

ECONOMIC PULSE

FRANCE: BUSINESS CONFIDENCE IN FREE FALL IN MARCH

Judging by the indicators on our radar screen, the picture for the French economy is deteriorating, albeit, it should be remembered, from a relatively strong position. For nearly all our indicators, the blue zone (representing recent trends) is shrinking, below the dotted black zone (4-months ago momentum) and also below the grey circle (showing the long-term average). The data that interest us most are those which provide the most up-to-date information on the scale of the recessive shock triggered by the Covid-19 pandemic, namely confidence surveys for which data is available up to March, whereas the last hard data point is in January.

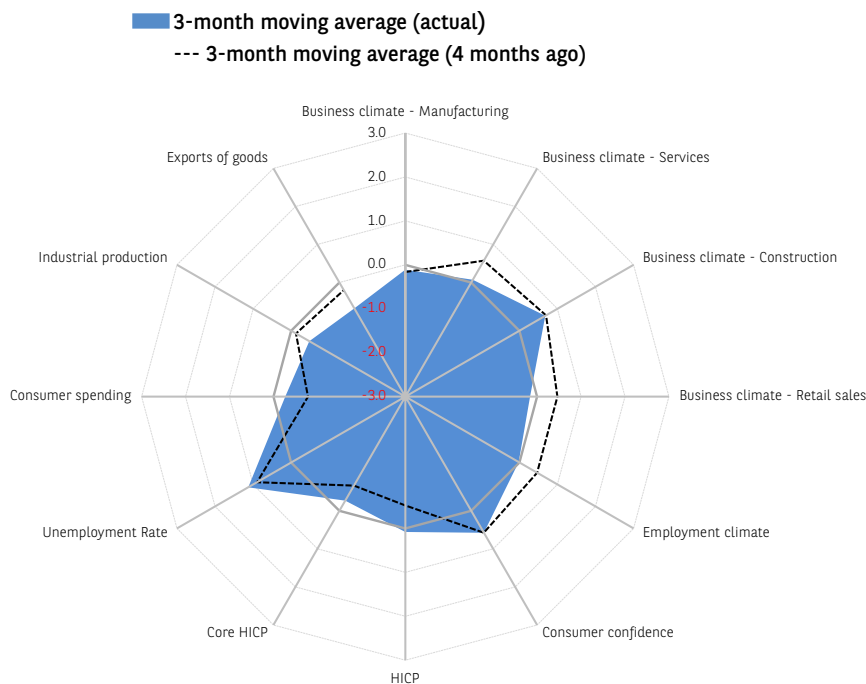
The shock seems considerable. INSEE's composite business confidence indicator dropped by 10 points to 95 in just one month. This beat the previous record drop, set in October 2008, by 1 point. For once, the manufacturing sector is showing the most resistance, with a fall in its business climate indicator limited, surprisingly, to just 3 points, compared to drops of 14 points in services and 13 points in retail. The stability of the indicator in the construction sector is probably not significant. For all of the findings in this latest batch of survey data, INSEE has warned that in the context of the fight against Covid-19,

the March figures could be less precise than usual, as survey responses were gathered before 16 March 2020. Unsurprisingly, in all sectors the biggest falls came in the balance of opinion on business outlook. Equally unsurprisingly, employment prospects were also caught up in the turmoil, shedding 9 points.

Although consumer confidence looks relatively unscathed for now – INSEE's summary indicator fell by only 1 point in March – INSEE has suggested that this might be a "sampling" effect, as the figures reflect mainly consumer confidence in the economic situation at the beginning of March. Even then, however, concerns were beginning to grow, as evidenced by the sharp deterioration in the balance of opinions on the opportunities to make major purchases, and the prospects for standards of living in France and for unemployment. We would therefore expect a marked decline in consumer confidence in April. We would also expect to see the deterioration of the business climate continue, but would hope that the drop will be less 'vertical'.

Hélène Baudchon

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -3 and 3 in almost all cases. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area signals an improvement. In the right pane, the surprise is an actual outcome that differs from the market forecast (Bloomberg).

