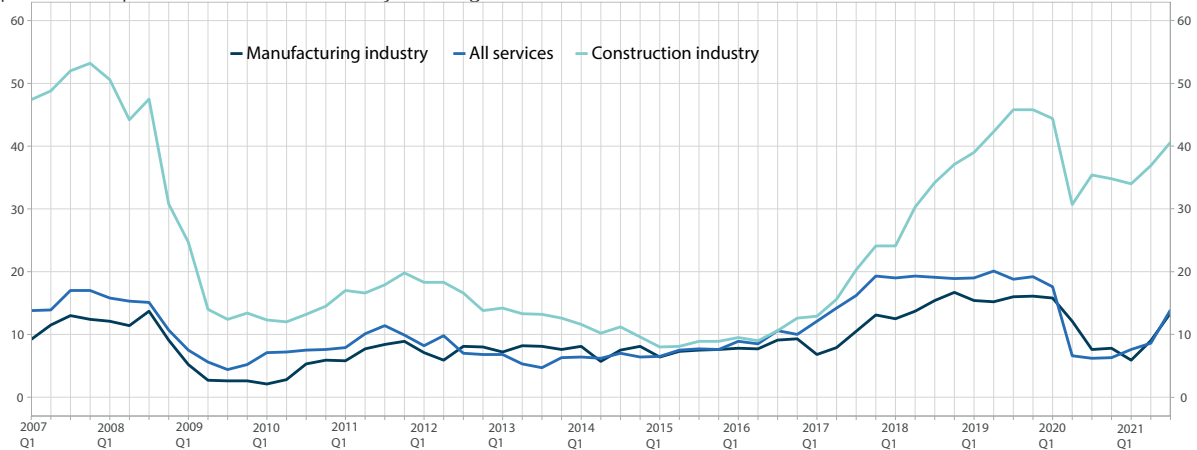
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A shortage of workforce also seems to be an obstacle to production for more and more businesses and in all the major sectors (► **Figure 5**). The share of companies concerned is around 15% on average in industry and services, although this is still below the high points of previous years. In building construction, this proportion

would seem to be 40%, which again is below the 2019 levels. In industry, the workforce shortage is given as an obstacle in all sectors, apart from transport materials, where sourcing problems probably represent the main factor limiting production (► **Figure 6**). In services, on the other hand, the workforce shortage seems to be

► 5. Share of companies reporting that their activity has been limited by staff shortage

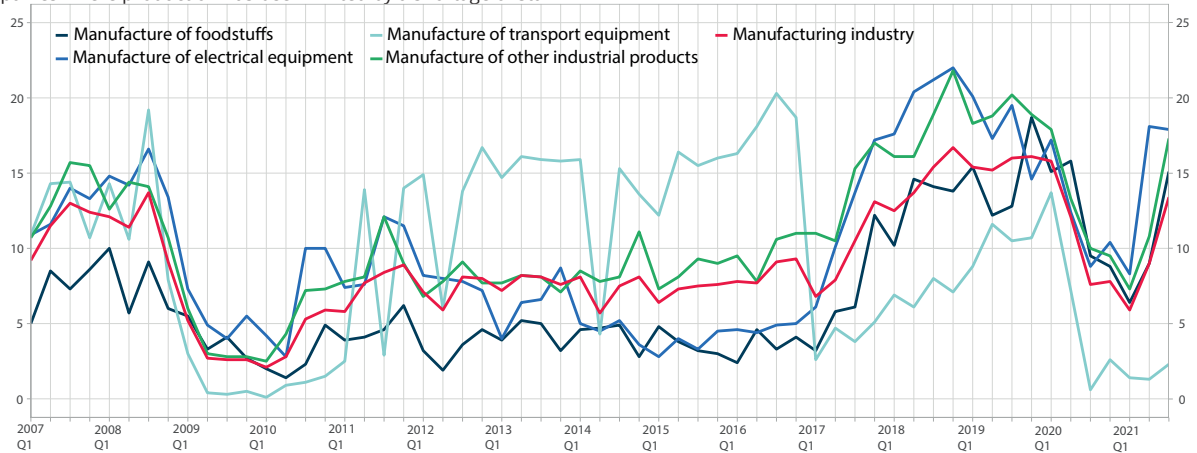
% of companies where production has been limited by a shortage of staff



Note: results are weighted according to turnover. The last point: July 2021.
Source: INSEE, business surveys

► 6. Industry: Share of companies reporting that their activity has been limited by staff shortage

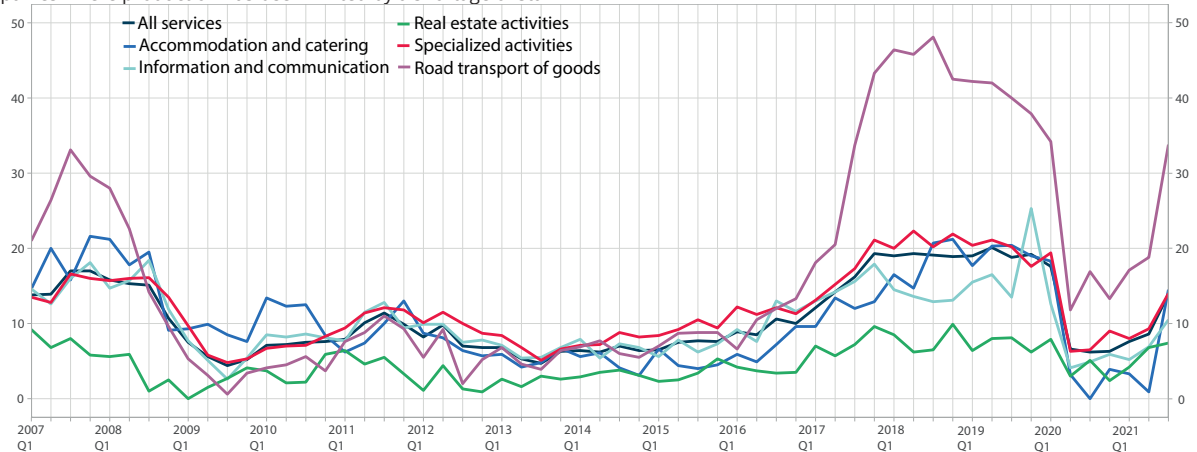
% of companies where production has been limited by a shortage of staff



Note: results are weighted according to turnover. The last point: July 2021.
Source: INSEE, business surveys

► 7. Services: Share of companies reporting that their activity has been limited by staff shortage

% of companies where production has been limited by a shortage of staff



Note: results are weighted according to turnover. The last point: July 2021.
Source: INSEE, business surveys

affecting specific sectors, especially transport services and accommodation-catering (► **Figure 7**), although again they have not returned to the high points of 2019.

All in all, these various factors tend to confirm the scenario of a continuing recovery in H2, assuming that there is no new health shock, and as already described in the *Economic Outlook* of 1st July. The supply difficulties that companies have encountered are likely to moderate the momentum of this recovery in some sectors. Overall, economic activity should return to its pre-crisis level by the end of the year (► **Figure 1**), despite the persistence of sectoral contrasts. GDP is expected to be -0.6% and -0.1% compared to the pre-crisis levels in Q3 then Q4 2021 respectively.

At sectoral level, industry should pick up again in H2, reaching -2% compared to the pre-crisis level in Q3, then -1% in Q4 (► **Figure 8**). It is expected to be driven by agrifood, which looks set to increase slowly compared to its high level in June (► **Figure 9**), "other industrial branches" (chemical products, textiles, metallurgy, etc.) and capital goods, which are expected to return to their pre-crisis level. In these last two branches, supply difficulties are unlikely to result in a decline, as the personal production prospects expressed by companies

in the business tendency surveys were good. Shortages in the automobile sector are likely to continue to affect activity in the transport equipment branch, resulting in the occasional closure of some production lines. Construction activity should continue to rise and reach -2% in Q4, compared to its pre-crisis level. In mainly market services, a strong rebound is expected by the end of the year in those branches previously affected by the restrictions, leading to levels of activity unprecedented since the beginning of the crisis: trade should return to its pre-crisis level and in accommodation-catering, leisure services and transport services, activity is expected to pick up, although without a return to pre-crisis levels as there are still some factors that have a structural effect on demand (increased use of teleworking, uneven recovery of international tourism and business travel, etc.). In trade, accommodation-catering and transport services, activity may have been affected in August by the introduction of the health pass, but only occasionally and not to any great extent. In addition, the branches that have already exceeded their pre-crisis level should remain dynamic (especially information-communication and services to businesses), at a pace closer to trend. Differences between services that were previously affected directly by the restrictions

► 8. Estimated then forecast loss of economic activity by branch, on average quarterly

difference to Q4 2019, in %

Branch	weight	2020				2021			
		T1	T2	T3	T4	T1	T2	T3	T4
Agriculture, forestry and fishing	2	0.2	0.2	0.1	-0.8	-1.8	-2.4	-1	-1
Industry	14	-5.2	-21.3	-5.6	-3.5	-2.7	-2.7	-2	-1
Manufacture of food products, beverage and tobacco-based products	2	-0.6	-9.4	-1.4	-3.0	0.5	2.1	4	4
Coke and refined petroleum	0	6.8	28.2	21.7	31.0	128.4	103.0	83	83
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-7.0	-23.9	-6.7	-4.1	-2.4	-3.4	-1	0
Manufacture of transport equipment	2	-12.7	-50.1	-21.1	-18.1	-23.2	-26.5	-23	-23
Manufacture of other industrial products	6	-5.7	-22.4	-5.9	-3.3	-1.3	-1.5	-1	0
Extractive industries, energy, water, waste treatment and decontamination	3	-2.7	-11.7	0.6	3.5	2.4	3.9	3	3
Construction	6	-12.6	-34.6	-6.5	-6.8	-5.9	-3.2	-2	-2
Mainly market services	57	-5.4	-17.9	-4.5	-6.1	-6.3	-4.5	-1	0
Trade; repair of automobiles and motorcycles	10	-6.2	-17.4	-0.3	-2.1	-2.3	-3.2	-1	0
Transport and storage	5	-11.0	-33.7	-18.2	-21.5	-19.0	-14.8	-8	-8
Accommodation and catering	3	-20.6	-59.6	-26.9	-48.4	-55.1	-42.1	-16	-11
Information and communication	5	-1.7	-7.2	0.0	2.5	3.9	4.7	7	7
Financial and insurance activities	4	-4.7	-15.2	-2.8	-1.9	-0.3	1.7	2	3
Real estate activities	13	-1.3	-3.8	-0.8	-0.5	-0.3	0.4	0	1
Scientific and technical activities; administrative and support services	14	-4.4	-17.7	-2.7	-1.7	-2.3	-0.9	1	1
Other service activities	3	-10.3	-41.6	-13.3	-25.1	-27.1	-22.0	-11	-8
Mainly non-market services	22	-4.6	-15.1	1.2	-0.1	0.2	-0.1	1	1
Total VA	100	-5.5	-18.4	-3.5	-4.4	-4.3	-3.2	-0.6	-0.1
Taxes and subsidies		-7.1	-18.8	-1.5	-3.5	-4.1	-3.2	-0.6	-0.1
GDP		-5.7	-18.4	-3.3	-4.3	-4.3	-3.2	-0.6	-0.1

■ Forecast

How to read it: in T3 2021, the loss of activity in the accommodation-catering branch is expected to be -16% compared to its pre-crisis level.

Source: INSEE calculations from various sources

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and those that were not are unlikely to disappear. All in all, activity in mainly market services in Q3 is expected to be 1% below the pre-crisis level, then will return more or less to this level in Q4. In mainly non-market services, activity also looks set to follow an upward trajectory closer to trend.

As a quarterly variation, GDP is expected to increase by 2.7% in Q3, then 0.5% in Q4 (► **Figure 10**). All in all, as an annual average, it looks set to rebound strongly in 2021 (+6¼% after -8.0%). Of course, the

scenario for the end of the year remains surrounded by uncertainties: in particular, it is still dependent on the stability of the health situation and any developments among our partners. New restrictions could affect activity if the epidemic were to flare up again and the vaccination coverage were not able to contain it; similarly for sourcing problems if they persist. Conversely, it is possible that activity will grow faster than expected if the health situation does not deteriorate again and if the spending momentum is maintained. ●

► 8. Estimated then forecast loss of economic activity by branch, on average quarterly

difference to Q4 2019, in %

Branch	weight	2021									
		January	February	March	April	May	June	July	August	September	
Agriculture, forestry and fishing	2	-2	-2	-2	-2	-2	-2	-2	-2	-1	-1
Industry	14	-1	-4	-3	-3	-3	-2	-2	-2	-1	-1
Manufacture of food products, beverage and tobacco-based products	2	1	-1	1	1	2	4	4	4	4	4
Coke and refined petroleum	0	111	127	148	142	95	73	83	83	83	83
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-1	-3	-4	-3	-5	-3	-2	-1	0	0
Manufacture of transport equipment	2	-18	-26	-26	-25	-26	-28	-23	-23	-23	-23
Manufacture of other industrial products	6	1	-3	-2	-2	-2	-1	-1	-1	-1	-1
Extractive industries, energy, water, waste treatment and decontamination	3	4	1	2	3	5	4	3	3	3	3
Construction	6	-7	-5	-5	-3	-3	-3	-3	-2	-2	-2
Mainly market services	57	-6	-7	-6	-8	-4	-1	-1	-1	-1	-1
Trade; repair of automobiles and motorcycles	10	-2	-3	-3	-7	-2	0	-1	-1	0	0
Transport and storage	5	-20	-19	-19	-19	-14	-12	-8	-7	-8	-8
Accommodation and catering	3	-56	-55	-54	-58	-44	-25	-14	-19	-14	-14
Information and communication	5	4	3	4	3	5	6	7	7	7	7
Financial and insurance activities	4	-1	0	0	-1	2	4	2	2	2	2
Real estate activities	13	0	0	0	0	0	1	0	0	1	1
Scientific and technical activities; administrative and support services	14	-2	-3	-2	-3	0	1	1	1	1	1
Other service activities	3	-27	-28	-27	-31	-21	-14	-11	-12	-11	-11
Mainly non-market services	22	0	0	0	-1	0	1	1	1	1	1
Total VA	100	-4.0	-4.7	-4.2	-5.4	-2.9	-1.3	-0.8	-0.7	-0.4	-0.4
Taxes and subsidies		-4.3	-4.0	-3.9	-7.6	-2.1	0.0	-0.8	-0.7	-0.4	-0.4
GDP		-4.0	-4.6	-4.2	-5.7	-2.8	-1.2	-0.8	-0.7	-0.4	-0.4

■ Forecast

How to read it: in July 2021, the loss of activity in the accommodation-catering branch is expected to be -14% compared to its pre-crisis level.

Source: INSEE calculations from various sources

► 10. Estimated then forecast loss of economic activity

	2020				2021				2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Quarterly variation (in %)	-5.7	-13.5	18.6	-1.1	0.0	1.1	2.7	0.5	-8.0	6¼
Difference compared to pre-crisis level (Q4 2019)	-5.7	-18.4	-3.3	-4.3	-4.3	-3.2	-0.6	-0.1		

■ Forecast

How to read it: in Q3 2021, GDP is expected to stand at -0.6% compared to the pre-crisis level (Q4 2019), on the rise (+2.7%) over Q2 2021.

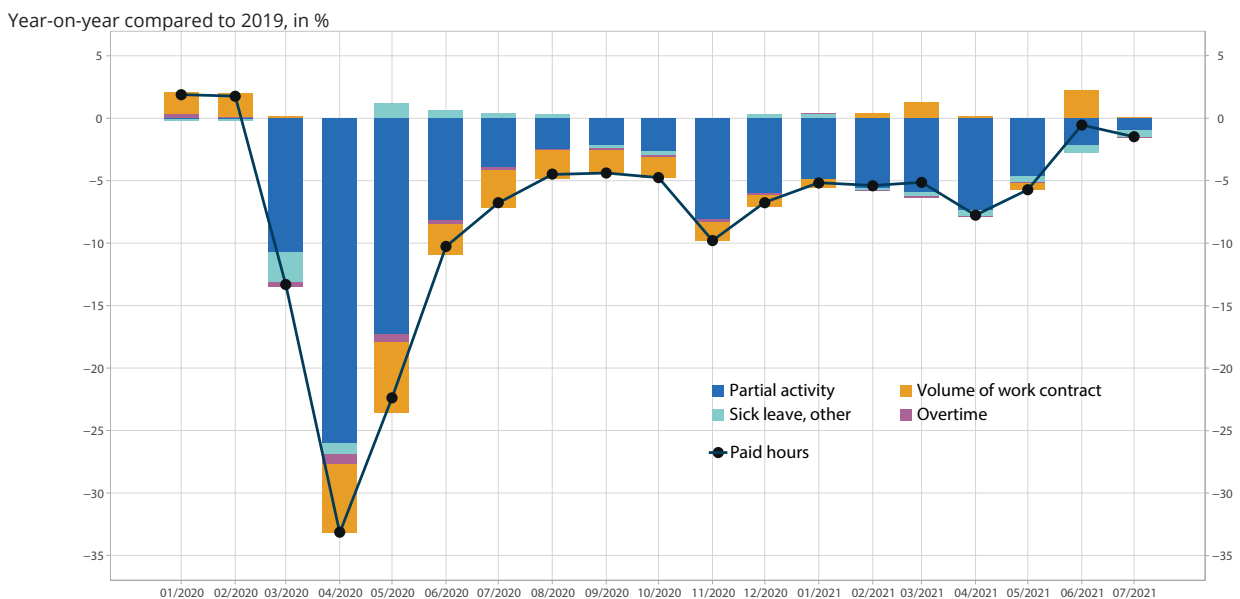
Source: INSEE calculations from various sources

Payroll employment rose sharply in Q2

Between the end of Q1 and the end of Q2 2021, private payroll employment increased by 1.2% according to the flash estimate published in August. Although this increase is much more significant than that forecast in the *Economic Outlook* of 1st July (+0.3% in public and private payroll employment), it is nevertheless smaller than the increase in activity over that period: between March and June, activity rose by about 3% according to estimates based on detailed results for Q2, from -4% in March compared to the pre-crisis level to -1% in June. The lesser momentum in employment is mainly due to companies' reduced use of short-time working schemes, as they were able to increase their production by not only hiring additional staff but also using their employees who were previously on short-time working.

In this respect, the dynamism of paid hours¹ gives a much better picture of change in activity than employment. In fact, paid hours, as estimated from companies' Nominative Social Declarations, reflect the actual work carried out in the economy. In March 2021, the number of paid hours was 5% below the level for March 2019; then in June, this number was about 1% below the level for June 2019, i.e. a similar increase to that in economic activity within the meaning of GDP. The decline in the use of short-time working accounts for most of this increase (► [Figure](#)).

► Change in the volume of paid work compared to 2019 and contributions to this change



Source: DSN; provisional treatments INSEE

1 See Focus in the *Economic Outlook* of 17 November 2020: "The volume of work paid by companies, an invaluable indicator for analysing the current crisis".