

# ECONOMIC PULSE

## FRANCE: RELAPSE

Although the economic impact of the November lockdown will certainly not be as harmful as the one last spring, there is still some uncertainty over the size of the Q4 2020 GDP contraction. The INSEE and the Bank of France both estimate that the economy was operating at 96% of normal levels in October, before falling back to 88% in November (vs. 71% in April 2020). With a slightly less restrictive version of the lockdown extending into December, this percentage could pick up slightly but how much? Our forecast of a 5% q/q decline in Q4 GDP (completed prior to the 24 November announcement of the easing of lockdown restrictions) is based on the technical assumption that the rate could rise to 90%. This assumption, as well as our contraction forecast, could prove to be too pessimistic. In its latest *Point de Conjoncture* dated 2 December, the INSEE is estimating this figure at 92%, with a 4.4% q/q decline in GDP.

Our barometer signals only a very partial downturn in activity yet: the blue area still overlaps with the dotted area, if only slightly, with the exception of a persistently weak inflation and a misleading fall of the unemployment rate (Eurostat data).

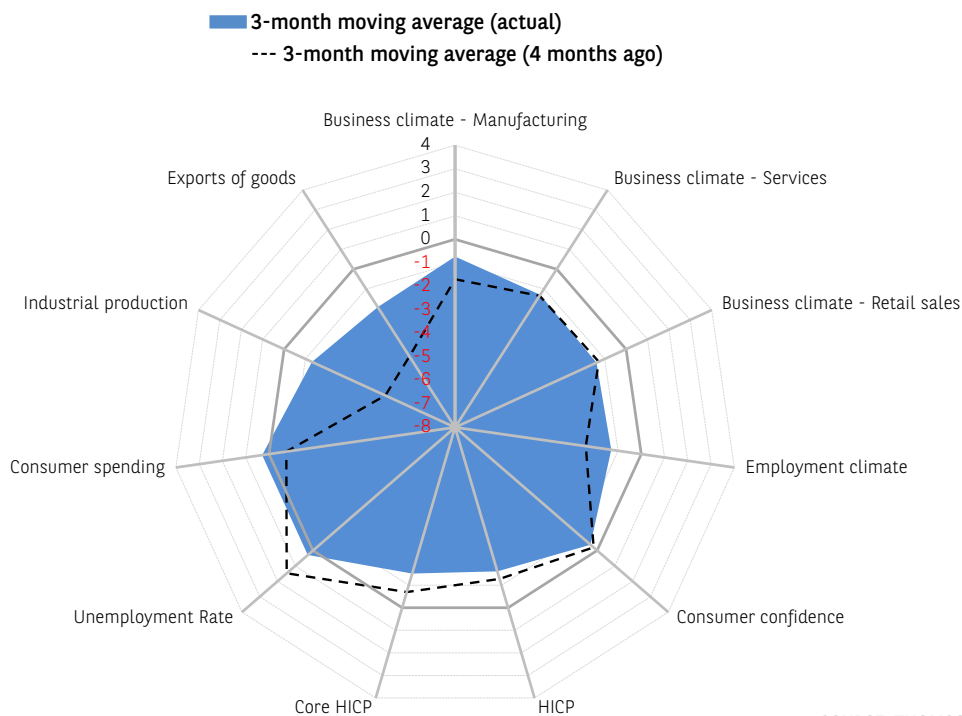
Confidence surveys fell sharply in November. The INSEE composite business climate index dropped 11 points to 79, after shedding

2 points in October. It has now lost all of the ground regained between July and September. Retail trade was hit hardest (-24 points in October-November), followed by the services sector (-17 points). In manufacturing, in contrast, the deterioration in the business climate was very minor (-3 points). This resilience is one of the striking factors differentiating this lockdown from the previous one. It is also one of the reasons why the shock is expected to have a less negative impact on GDP. The INSEE household confidence index also deteriorated sharply in November (-4 points to 90, after shedding a point in October), even though it had not picked up much since June. Household confidence is almost as low as it was in May.

We nonetheless feel like there are grounds for hope. The road ahead is still long, but the announced start-up of a vast Covid-19 vaccination campaign in 2021 raises hopes that we are finally seeing the light at the end of the tunnel. The economy is likely to rebound gradually with a long convalescence period (that could prove to be difficult as well). Yet the horizon seems to be getting a little brighter with the reduction in health risks, sanitary restrictions and uncertainty.

**Hélène Baudchon**

### QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

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 -8 and +4. 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.

