ECONOMIC PULSE

FRANCE: ON A ROLLER-COASTER

The main economic news is the publication by INSEE, on Friday 30 October, of its preliminary estimate for French GDP growth in Q3. The surprise has been on the upside, as the figure of 18.2% q/q growth is higher than our forecast of a 16% q/q gain. The rebound has been as spectacular as the collapse that preceded it (-5.9% q/q in Q1 and -13.7% q/q in Q2), but did not make up all of the ground lost: GDP is still 4% lower than its level at end-2019. All components of GDP showed better than expected improvements. The contribution from changes in inventories, which was more negative than expected, took a little of the shine off the recovery.

Our barometer also reveals this substantial if incomplete recovery: the blue area goes beyond the boundaries of the dotted area (with the notable exception of inflation, which has weakened still further) but remains largely delimited by the hendecagon showing long-term average values, with the notable exceptions in this case being the unemployment rate and consumer spending on goods. The former is uneasy to interpret for methodological reasons. Let us keep in mind that after soaring in Q2 (by 24% q/q), Category A jobseekers fell back again in Q3 (-11% q/q), in line with the economic recovery after the (first) lockdown. When it comes to goods spending, its return to pre-crisis levels is remarkable and makes it one of the few economic indicators to achieve this. However, the 3-month moving average hides the drop of 5.1% m/m in September. This was a payback to the catching up that had taken place in previous months and to the strong growth in August (2.2% m/m), driven in particular by the sales period. In current circumstances this drop is even more noteworthy, as it gives a possible foretaste of future falls under the effect of the succession of increasingly restrictive measures introduced since September to tackle the second wave of the epidemic.

Attention will now turn to Q4. We knew that the Q3 rebound, which was automatic for a large part, would be followed by weaker growth, as the automatic catch-up effects fall away and as substantial disparities between sectors and persistent public health constraints and uncertainties remain in play. This strong rebound in Q3 leaves a growth carry-over of 1% in Q4. The new lockdown, to last at least a month from 30 October, will make the pattern of growth look ever more like a roller-coaster. The question of the degree to which growth would slow has been replaced by that of the likely size of the contraction.

Confidence surveys, available until October, have already started to lose ground (modestly for consumer confidence, slightly more steeply for the business climate). Whilst this was unsurprising for the services sector, it was a bit more so in manufacturing. These figures will now almost certainly fall significantly in November, although the decline is expected to be smaller than in April, as the new lockdown is less stringent than the first. That said, it is being introduced in an economy weakened by the recessive shock of this spring. On the triple assumptions of an economy operating at 94% of its normal level in October (from 96% in September), an instantaneous loss of economic activity in November equal to half that seen in April (economy at 85% of normal rather than 70%), and a recovery to 94% in December (if the lockdown is not extended), then French GDP is likely to contract by 5% q/q in Q4. The government's recent announcements of an extension to emergency support measures may help cushion the blow to incomes, and thus to future economic activity, but will not help current activity levels.

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QUARTERLY CHANGES

■ 3-month moving average (actual)
--- 3-month moving average (4 months ago)
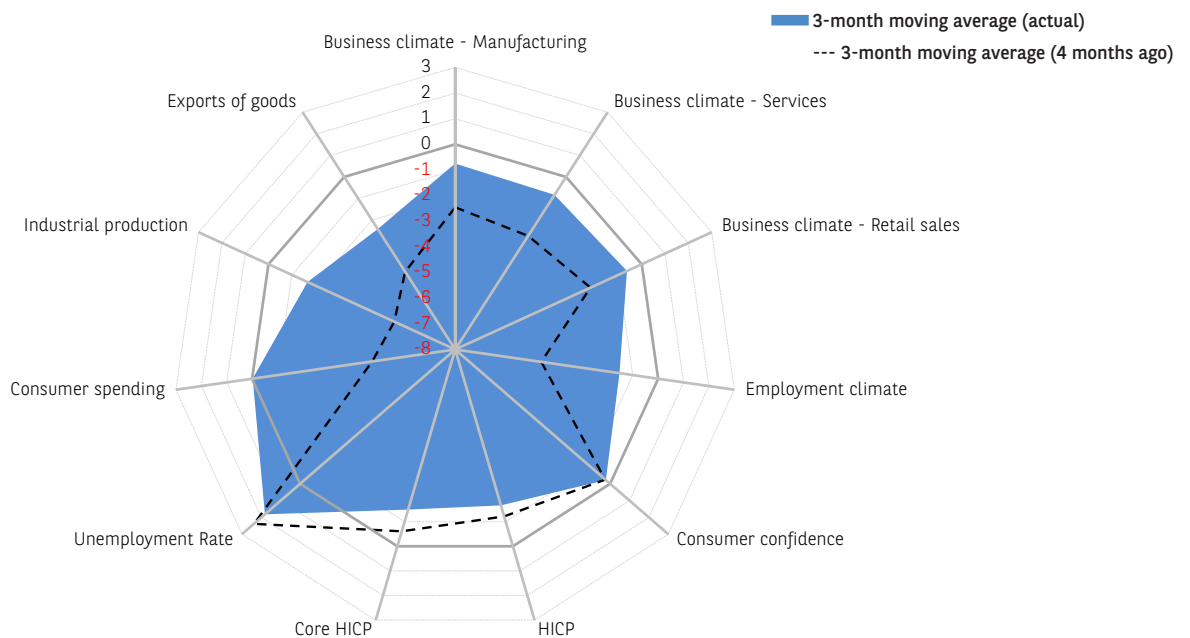
SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar and surprise charts 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 -8 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.

BNP PARIBAS

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