

# France

## Massive recessionary shock

Clearly, 2020 will not be another year of slow but resilient growth as we were forecasting just last quarter. We must now expect a massive recessionary shock triggered by the Covid-19 pandemic. To date, the INSEE estimates the instantaneous loss of economic activity linked directly to confinement measures at 35%, which is equivalent to slashing off 3 points of annual GDP per month of confinement. In March, the business climate was in free fall, which gives us a first glimpse of its scope. A full arsenal of measures have been deployed to mitigate the shock as best possible. According to our estimates, French GDP could contract by 3.1% in 2020, more than the 2.8% decline reported in 2009, before rebounding by 5.4% in 2021. These forecasts are highly uncertain, with risks on the downside.

### ■ A relatively positive pre-crisis situation

Q4 2019 figures surprised on the downside as GDP unexpectedly contracted by 0.1% q/q (vs expectations of +0.3%). Yet this fall followed five consecutive quarters in which France showed remarkable resilience to the global slowdown. The poor Q4 performance was also marred by strikes and protests against pension reform, as well as other sector troubles (automobile sector, aeronautical sub-contractors) and mild weather conditions (which meant less energy consumption). Lastly, business confidence surveys for January and February continued to show signs of resilience and the horizon seemed to be clearing on the international front. A strong technical rebound seemed to be taking shape in the first quarter, and it looked like full-year 2020 GDP growth would hold close to the 2019 rate of 1.3%.

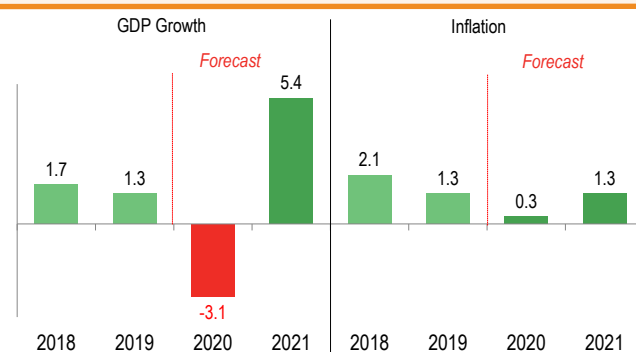
### ■ Covid-19 crisis: a “black swan” shock

Yet we hardly had time to formulate this scenario before it was shaken by the outbreak of the Covid-19 epidemic in China in January. It became totally obsolete as the virus spread globally in February and March, with the introduction of confinement measures and business restrictions to try to halt the contagion. The Covid-19 outbreak is a perfect example of an extreme “black swan” shock: an unpredictable, low probability-huge cost event. Indeed, the Covid-19 pandemic is an unprecedented, multi-dimensional shock that is hitting both supply and demand, an abrupt, widespread, global shock affecting all sectors of economic activity in both the real and financial spheres, with innumerable multiplier effects.

Today its cost is difficult if not impossible to quantify given the unprecedented nature of the shock, and because we still do not know its end date. Nonetheless, the release of the business confidence survey results for March provides us with a first glimpse of its scope. The PMI and INSEE indexes have both plunged. The INSEE composite business climate index dropped by 10 points in one month – an unprecedented decline – to 95, beating by a full point the record fall reported in October 2008. Although the index has fallen back below the long-term average of 100, it is still far above the all-time low of 68 reported in March 2009, unlike the Markit composite PMI, which dropped to 30.2. Just this once, it was the manufacturing sector that proved to be the most resilient: the INSEE manufacturing index declined only 3 points while the services and retail indexes were down 14 and 13 points, respectively. The stability in the construction sector was not significant. Considering the circumstances, indeed, the INSEE warned that for all these surveys, the March statistics might not be as precise as usual. Most of the responses were collected before 16

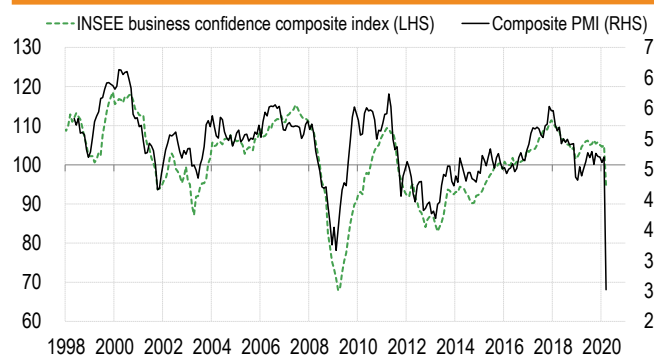
### 1- Growth and inflation

(YY, %)



Source: BNP Paribas Global Markets

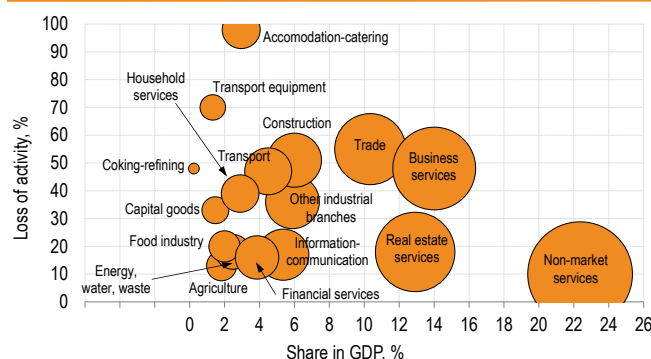
### 2- Business confidence



Source: INSEE, Markit, BNP Paribas

### 3- Sector impact of the Covid-19 containment measures

The size of the circles corresponds to the share in the GDP



Source: INSEE, OFCE (policy brief n°65, March 2020), BNP Paribas



March, the date when confinement was first announced. In each sector, it was the balance of opinions concerning future prospects that fell the most. The labour market climate was also swept up in the turmoil and dropped 9 points.

As to household confidence, a “data collection” effect limited the decline in the INSEE synthetic indicator to 1 point. According to the INSEE, the publication essentially reflects household opinions on the economic situation in early March. Yet even so, worries were already beginning to surface, as illustrated by the large dip in the balance of opinions concerning the opportunity to purchase big ticket items and future trends in unemployment and the standard of living in France. In April, we should expect to see a sharp drop in household confidence, as well as in the business climate, although we can hope the decline will be less vertiginous.

Along with these business confidence surveys, the INSEE also published its preliminary estimate of the loss of economic activity linked directly to measures to halt the Covid-19 pandemic. The instantaneous loss is estimated at 35%, which is equivalent to slashing off 3 points of full-year GDP per month of confinement. Similar estimates were released by the OFCE, the French economic observatory, and the OECD: the monthly loss of activity was estimated at about 30% and 25%, respectively, and the negative shock on GDP at 2.6 points and roughly 2 points<sup>1</sup>. These headline figures for the loss of activity mask major disparities between sectors in terms of the size of the decline (see chart 3) and the slight “buffer” effect in some sectors, which have managed to maintain or increase activity (food stores, e-commerce, pharmacies, telecommunications and healthcare). From a more general perspective, the sector structure of the French economy is both favourable and unfavourable in the current crisis. The weight of the non-market services sector contributes to mitigate the impact of the crisis while the large share of the market services sector, which usually serves as the buffer, is a strong negative this time.

To manage the shock, an arsenal of measures has been deployed to preserve as best as possible production capacities, employment, household revenues and corporate cash flows, to avoid bankruptcies in chain. In this way, once the healthcare crisis is over, the country would be prepared to return to work and restart the economy as rapidly as possible. These measures can be grouped into three categories:

- *Direct support*: simplification and strengthening of short-time working schemes (EUR 8.5 bn for two months); additional healthcare expenditures (EUR 2 bn); a solidarity fund for very small businesses, the self-employed, professionals and micro-enterprises that have been hard hit by the crisis (EUR 1 bn per month); and looser conditions for the payment of the Macron tax-free bonus (the government is also exploring the possibility of doubling the amount to EUR 2000);
- *Deferrals* (for companies and the self-employed): taxes and social welfare contributions due in March (EUR 32 bn); rent, water,

- electricity and gas bills (for small businesses experiencing hardships); and bank payments for a 6-month period;
- *State guarantees*: on liquidity loans granted between 16 March and 31 December (EUR 300 bn); public reinsurance for credit insurance outstanding (EUR 10 bn); and an increase in various public insurance facilities for export companies.

The government’s stimulus package initially totals EUR 45 bn, which is considered to be a minimum. In addition to these fiscal and financial support measures, there are also European measures, the ECB’s monetary support measures, and the easing of prudential regulations in the banking sector to keep monetary and financial conditions from tightening and to ensure the smooth financing of the economy. These measures look appropriate to address the dire consequences of the crisis; their effectiveness will now be put to the test. The dive in oil prices provides a mitigating effect that is hardly a drop in the bucket in the near term, but which could prove to be a major support factor during the post-crisis period.

### ■ The post-crisis period: what kind of a recovery?

Predicting the type of recovery that will follow the Covid-19 crisis is just as difficult as trying to estimate the scope of the recessionary shock. One would hope for a V-shaped recovery, in which activity restarts rapidly and business quickly returns to pre-crisis levels, i.e. by the end of 2020. This scenario is still within the realm of the possible. Though extremely abrupt and widespread, the economic shock triggered by the Covid-19 pandemic should be only temporary, and its roots are not as deep as in the 2008 financial crisis. Moreover, economic policy responses have been rapid and massive, and will continue to be implemented as needed. The economy could bounce back rapidly once the health risk has receded. But when might that happen? That is the big question. Until then, the longer the crisis lasts, the more it will erode the capacity for a rapid, comprehensive rebound. Looking at the situation on a sector basis, we cannot say “the harder the fall, the more rapid the recovery”. Take tourism, air transport and aeronautics, to name but three examples at the heart of the French economy: it will probably take a long time before these sectors return to pre-crisis levels. Among the consumer spending and investment projects that were postponed, many will never be restarted or replaced. And even if demand is on track, would supply be able to handle it? And vice versa? Lastly, regaining confidence is also a key factor. For all these reasons a V-shaped recovery does not seem to be the most likely scenario. A more realistic scenario would be a U-shaped recovery, with a longer recuperation period. An L-shaped scenario cannot be excluded either, depending on what scars, hysteresis effects and changes in behaviour the crisis leaves in its wake.

In conclusion, we estimate that French GDP could contract by 3.1% in 2020 (average annual growth rate, seasonally and working days adjusted), a bigger contraction than the 2.8% reported in 2009. Thereafter, the economy would rebound by 5.4% in 2021. It goes without saying that these forecasts are highly uncertain, with risks on the downside.

**Hélène Baudchon**

[helene.baudchon@bnpparibas.com](mailto:helene.baudchon@bnpparibas.com)

<sup>1</sup> [https://www.insee.fr/fr/statistiques/fichier/version-htm/4471804/Point\\_de\\_conjoncture\\_INSEE\\_26mars2020\\_7h30.pdf](https://www.insee.fr/fr/statistiques/fichier/version-htm/4471804/Point_de_conjoncture_INSEE_26mars2020_7h30.pdf) ; <https://www.ofce.sciences-po.fr/pdf/pbrief/2020/OFCEpbrief65.pdf> ; [https://read.oecd-ilibrary.org/view/?ref=126\\_126496-evgsi2gmgj&title=Evaluating\\_the\\_initial\\_impact\\_of\\_COVID-19\\_containment\\_measures\\_on\\_economic\\_activity](https://read.oecd-ilibrary.org/view/?ref=126_126496-evgsi2gmgj&title=Evaluating_the_initial_impact_of_COVID-19_containment_measures_on_economic_activity).

