

ECONOMIC PULSE

FRANCE: EROSION OF CONFIDENCE IN FEBRUARY

We took away three key points from the detailed breakdown of the Q4 2020 quarterly accounts. First, households reported remarkable purchasing power gains in both Q4 2020 (+1.5% q/q, +1.9% y/y) and full-year 2020 (+0.6%), even though GDP contracted (-1.4% q/q, -4.9% y/y; -8.2% in annual average terms). The resilience of household purchasing power is largely due to emergency support measures. Second, the household savings rate rose consequently very strongly (to 21.4% in 2020, compared to 14.9% in 2019). Unlocking these savings is one of the key factors behind a vigorous rebound in economic growth. The debate has become fiercer in recent days on how to encourage this freeing, and announcements are expected in the weeks ahead. Third, margins of non-financial companies, slightly up in Q4 (+0.7 points, after +2.3 points in Q3), nonetheless declined sharply in 2020 (-4 points to 29.3%, the lowest level since 1985). Restoring margins will be another key factor.

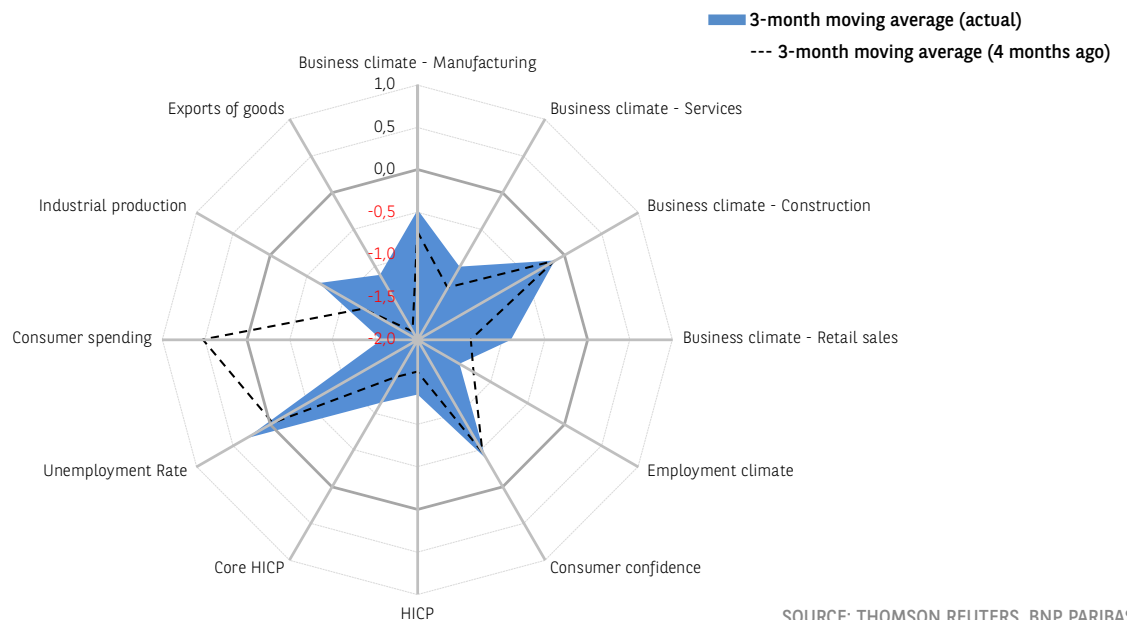
As to the cyclical situation in the first months of the year, the results are mixed. Since the outbreak of the Covid-19 crisis, consumer spending on goods has been very jagged, with a series of drops followed by rebounds depending on whether lockdown measures are tightened or eased. This spending declined again in January, down 4.6% m/m, after jumping 22.4% m/m in December, following a 17.9% plunge in November. On a year-on-year basis, consumer spending is at the same level as in January 2020.

The INSEE composite business climate index eroded, down 1 point to 90, after holding flat in January, as did the Markit composite PMI (-0.7 points to 47, after -1.8 points in January). This slight deterioration masks more clear-cut sector trends. The industrial sector continues to weather the crisis better than services, and has done significantly better based on the strong increase in the manufacturing PMI (+4.5 points to 56.1, a 3-year high). Business confidence continues to erode in services (PMI dropped 1.7 points to 45.6 and the INSEE index fell 3 points to 88) and retail trade (the INSEE index was down 4 points to 89). The signal is also negative on the household confidence front (-1 point to 91, after a 3-point decline in January).

How the situation will evolve in March is still highly uncertain. The most likely scenario seems to be a slight erosion of economic activity. Yet for Q1 2021 as a whole, the French economy is likely to avoid another contraction in GDP thanks to the stability of the situation in January and February: as in December, the economy was operating at 96% of pre-crisis levels in the first two months of the year.

Hélène Baudchon

QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -2 and +1. 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 compared to the dotted area signals an increase in the variable.

