FRANCE: THE TAKE-OFF OF THE RECOVERY

Signs of the French economic recovery since the lockdown was lifted on 11 May are starting to show in our Pulse barometer. The upturn in the business climate indicators and household spending on goods clearly appears (data available through August and July, respectively). The improvement in production and exports isn't visible yet, but this is normal given that the most recent statistics date back to June and are still handicapped by the drop-off in activity in March-April (the average for the past three months remains much lower than the average for the previous 3 months).

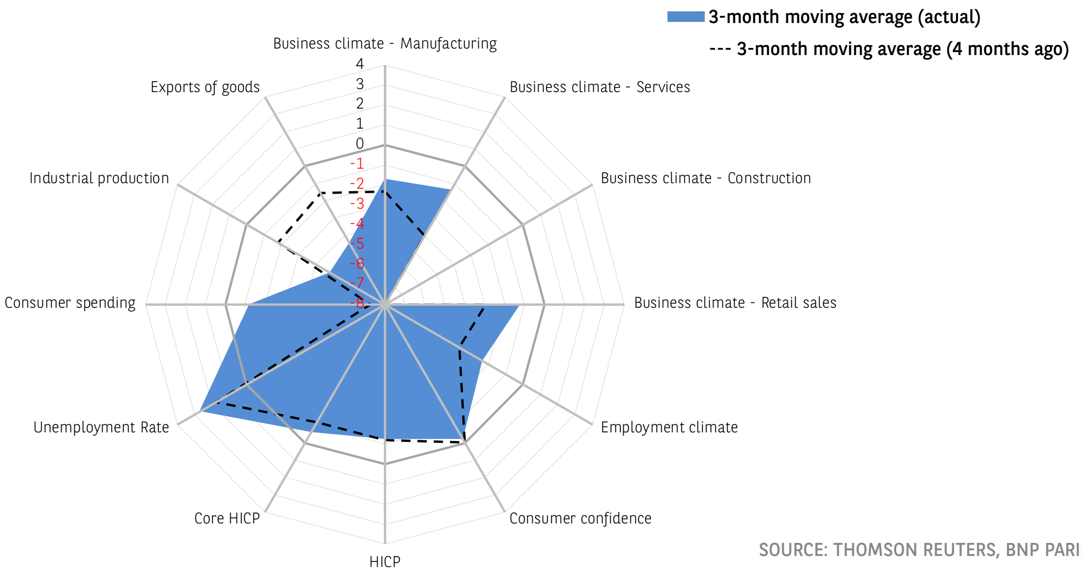
As to the business climate, INSEE survey results continue to pick up at a good pace and, unlike the Markit PMIs, they are not yet showing signs of winding down. The decline in August's PMIs can be attributed to a backlash after its exuberant rise. By June, the indices had more or less returned to pre-crisis levels, and July's increase brought the composite index to its highest level since February 2018 and well above the 50 threshold separating expansion from contraction (57.3). August marked a return to reality after what looks like an excessive bout of optimism. The upturn in INSEE survey results was more gradual, and the sector indexes are still holding at low levels, significantly below the benchmark average of 100 (91 for the composite index). The message sent by the INSEE survey data seems to be more realistic than that of the PMIs. It is more in keeping with the Bank of France's assessment, which estimates the economy turning at 93% of normal levels in July. In other words, the French economy has not fully recovered yet. Although the speed of the recovery is slowing according to the Bank of France, for the moment INSEE survey results are not sending the same message. The battle between a V-shaped and wing-shaped recovery continues.

As to household confidence, the picture is mixed or even negative. In March-April, the drop-off in household confidence was not nearly as sharp as for the business climate, but the rebound was also much weaker as well (delayed by a month, to June, and limited in scope). Moreover, it immediately faltered. Fears about rising unemployment have taken a heavy toll. Yet this discouraging trend for household confidence is not reflected in consumer spending on goods. The latter's vigorous rebound is one of the most positive – if not the most positive – points on our dashboard. In June, household spending on goods already exceeded February's level by 2.3%. In July, it rose by another 0.5% m/m. Although this isn't much compared to the surge of 35% in May and 10% in June, the pace is more representative of the trends we hope to see in the months ahead.

Much will depend, however, on how the labour market evolves. Although the massive recessionary shock due to the Covid-19 pandemic is behind us, more shock waves are still to come in the form of firms' bankruptcies and layoffs. The unemployment rate is bound to rise again. The big question is by how much. There is also the corollary question of what will happen to the involuntary household savings accumulated during the lockdown? To what extent will they be transformed into precautionary savings instead of consumer spending? On Thursday, 3 September, the government presented the details of its EUR 100 bn stimulus plan, which essentially aims to directly limit the scars of the crisis on companies and employment, which in turn indirectly benefits consumption. Supply-side support also helps stimulate demand.

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.