ECONOMIC OUTLOOK

October 2020

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A weakened economy

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A weakened economy

The Covid-19 epidemic is here for the long haul

In epidemiological terms, the scenario of a short-term epidemic that would be over by the summer now seems to be ruled out. After a lull, the virus is continuing to spread, both in France and in many other countries. In addition to the "protective measures" already in place, more restrictive containment measures which affect economic activity more directly (closure of bars, restaurants, gyms, etc.) are now targeting some local areas and some sectors specifically, more so than in the spring. Meanwhile, air passenger transport is still very hard hit, as it has been since the start of the health crisis.

The business tendency surveys are tinged with concern, especially in services

In September, the continued improvement in the business climate in France was mainly due, in most sectors, to improvements in opinions on past production, while prospects for activity in the next three months fell back, according to the business leaders questioned in the business tendency surveys. In services in particular, the balance of opinion on future activity has not yet returned to its long-term average, whereas it has in industry.

Household confidence has not rebounded since last April. However, the indicator on which it is based remains higher than during the great recession of 2008-2009, although worries about unemployment are approaching similar levels. More and more households believe that this is a good time to save.

Forecasts for the end of the year are becoming more uncertain

As has been the case since the beginning of the health crisis, economic activity in the coming months will be determined to a large extent by the way the epidemic evolves. However, by targeting protection measures more specifically, this should lessen their economic impact, especially compared to the general lockdown last spring. The signals for forecasting activity in Q4 2020 are only partial at this stage:

-The business tendency surveys suggest declining prospects for activity, but it is difficult to translate quantitatively this qualitative message put out in September, given the singularity of this potentially very dynamic situation by the end of the year;

-Most of the high-frequency data used last spring were useful for tracking sudden and wide-ranging movements, but less so for evaluating targeted and localised restrictive measures. Aggregated bank card transaction amounts nevertheless suggest a slowdown in household consumption in September, as do some indicators from search engine queries.

The risk of a hiatus, or even a relapse

After the sharp rebound associated with the end of lockdown (+16% forecast for Q3, after –13.8% in Q2 and –5.9% in Q1), there is a possibility that economic activity could come to a standstill at the end of the year as the second wave of the epidemic takes effect. In a Q4 scenario where the most severely affected services (accommodation-catering, transport services, recreation and leisure activities) were to return to their level of activity of last June after a lull during the summer, and where investment were to remain at a similar level to that in Q3 as a result of a wait-and-see stance, growth at the end of the year would be zero.

In such a scenario, French GDP at the end of the year would still be at 5% below its pre-crisis level, the same as its average over the summer.

This autumn forecast reflects the great uncertainty surrounding the coming months. A long-term tightening of existing health restrictions could cause GDP to contract further in Q4. Conversely, if the health situation stabilises, the change in GDP could be positive by the end of the year.

For 2020 overall, the contraction forecast for GDP remains around –9%.

Employment and household purchasing power are expected to fall in 2020, but much less than economic activity

Around 840,000 jobs, including almost 730,000 in payroll employment, are likely to be lost in 2020. However, this sharp decline (of about –3% as an annual average) is expected to be much less marked than the drop in GDP, due both to the short-time working scheme, either one-off or longer-term, and to a workforce retention phenomenon on the part of some businesses which appear to be retaining a large proportion of their employees at this stage, despite a contraction of their activity.

The halo of unemployment increased considerably during lockdown, given the difficulties in looking for a job at this time, but it is likely to decline, offset by a sharp rise in unemployment in H2. The unemployment rate is expected to rise dramatically from Q3 onwards, reaching 9.7% by the end of the year.

Inflation is likely to be zero year-on-year in December, limited to half a percentage point as an annual average in 2020. Given the various income protection measures put in place, household purchasing power per consumption unit looks set to decline by “only” one point over 2020, bearing in mind that this macroeconomic figure aggregates some very different individual situations.

With the rebound in consumption – which may ease at the end of the year – the household savings ratio, which virtually doubled in Q2 (as a result of forced savings) is expected to return to around 17% in H2, a slightly higher level than before the crisis.

Contrasting economic situations, depending on sectors of activity and local situations

The impact of the crisis is closely dependent on the degree to which each sector of activity has been exposed to the restrictive health measures. This *Note de Conjoncture* highlights those sectors that were particularly badly affected.

In industry, the aeronautics sector contributed significantly to the fall in exports of manufactured goods. Overall, however, services were affected more than industry: notably, accommodation-catering, passenger transport and cultural activities, which represent in total, in their market part, around 8% of value added. They appear potentially to have suffered long-term consequences and in H2 it is likely that most job losses will be concentrated here.

In addition to these sectoral differences there were also regional differences. For example, while tourist activity by French residents this summer was able to return to or even exceed its level of the previous year in some coastal or less densely populated regions, the major cities were penalised as a result of the decline in spending by French tourists, combined with the significant drop in the number of foreign tourists.

The epidemic has clearly shaken up the situation between sectors of activity and between regions, but it is too soon to tell, given the continuing uncertainty, to what extent these sectoral or regional changes are likely to be long-lasting. ■

Economic activity

In Q3 2020, economic activity on average is likely to settle at 5% below its pre-crisis level, a substantial rebound compared to the very low point reached during lockdown, when the economy was operating at only two thirds of its capacity. The resurgence of the epidemic since September has increased uncertainty, despite the fact that at this stage the latest restrictive health measures to be put in place are more targeted than those applied this spring.
Businesses responding to the ACEMO-Covid survey, conducted by DARES in association with INSEE, indicate the pace at which they expect their activity to "return to normal". However, they were surveyed before the announcement of restrictive measures limiting access to restaurants, bars and sports activities in a number of large cities and agglomerations. The same is true for the business tendency surveys, which showed a decline in September in companies' expectations for the next three months, especially in services. In addition, some high-frequency indicators decreased in September. Recovery is therefore likely to falter by the end of the year. Zero growth is expected in Q4: this forecast reflects the great uncertainty felt in the current period. The forecast for the contraction of GDP in 2020 is currently maintained at around –9%.

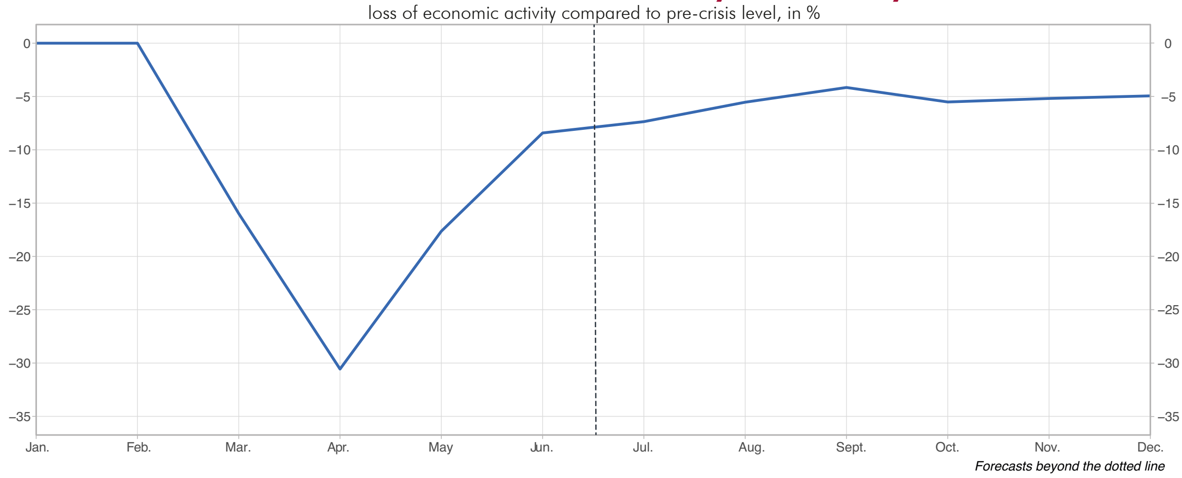
After a strong, partly automatic, rebound in Q3, it is likely that French economic activity will be affected by the uncertainties associated with the second wave of the epidemic

The rebound in economic activity was very strong as soon as lockdown was lifted, in May then in June. This continued, at a slower pace, during the summer months (*Graph 1*). All in all, on average over Q3, the loss of economic activity compared to the pre-crisis level looks set to be around 5%.

At the same time, over several weeks and after a lull during the summer, the spread of the virus intensified, especially in large cities. A two-fold uncertainty therefore looms over the end of the year, first regarding the development of the epidemic in the coming months, and second the possible intensifying of restrictive health measures, in addition to the basic preventive measures already in force. At this stage, the new measures are limited to certain urban areas and to certain sectors that are already severely affected by the health crisis (Focus), especially catering and cultural activities.

1 - Estimate then forecast of monthly loss of activity

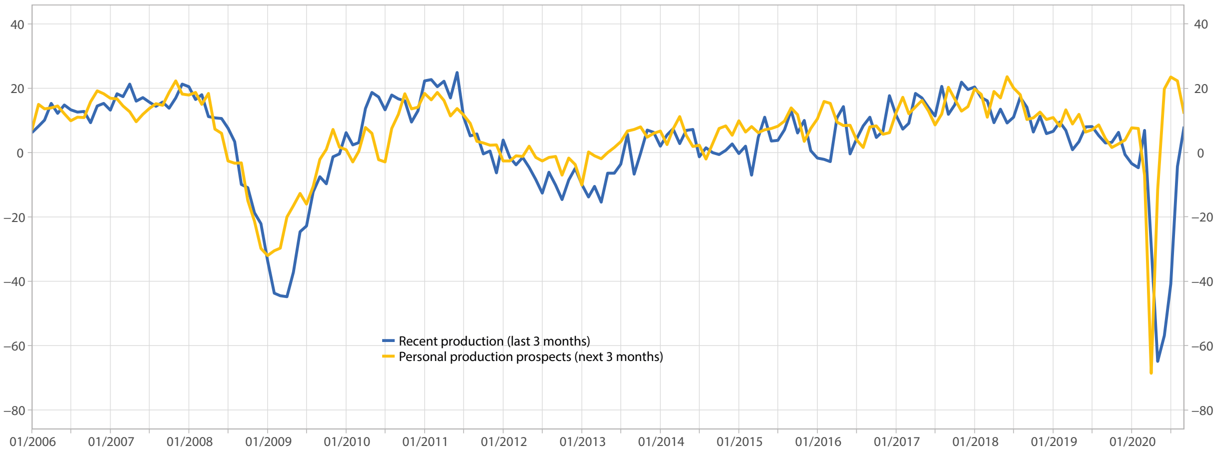
loss of economic activity compared to pre-crisis level, in %



How to read it: in September, economic activity is expected to be down by about 4% compared to its pre-crisis level. By the end of the year, it is expected to settle at around –5%.
Source: INSEE, DARES, ACEMO-Covid survey, INSEE calculations from various sources

2 - Opinion of business managers in industry on their output

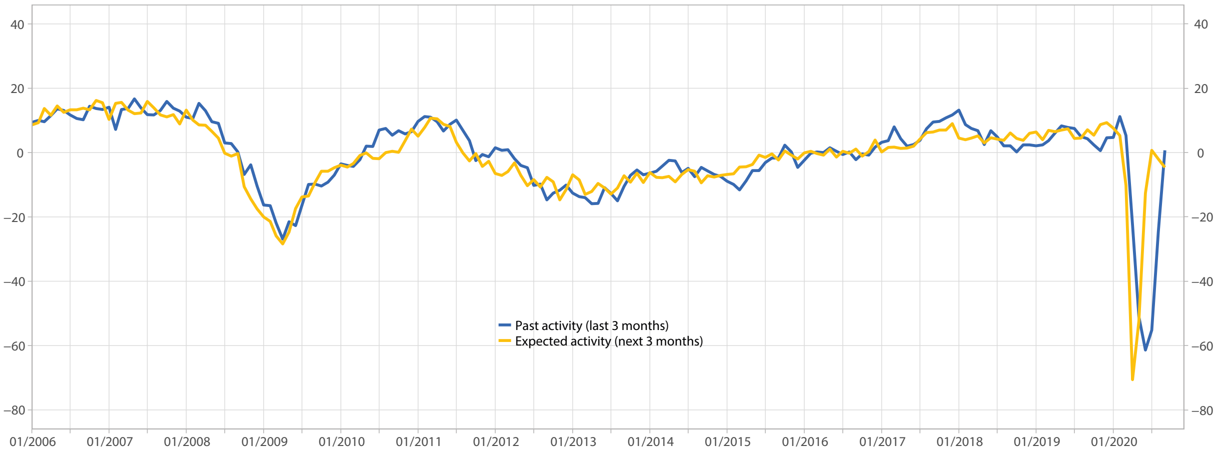
balance of opinion, in %, SA



Source: INSEE, monthly business survey in industry. Last point: September 2020

3 - Opinion of business leaders in services on their activity

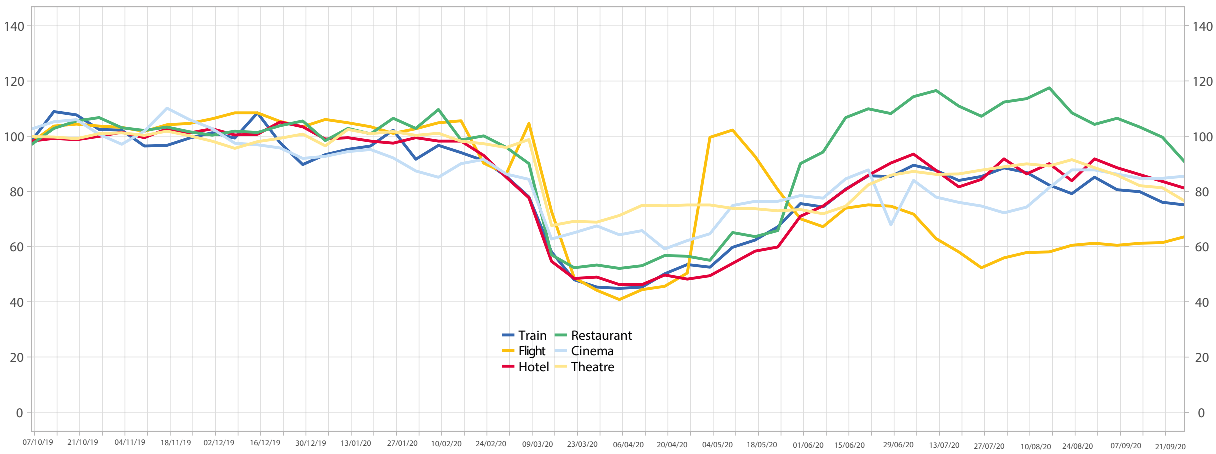
balance of opinion, in %, SA



Source: INSEE, monthly business survey in industry. Last point: September 2020

4 - Frequency of keyword searches on internet

average 100 between 2015 and 2019, SD 10, data SA



How to read it: during the week of 27 September to 3 October, the frequency of internet searches for the word "vol" ("flight" in English) *via Google* was almost 4 standard deviations lower than that observed on average between 2015 and 2019.

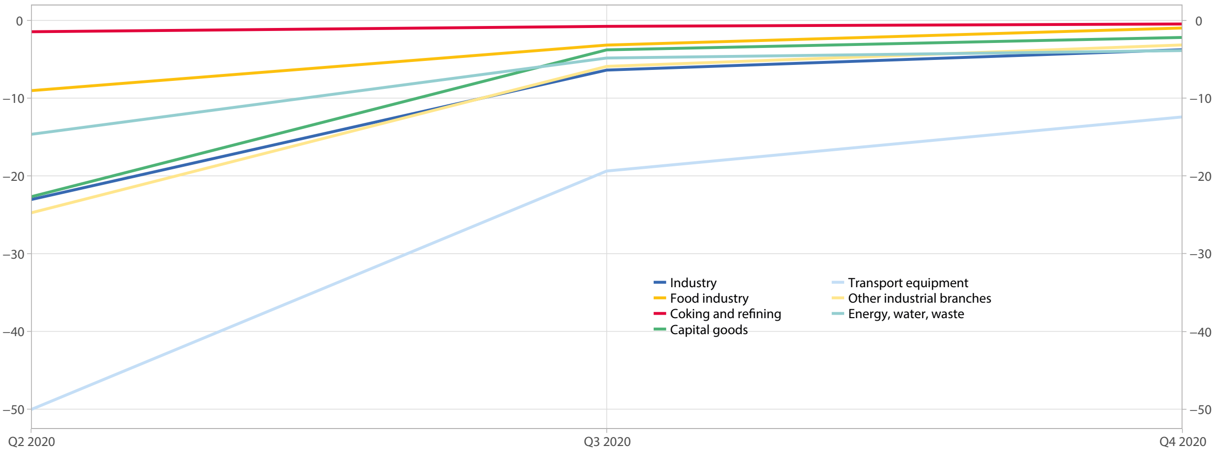
Source: Google Trends. Calculations: INSEE

In this context of heightened uncertainty, the monthly business tendency surveys published by INSEE provide information on companies' prospects for activity for the next three months. The September surveys, although conducted before the new restrictive measures were announced, reflect the climate of uncertainty that companies are experiencing (*Graphs 2 and 3*), with their prospects for activity considered to be in decline, especially in services. In the September edition of the ACEMO-Covid[1] survey, more companies are also unable to date their return to normal: they represented 32% of employees, after 30% at the end of July, the highest proportion since the beginning of the crisis. In addition, some "high-frequency" indicators, updated daily, can provide advance information on activity in specific sectors. This is the case, for example, for the number of queries on the *Google* search engine (*Graph 4*). Searches for the word "restaurant" declined strongly at the end of September; a similar decline also seems to be starting for "hotel", "cinema" and "theatre", while searches for "flight" stabilised at a very low level.

1. The sixth edition of the special ACEMO-Covid survey, conducted by DARES with support from INSEE, was used here. A sample of non-agricultural private-sector companies with 10 or more employees was surveyed between 31 August and 11 September 2020, on their situation and the employment conditions of the workforce in August.

5 - Estimate then forecast of loss of activity in industry

loss of economic activity compared to pre-crisis level, in %

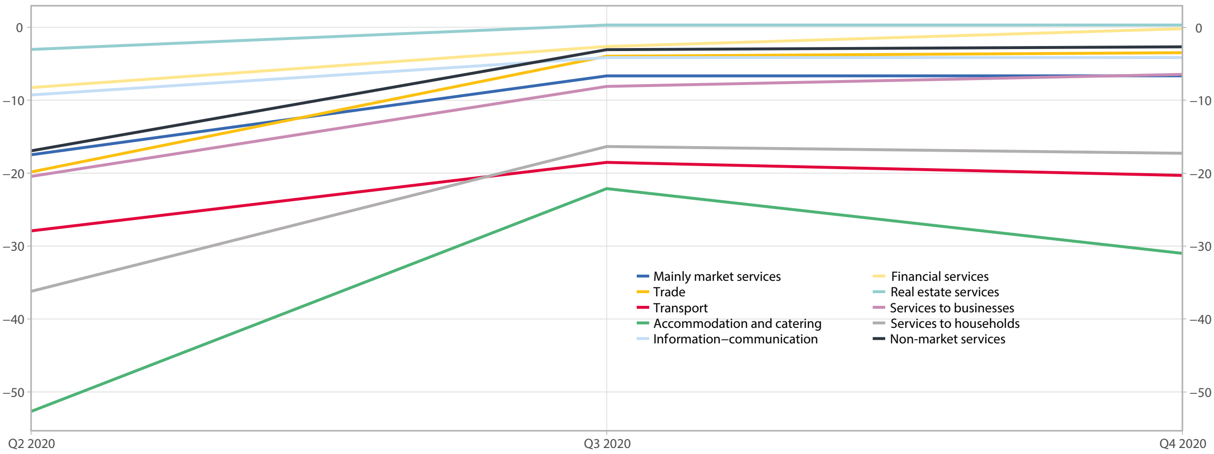


How to read it: in Q3, economic activity in the manufacture of food products, beverages and tobacco-based products branch (in terms of their output) is expected to be down 3% compared to the pre-crisis level.

Source: INSEE, DARES, ACEMO-Covid survey, INSEE calculations from various sources

6 - Estimate then forecast of loss of activity in services

loss of economic activity compared to pre-crisis level, in %



How to read it: in Q3, economic activity in the trade and repair of automobiles and motorcycles branch (in terms of their output) is expected to be down 4% compared to the pre-crisis level.

Source: INSEE, DARES, ACEMO-Covid survey, INSEE calculations from various sources

In Q4, activity could decline in the branches affected by the new restrictions; all in all, GDP looks set to stabilise by the end of the year, 5% below its pre-crisis level

As in previous *Points de Conjoncture*, forecasts made up to the end of the year are partly based on the pace of recovery expected by businesses, as expressed in the ACEMO-Covid survey. Companies' responses are aggregated at sector level, then projected onto estimates for economic activity for recent months so that a trajectory can be established sector by sector for the coming months (see method described in the *Point de Conjoncture* of 8 September 2020– *Economic Activity Sheet*).

However, given the rebound in the epidemic and the associated containment measures, some ad hoc assumptions were brought in for the Q4 forecast. First, it was assumed that in Q4 the services most severely affected (accommodation-catering, passenger transport, cultural and leisure activities) would return, on average, to their level of activity in June. In these sectors there was indeed a gradual reopening during this month, although there were differences from one area to another. Second, it was assumed that investments would stabilise in Q4 compared to Q3, in a context that no doubt favours the wait-and-see attitude of businesses and households alike.

Under these assumptions and taking into account data available elsewhere, economic activity overall is likely to be at a standstill in Q3 2020, thus remaining about 5% below its pre-crisis level.

Table 1 - Forecast of loss of activity in Q3 and Q4 2020, compared to the pre-crisis level (Q4 2019)

Branches	Share of GDP (in %)	Loss of activity in the second quarter 2020 (in %)	Loss of activity in the third quarter 2020 (in %)	Loss of activity in the fourth quarter 2020 (in %)	Contribution to the loss of activity in the third quarter 2020
Agriculture, forestry and fishing	**2**	**–6**	**–3**	**–2**	**0**
Industry	**14**	**–23**	**–6**	**–4**	**–1**
Manufacture of food products, beverages and tobacco-based products	2	–9	–3	–1	0
Coke and refined petroleum	0	–1	–1	0	0
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	–23	–4	–2	0
Manufacture of transport equipment	1	–50	–19	–12	0
Manufacture of other industrial products	6	–25	–6	–3	0
Extractive industries, energy, water, waste treatment and decontamination	2	–15	–5	–4	0
Construction	**6**	**–32**	**–5**	**–5**	**0**
Mainly market services	**56**	**–17**	**–7**	**–7**	**–4**
Trade; repair of automobiles and motorcycles	10	–20	–4	–3	0
Transport and storage	5	–28	–19	–20	–1
Accommodation and catering	3	–53	–22	–31	–1
Information and communication	5	–9	–4	–4	0
Financial and insurance activities	4	–8	–3	0	0
Real estate activities	13	–3	0	0	0
Scientific and technical activities; administrative and support services	14	–19	–8	–6	–1
Other service activities	3	–36	–16	–17	0
Mainly non-market services	**22**	**–17**	**–3**	**–3**	**–1**
Total	**100**	**–19**	**–5**	**–5**	**–5**
of which mainly market	*78*	*–19*	*–6*	*–6*	*–5*
of which mainly non-market	*22*	*–17*	*–3*	*–3*	*–1*

Forecast

How to read it: in Q3, economic activity is expected to be down 5% compared to Q4 2019. It is expected that the transport and storage branch, where the loss of activity is likely to be estimated at 19% in Q3 against 28% in Q2, will account for around 1 percentage point of this decline.

Source: INSEE calculations from various sources

This stability in the forecast reflects the uncertainty that characterises the current situation. An increase is not ruled out, especially if the health situation improves. Conversely, a deterioration on the health front could lead to additional economic losses.

In our central scenario, the variation between sectors of activity could be accentuated towards the end of the year (*Graphs 5 and 6*). The conditions for recovery in each sector depend closely on their degree of exposure to the restrictive health measures.

Some branches that experienced a considerable loss of activity during lockdown, like building construction, rebounded quickly (*Table 2*). Others, however, were affected in potentially more lasting ways. They were already very adversely affected during lockdown, and are likely to suffer again as the second wave of the epidemic takes hold, because the new restrictions concern them directly. According to this assumption, accommodation-catering, which was still in difficulty in Q3, could see its loss of activity worsen in Q4 due to the total or partial closure of establishments in some geographic areas. Other service activities – including sport, which is partly at a standstill, and culture, still in disruption – are likely to deteriorate slightly, as are transport and storage, linked with less tourism and business travel and the increase in remote working.

The forecast for annual GDP contraction remains at –9%

For the first time since the start of the health crisis, we are proposing a GDP forecast broken down according to the different demand items (*Table 2*). Meanwhile, *Table 3* shows differences from pre-crisis levels, quarter by quarter.

All in all over 2020, GDP is expected to contract by 9%. This forecast, rounded to the nearest whole number, takes into account some of the uncertainties inherent in this exercise in the current context, and is similar to that published in the July and September *Points de Conjoncture*. Household consumption, the main component of demand, is expected to decline by 7% over the year. Corporate investment (–10% forecast for the year) and exports (–18%) will probably decline more. ■

Table 2 - Goods and services : sources and uses at chain-linked previous year prices

Q/Q-1 and N/N-1 variations (in %)

Data SA-WDA

	2019				2020				2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Gross domestic product (GDP)	**0.5**	**0.2**	**0.2**	**–0.2**	**–5.9**	**–13.8**	**16**	**0**	**1.5**	**–9**
Imports	**1.2**	**0.1**	**0.6**	**–0.8**	**–5.6**	**–16.4**	**14**	**0**	**2.6**	**–12**
Total ressources	0.7	0.2	0.2	–0.4	–5.6	–14.2	17	1	1.6	–9
Household consumption expenditure	**0.6**	**0.3**	**0.4**	**0.3**	**–5.8**	**–11.5**	**16**	**–1**	**1.5**	**–7**
General government consumption expenditure*	**0.4**	**0.5**	**0.5**	**0.4**	**–3.5**	**–10.9**	**11**	**1**	**1.6**	**–6**
General government individual consumption expenditure	0.3	0.5	0.4	0.5	–3.3	–10.5	11	1	1.7	–5
Collective consumption expenditure	0.4	0.4	0.7	0.2	–3.2	–9.8	14	0	1.7	–4
Gross fixed capital formation (GFCF)	**1.1**	**1.3**	**1.2**	**0.2**	**–10.0**	**–14.9**	**23**	**0**	**4.3**	**–10**
Non-financial enterprises (incl. unicorporated enterprises)	0.9	1.1	1.2	0.1	–8.8	–13.4	20	0	3.7	–9
Household	0.3	1.2	0.8	0.4	–13.0	–17.1	30	0	1.8	–13
Government	2.4	2.0	1.4	0.3	–10.2	–17.4	28	0	7.7	–10
Exports	**0.5**	**–0.5**	**–0.5**	**–0.9**	**–6.0**	**–25.0**	**16**	**3**	**1.8**	**–18**
Contributions (in point)										
Domestic demand excluding inventory changes**	0.7	0.6	0.6	0.3	–6.3	–12.2	17	0	2.2	–7
Inventorys changes**	0.1	–0.1	–0.1	–0.5	0.5	0.9	0	0	–0.4	1
Net foreign trade	–0.2	–0.2	–0.3	0.0	–0.1	–2.5	0	1	–0.3	–2

Forecast

* Consumption expenditure of general government (APU) and non-profit institutions serving households (ISBLSM).

** Changes in inventories include acquisitions net of valuable items.

Note: All forecasts for the third and fourth quarters of 2020, as well as for the year 2020, are rounded to the nearest whole number. As a result, the sum of some components, rounded in this way, may sometimes differ from the posted total, which is itself calculated before rounding.

Source: INSEE

Table 3 - Estimate then forecast of loss of economic activity in 2020

in %

	Premier quarter	Second quarter	Third quarter	Fourth quarter	year 2020
GDP growth (quarterly variation)	–5.9	–13.8	+16	0	–9
Average loss of activity (compared to a «normal» situation).		–18.9	–5	–5	

Forecast

How to read it: in Q3, the loss of activity compared to the pre-crisis level is estimated at -5%; or a rebound in GDP of about 16% compared to Q2, after –13.8%.

Note: the loss of activity shown in this table is the average of estimated/forecast monthly losses of activity. The loss of economic activity for a given month or quarter is measured in relation to a normal situation, i.e. a period before the health crisis. Conversely, the variation in GDP for a given quarter is, by definition, calculated from the level of activity in the previous quarter.

Source: INSEE calculations from various sources

During summer 2020, tourist spending in France by residents returned to its level of the previous year

After an unprecedented shock in early spring, tourist activity in France by residents started to recover gradually after the end of lockdown, then more vigorously at the start of the summer as restrictions on movement and activity were relaxed more and more. As a result, bank card spending by residents on accommodation and catering rose during July and August to levels that were at least comparable to those of the summer 2019 season. However, by September, spending by French residents on leisure activities (especially shows and culture) was still a long way from its pre-crisis level. While tourist activity was able to return to, or even exceed last year's level in some coastal regions or less densely populated areas, the major cities were penalised as a result of the reduced spending by French tourists. French travellers also modified their behaviour this summer by favouring non-market accommodation (in second homes or staying with relatives) and by limiting their business travel. As this analysis of tourist spending concentrates on French residents, it does not predict overall activity in the sector, which was penalised by the decline in foreign tourists.

Domestic tourism usually represents only two thirds of overnight stays in professionally run accommodation in France

The numbers frequenting mainly professionally run market tourist accommodation in Metropolitan France (hotels, camp sites, tourist residences and holiday villages) consist primarily of residents of Metropolitan France, called resident customers. Before the crisis, tourism-related spending represented 7% of GDP, and of this two-thirds was attributable to residents.[1] Overnight stays by residents also represent two-thirds of all overnight stays in hotels and camp sites. The remaining third of overnight stays are attributable to non-resident customers, first and foremost of which are the British and the Americans. There are many more of these non-residents in Île-de-France than in the rest of France, representing half of tourists and overnight stays in normal times.

After being almost totally wiped out during lockdown, international air traffic into France has recovered only very moderately and was still weak in July 2020. It reached a level that was 18% of that for 2019, and even less from some countries, including the United Kingdom (12% of the July 2019 level) and the United States (4%).[2] The resumption of tourist activity observed in July was therefore quite unusual as it was based almost exclusively on resident customers.

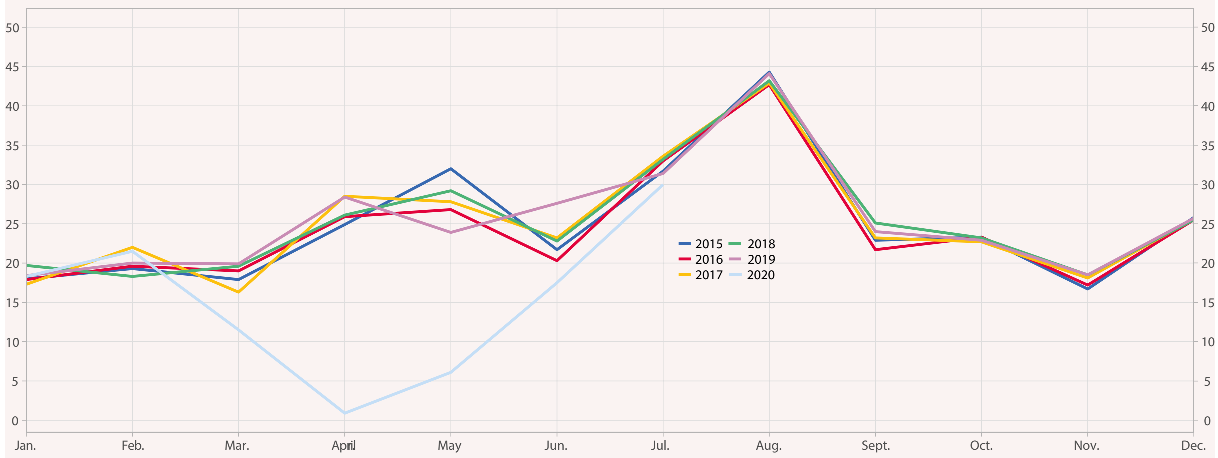
In July 2020, the occupancy of market tourist accommodation by residents returned to its July 2019 level

In July 2020, the percentage of residents who had travelled at least once during the month for personal reasons was 30% (*Graph 1 and Box 1*). After the collapse observed in the spring, this rate of departure was now comparable to those observed in July in previous years.

1. See OECD Tourism trends and policies 2020, country profile – France http://oe.cd/3fb.
2. See https://www.ecologie.gouv.fr/sites/default/files/tendanCIEL_2020_83.pdf.

1 - Departure rate of residents travelling for personal reasons

in %



Scope: Metropolitan France
How to read it: in July 2020, 30% of residents travelled for personal reasons, against 33% on average between 2015 and 2019.
Source: INSEE, tourism demand monitoring survey, provisional 2020 data

Bloc 1

Sources used to analyse tourist activity in summer 2020

Tourist Demand Survey

The survey monitoring tourist demand (SDT) is conducted monthly with a panel of 22,000 people, aged 15 or over, who are representative of the resident population of France. It provides information in accordance with the European regulation on tourism statistics by defining tourist trips taken by residents (personal or professional, departure rate, number of trips, number of nights spent, tourist spending, etc.). A trip can be described as a tourist trip when the person concerned spends at least one night outside their usual environment.

CB bank card transactions

Bank card transaction data can be used to monitor the differentiated effects of the health crisis on various economic sectors, especially those that usually welcome tourists. These data were taken from an extraction of anonymised and aggregated transactions and cover the majority of bank card transactions by French residents. INSEE would like to thank Cartes Bancaires CB for making this aggregated information available. The data used concern all holders of CB bank cards in France, which, in addition to residents, can also include businesses. Departmental data were produced based on the location of the establishment where the transaction took place. In contrast to the data used at national level, distance transactions (especially on internet) are not taken into account in departmental transactions. In addition, data relating to Corsica do not differentiate between the two departments and are therefore aggregated at the level of the Corsica territorial authority. Various sectors were aggregated to correspond to tourist activities, sometimes covering activities that were purely for tourists (souvenir shops and postcards, tourist exhibitions, amusement parks, etc.), and sometimes activities that depend partly on tourists (especially restaurants and bars).

These transaction amounts were used to analyse changes in residents' consumption, but they nevertheless have some important limitations: first, in some sectors, such as accommodation or transport, there may be a considerable delay between the date of the transaction and the date of consumption. Second, the way bank cards are used may have changed during the health crisis and therefore any such changes in this means of payment only partially reflect any changes in the turnover of the establishments concerned. Last, and by no means least, spending by foreign tourists is not covered by this mode of payment. In previous years, these foreign visitors represented 38% of total internal tourist consumption.

Online searches monitored by *Google Trends*

Google Trends is a tool available through the *Google* search engine and can be used to analyse users' interest in different search terms. *Google* calculates and presents a weekly aggregated score from a representative and filtered sample of searches (from several billion daily searches worldwide). The results show the proportion of searches for a given key word in a region and for a specific period, compared to the date when the usage rate of this key word was highest (value 100). Thus a value of 50 means that the key word was used half as often on the date concerned, and a value of 0 means that there is insufficient data for this key word. Although in normal times the *Google Trends* data cannot improve forecasts of household spending significantly (see INSEE's Conjoncture in France, March 2015) and are therefore not the most robust source for analysing consumption, they do shed some extra light on data that relate more directly to spending. Also, this data source has the advantage of being available very quickly and for countries other than France. ■

In July 2020, the number of overnight stays by residents returned to the July 2019 level, whether in market accommodation (hotels, camp sites, tourist residences, holiday villages, furnished rentals via an internet platform, etc.) or non-market (second homes, with relatives, friends, etc.). Between April and July, this return to a more normal level of overnight holiday stays was mainly achieved by the increase in overnight stays in non-market accommodation (*Graph 2*).

Accommodation in second homes has increased since June, both for personal and professional reasons

Non-market accommodation has indeed increased sharply since June, especially in second homes. This increase concerned both personal and professional trips. The growth of teleworking has certainly led to the emergence of new non-market accommodation needs, in second homes, or even with family or friends. However, this increase in non-market accommodation has not offset the deficit in occupancy in the market accommodation sector relating to business travel.

The number of professional overnight stays remains low

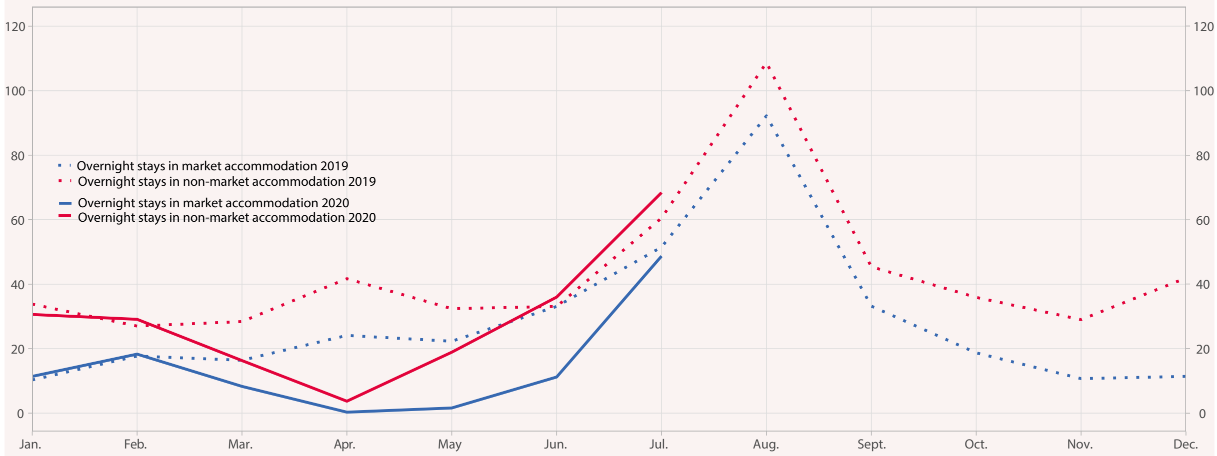
Accommodation associated with business trips in June and July 2020 was very low compared to the same months in 2019. While non-market accommodation was buoyant, the number of market overnight stays remained relatively low (*Graph 3*). Business tourism in major cities also remained very low compared to other forms of tourism, especially in the largest French agglomerations.

Accommodation, catering and leisure were hit hard by the crisis but their dynamics in recovery are different

Within tourism-related activities, by dividing them into three main sectors the analysis can be refined: accommodation, catering and recreational activities

2 - Number of overnight stays by residents in market and non-market accommodation

in millions

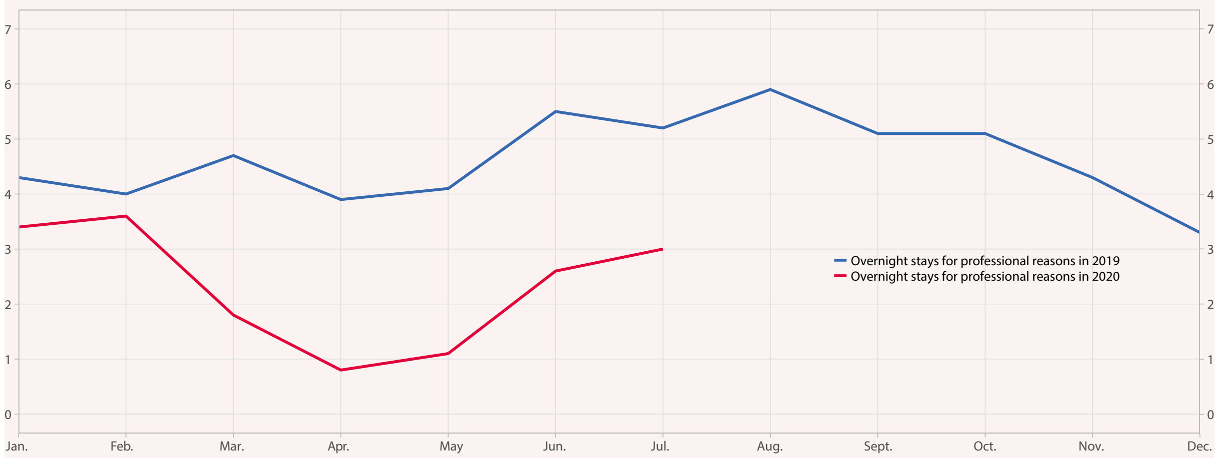


Scope: Metropolitan France

Source: INSEE, tourism demand monitoring survey, provisional 2020 data

3 - Number of overnight stays by residents for professional reasons in market and non-market accommodation

in millions



Scope: Metropolitan France

Source: INSEE, tourism demand monitoring survey, provisional 2020 data certainly changed in different ways during the health crisis. Of these sectors, accommodation was hardest hit before the school summer holidays: on 1st June, transaction amounts since the beginning of the year for accommodation were 48% lower than in 2019. Catering plummeted by 42% and recreational activities by 41%.

The speed of recovery also depends on the type of accommodation

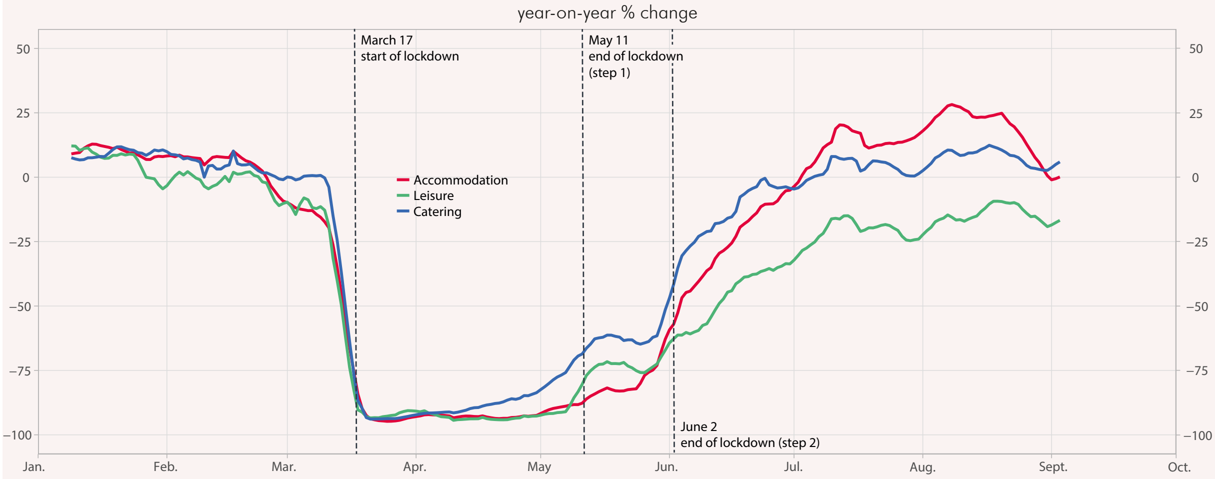
The accommodation sector was hit in several ways by the health crisis. On the one hand the restrictions on international movement resulted in a particularly significant decline in foreign demand. On the other hand, the introduction of lockdown brought about a collapse in domestic demand (*Graph 4*). Some consumers anticipated that there would be difficulties in travelling in the future and specifically this led to a decrease in their spending on accommodation several weeks before lockdown began. From 25 February, the daily bank card transaction amounts for accommodation were lower than their 2019 level. Between the beginning and the middle of March, transaction amounts declined by 23% whereas they had been stable in 2019 at the same period. During lockdown, transactions were drastically reduced, down 90% on the amounts for 2019 at the same period. These changes were consistent with changes in the number of overnight stays observed in the Hotel Occupancy Survey, which reported –96% (or –92%) in April (or May) 2020 compared to 2019, and also with the monthly changes in turnover in the hotel industry, which suffered a drop of –90%. The smaller decline in turnover in June (–73%) could also be seen in bank card transactions data, where amounts moved up quickly from the end of May. This turnover was affected much more than bank card transactions in June, which may reflect the exodus of foreign tourists.

Hotels and camp sites had very different dynamics. Camp sites were the main driver behind the upturn in transactions during June and July (*Graph 5*). From mid-June onwards their bank card transaction amounts were similar to 2019. Hotels, however were slower to pick up and had to wait until mid-July before they were back to similar transaction amounts to the previous year. This difference between types of establishment corroborates the preliminary findings of the tourist accommodation attendance survey for June, which suggest that the economic impact was greater for high-end hotels and also for Île-de-France compared to the coast, as these are places usually frequented more by foreign tourists.

Bank card transactions for accommodation at the end of the summer achieved higher totals than the previous year. There are several possible reasons for this. First, the use of bank cards probably increased substantially during the health crisis. Also, a proportion of consumers chose to postpone their holidays to August, and finally the restrictions on foreign travel have meant that residents have preferred to take their holidays in France. However, this increase in residents' spending on accommodation does not make up for the losses of previous months. On 1st September 2020, the total amount of transactions on accommodation since the beginning of the year was down 24% on the total recorded for the same period in 2019.

4 - Bank card transaction amounts

year-on-year % change



How to read it: bank card transactions in accommodation establishments plummeted by 94% in March 2020 compared to March 2019.
Source: Cartes bancaires CB, INSEE calculations

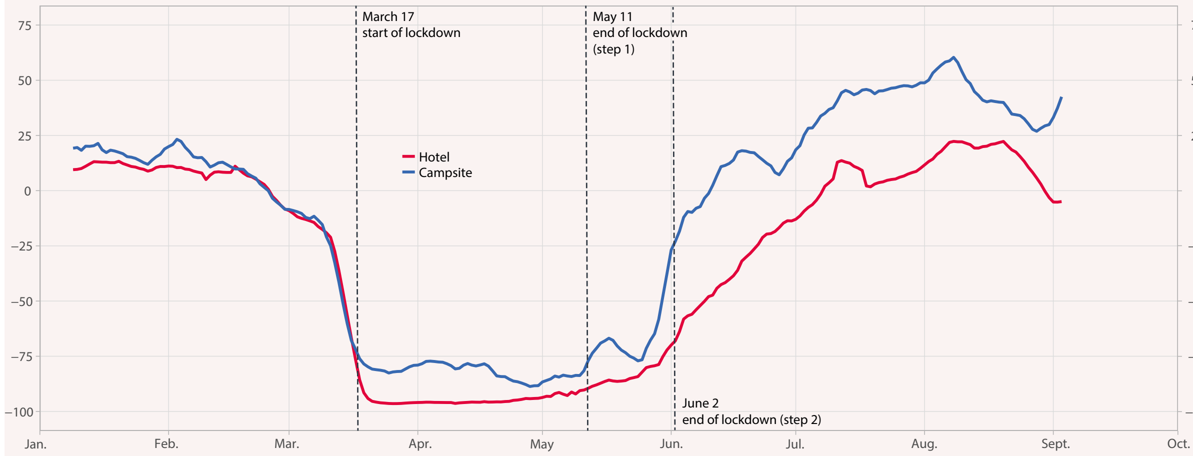
A sharp upturn in spending on catering from the second phase of the lockdown exit strategy

Like accommodation, catering also experienced a particularly difficult season, especially due to the collapse in demand from international tourists and then the authorisation for only partial opening.

The moment lockdown was put in place, bank card transaction amounts in catering plummeted, to around –90% of amounts from the previous year (*Graph 6*). This decline is similar to that in the sector's turnover in April (–92%). This decrease was not anticipated, in fact transaction amounts for the days just before lockdown was introduced remained similar to those of 2019. A slight increase in bank card transaction amounts then appeared before the end of lockdown, which may be due to a more widespread use of takeaway sales but also to the increased use of bank cards, especially as the contactless payment limit had been increased. During the different phases of the lockdown exit, sectoral disparities between fast food and traditional restaurants were clearly visible: fast food restaurants saw a rapid upturn while for traditional restaurants, their reduced activity continued until mid-June. After this date, restaurants in turn saw a very sharp increase in their activity, while fast food outlets did not recover their 2019 transaction level until August. Restaurants, however, caught up by the end of June, with significant buoyancy in bank card transactions in July and August.

5 - Bank card transaction amounts in the accommodation sector

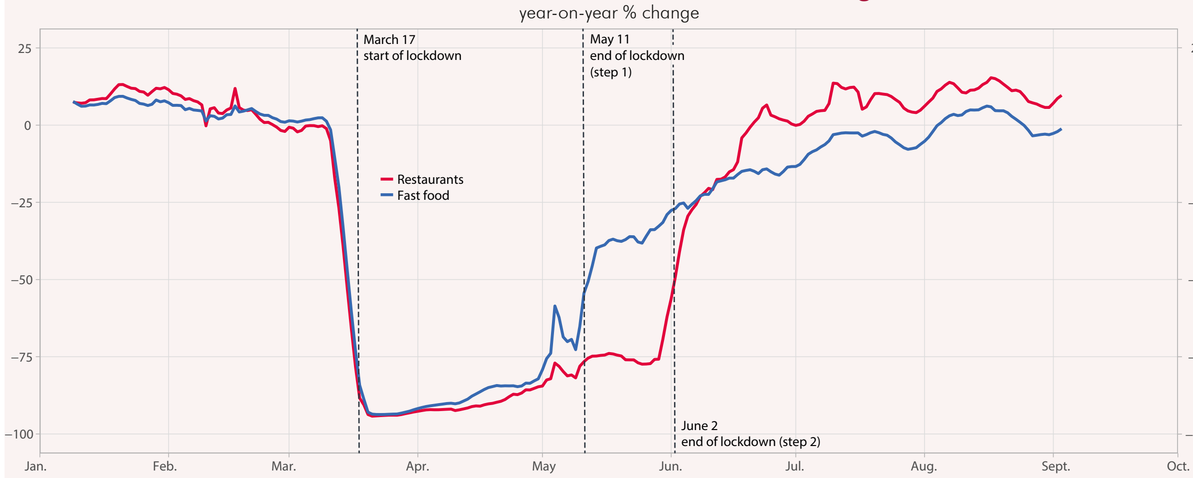
year-on-year % change



Source: Cartes Bancaires CB, INSEE calculations

6 - Bank card transaction amounts in the catering sector

year-on-year % change



Source: Cartes Bancaires CB, INSEE calculations

Recreational activities: culture continues to be particularly badly affected

Regarding recreational activities, bank card transaction amounts had already declined before lockdown, suggesting an anticipation phenomenon similar to that seen in accommodation. The changes in spending on accommodation and on recreational activities were remarkably similar until 2 June. After this date, while other recreational activity sectors (sports and leisure clubs, rental of outdoor equipment, etc.) returned to almost normal transaction levels, cultural activities (theatres, cinemas, orchestras, tourist exhibitions, etc.) were struggling to recover (*Graph 7*). At the end of August their bank card transaction levels were still 35% less than their 2019 level. Cinemas and theatres were particularly badly affected, even beyond lockdown: for them, recovery has almost not happened at all.

French residents have deserted the agglomerations, in favour of the coast and less densely populated areas

The influence of tourist activities in the departments (*Box 1*) varies a great deal according to the time of year and the location. By way of illustration, and in order to quantify this effect during a "normal" period (outside the health crisis), in July and August 2019, 20% to 25% of spending by bank card transaction in Paris, on the Mediterranean and South Atlantic coasts and in the Alps was described as tourist spending. In contrast, in the north-eastern quarter of Metropolitan France and the overseas departments and regions (DROM) tourist spending at this same time of year was lower (by 10% and 15% of bank card transaction amounts).

During the pre-summer season in 2020, during May and June, travel restrictions and the closures of establishments affected tourist spending greatly, in all departments of France. Paris and Corsica were particularly badly affected, with an 80% drop in tourist bank card transactions in May compared to the previous year. As the lockdown measures were gradually lifted, the situation overall improved for all departments in June. French Guyana was the exception, because health restriction measures were extended. Total tourist spending by bank card by residents in June for all of Metropolitan France was 16% lower in 2020 than in 2019.

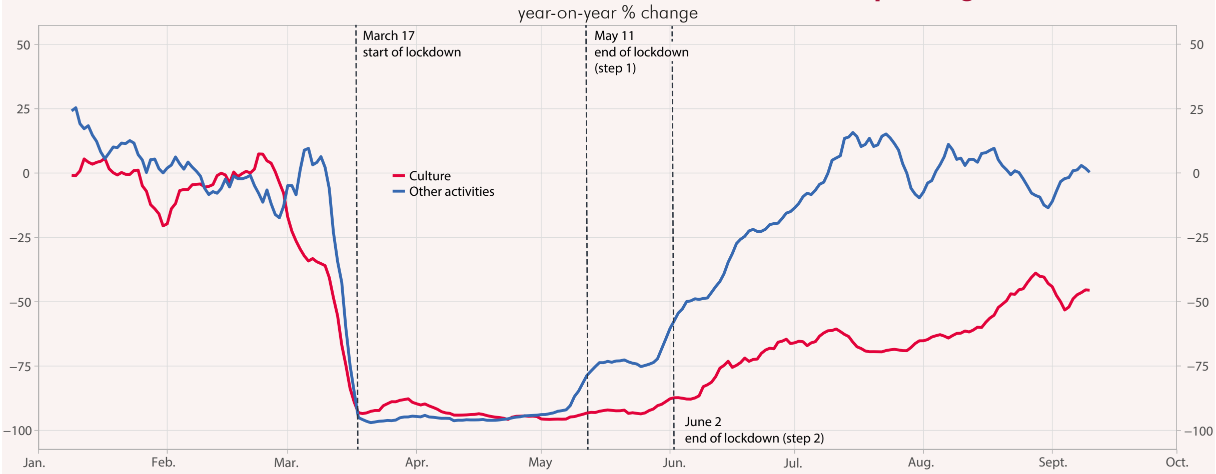
July and August 2020 recorded a real upswing in tourist spending by residents. On average, bank card transactions in July 2020 were equivalent to those in 2019 (+1.9%). Local disparities emerge, however (*Map 1*). French Guyana was still under lockdown but the other DROM, and also Île-de-France, were the main departments where tourist transactions were still much lower than in the previous year. Conversely, in the Massif Central, the Alps and on the Mediterranean coast, and also, but to a lesser extent, the Atlantic coast and the Normandy peninsula, transaction levels by residents were higher in July than in 2019 (+10% in the Manche department, +17% in the Hautes-Alpes, +22% in the Lot). Tourist spending in the North-East quarter in July was equivalent to or less than that in 2019 (–6% in Moselle, –1% in the Bas-Rhin).

Tourist spending increased in August (*Map 2*). On average across the whole of France, it was 9% higher than the 2019 level. The South-East quarter shows some very positive changes: +30% in Alpes-Maritimes compared to 2019, +17% in Bouches-du-Rhône, +12% in Corsica. The situation is similar along the Atlantic coast (+10% in Vendée) and in the centre of France (+19% in Loir-et-Cher). However, the DROM, Île-de-France and a few departments in eastern France have not returned to their 2019 levels.

These disparities over space and time are consistent with the first indicators obtained from statistical surveys: hotels on the coast have weathered the health crisis better than those in Île-de-France and the large regional agglomerations. This observation is backed up by the maps mentioned previously: a number of departments which include large regional agglomerations experienced less activity than their neighbouring departments, probably due to a weak

7 - Bank card transaction amounts on recreational spending

year-on-year % change



Source: Cartes Bancaires CB, INSEE calculations

recovery in business tourism. There is also a strong correlation at departmental level in Metropolitan France between the year-on-year change in tourist spending and the resident population density (*Graph 9*) and likewise with the proportion of second homes (*Graph 10*). The departments in Île-de-France typically saw negative year-on-year change and low rates of second homes. For example, Seine-et-Marne (77) may have suffered as a result of the late and restricted reopening of its amusement parks. Paris (75) is the exception with a large share of second homes, but a much lower year-on-year change than other departments with a similar proportion of second homes, like Loire-Atlantique (44). During the summer months, departments with a very large proportion of second homes, like Alpes-Maritimes (06) or Var (83), report very positive year-on-year changes in spending.

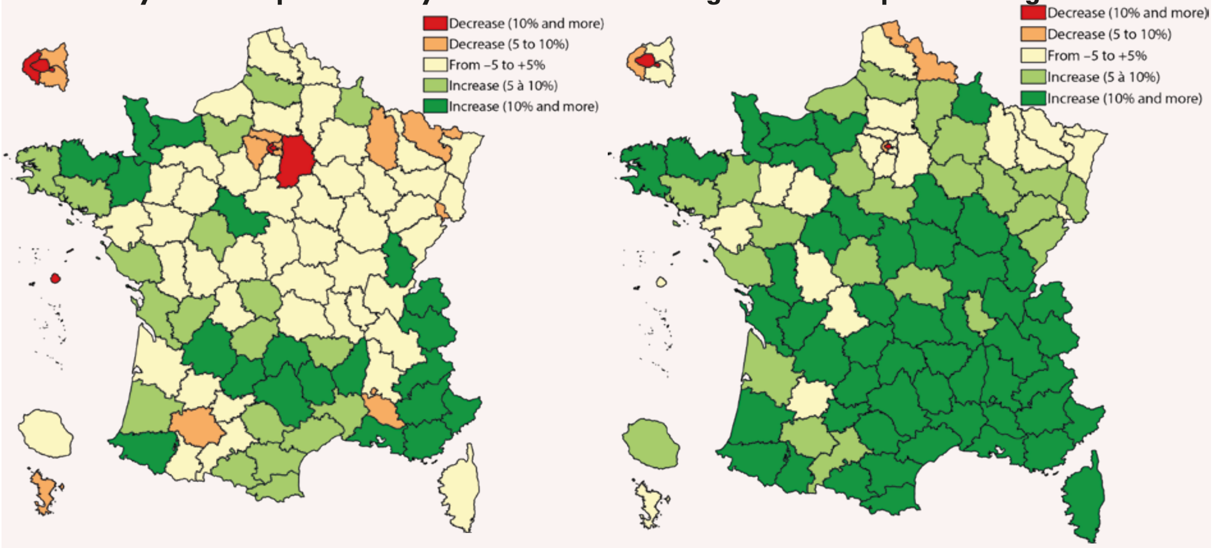
This increase in resident spending at national and local level does not, however, suggest an increase in turnover in the tourist sectors: on the one hand, tourist spending by non-residents is not included in this analysis, and restrictions on travel between countries have contributed to greatly reducing spending by international tourists in 2020 compared to 2019. On the other hand, other factors may account for the increase in bank card transactions, especially its increased use because of the health crisis and the raising of the contactless payment limit. ■

Arthur Cazaubiel, Pierre Girard, Théo Roudil-Valentin ■

Maps 1 and 2 - Tourist spending by department

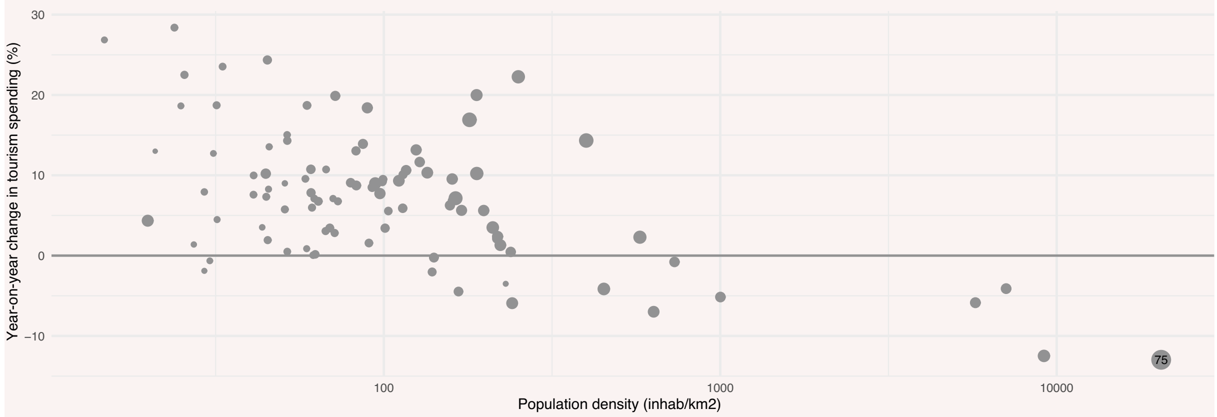
year-on-year % change

July 2020 compared to July 2019 **August 2020 compared to August 2019**



Source: Cartes Bancaires CB, INSEE calculations

9 - Tourist spending in summer and population density by department



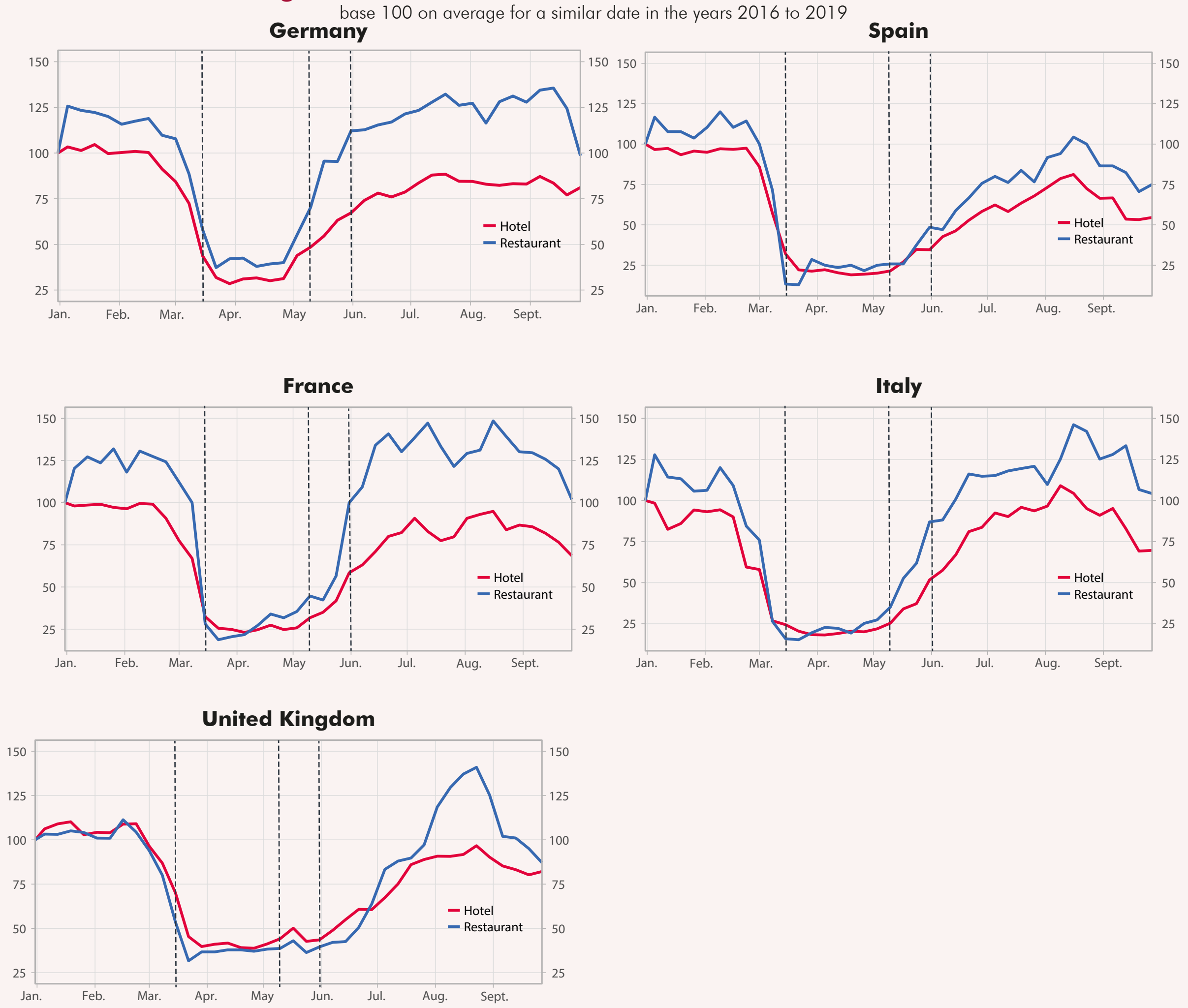
How to read it: in 2020, tourist CB bank card spending by residents during July and August in Paris (75) was down 13% compared to 2019. Also, there are about 20,000 inhabitants per km² living in Paris.

Note: the size of the circles is proportional to the amount of tourist spending

Source: Cartes Bancaires CB, population estimate as at 1 January 2020, INSEE. Calculations: INSEE

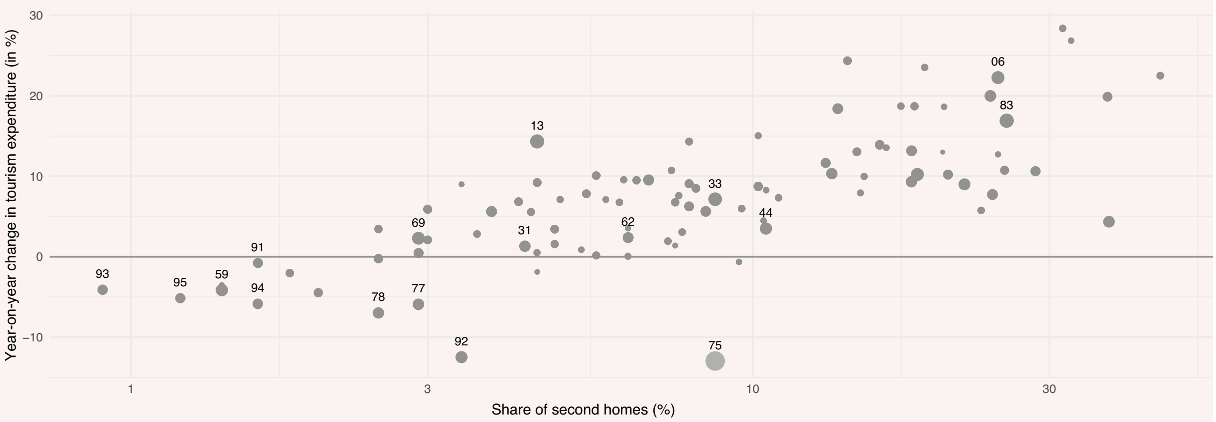
8 - Change in the score for the search terms “hotel” and “restaurant”

base 100 on average for a similar date in the years 2016 to 2019



How to read it: in France on 17 March 2020, the score for the search term “hotel” in Google Trends stood at 40% of the average level observed on average in the comparable week in March in the years 2016 to 2019.
Note: the vertical line shows the start of lockdown in France, on 17 March 2020, the second line shows 11 May, the date when lockdown was lifted in France, the third shows the date of the second phase of the lockdown exit on 2 June.
Source: Google Trends

10 - Tourist spending in summer and proportion of second homes by department



How to read: in 2020, tourist CB bank card spending by residents during July and August in Paris (75) was 13% lower than in 2019. Also, 9% of homes in Paris are second homes.
Note: the size of the circles is proportional to the amount of tourist spending
Source: Cartes bancaires CB, Census of Population 2016. Calculations : INSEE

Bloc 2

Google searches suggest an earlier recovery in tourist activity in Germany and a later recovery in the United Kingdom

Results for France from *Google Trends* data (number of searches for a given term in the *Google* search engine) agree with the data produced by using CB bank cards. Scores for search interest in the terms "hotel" and "restaurant" have never before fallen so steeply as in March 2020 (Graph 8). With index base 100, corresponding to the average for 2016-2019 during a comparable week, scores for the searches "hotel" or "restaurant" fell dramatically by between 50 and 80 points, confirming the collapse in bank card transaction amounts in these sectors during lockdown. In addition, patterns of consumer anticipation of the crisis seem to be echoed in the *Google* searches. Hotels seem to have suffered particularly badly from the crisis, as suggested by the CB bank card data. In fact, in France it was only from the beginning of July that the hotel sector returned to *Google* search levels that were similar to the levels seen earlier, although always lower. For this reason, and because no data like the CB bank card data used for France was available for the other European countries, the *Google Trends* data is a primary source for comparing changes in these European countries.

Up to mid-March, all the profiles of the *Google Trends* search interest for "hotel" and "restaurant" seem to merge. The scores plummet everywhere by at least 60% when the restrictive measures are put in place, and by as much as 80% in France, Spain and Italy for the term "restaurant". In Italy, the decline started from the beginning of March, reflecting the early deterioration in the health situation. Italy was followed by Spain, which bottomed out at the same time as France, but with a more gradual decline. In France, the scores also started to decrease at the beginning of March, and bottomed out by mid-March, which was the start of lockdown. Germany and the United Kingdom also experienced a drop in searches before their lockdown date but did not hit their lowest point until the end of March. Germany remained at this lowest point for less time than its European neighbours and the score for *Google* searches quickly regained momentum. France, Italy and Germany stand out with an earlier recovery in the score for restaurants, from the beginning of May in Germany, and the beginning of June in Italy and France. In addition, the French and Italian scores for "restaurant" show a significant recovery, with very high levels during the summer season. All in all, during the summer season (July-August) scores returned to their usual levels everywhere, even exceeding them for "restaurant", reflecting the good performance of the resident tourist occupancy, despite the health situation. However, the United Kingdom and Spain show more fragile dynamics, their scores were the last of the main European countries to catch up to their usual levels, from mid-July and the end of July, respectively. Lastly, for September, the *Google* data already show a decline in searches for these terms, reflecting the deterioration in the health situation in Europe. In Germany, Italy and France the scores fell dramatically from mid-September, while in the United Kingdom "restaurant" continued the decline that began in mid-August. ■

Sectors most affected by the lasting impacts of the health crisis are likely to represent about 9% of value added

Since lockdown restrictions were lifted, the resumption of activity has been mixed. Some sectors were soon almost back to their pre-crisis level, but in others the effects appear to be longer-lasting, given their degree of exposure to the restrictive health measures. These sectors, notably passenger transport, accommodation-catering and cultural activities, are expected to represent around 9% of value added. The difficulties they have experienced are likely to have repercussions on employment, a phenomenon already visible in the employment data for Q2: about 220,000 jobs were lost in these sectors compared to Q4 2019, although the reduction in the workforce remains proportionally smaller than the decline in their activity.

Passenger transport, aeronautics, accommodation-catering and cultural activities are among the worst affected sectors

After the collapse of economic activity in France in March and then April 2020, the recovery that began as soon as lockdown was lifted and which continued throughout Q3 revealed a dichotomy between sectors where activity was quickly back almost to its pre-crisis level and others which, on the contrary, were penalised in the much longer term (*Graph 1*). These sectors[1] are associated mainly with service activities – passenger transport (rail and air), accommodation-catering, sports and cultural activities – and to a lesser extent with industrial activity (rail construction and aeronautics). In 2018, these activities represented about 9% of value added in the French economy, with 1% in aeronautics, 4% in transport services, 3% in accommodation-catering and 1% in cultural and sports activities (*Table 1*). All in all, they are the equivalent of 13% of payroll employment, or about 3.3 million people at the end of 2019.

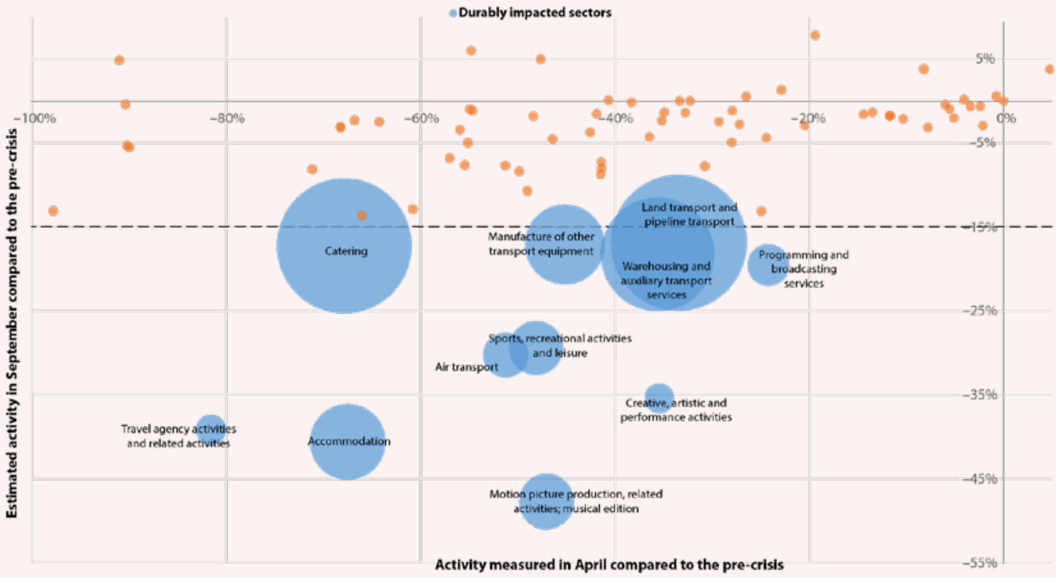
These sectors already account for a large proportion of the loss of activity in the French economy

The sectors that are potentially suffering the longest-lasting effects as a result of the health crisis already represented a significant share of the loss of activity in the French economy when lockdown was introduced (*Graph 2*). In April, their activity was on average about 48% below the pre-crisis level, accounting for around 15% of the total loss of activity.

After the lifting of lockdown in May, activity recovered quickly in most sectors. However, the worst affected sectors picked up only very slightly during the summer: in July, their activity remained 25% below the pre-crisis level, or one third of the total loss of activity. In September, while most of the other sectors would appear to have continued to progress towards their pre-crisis level, the sectors suffering lasting effects appear to account for almost half of the loss of activity in the French economy.

1. Sectors affected in the long term that are considered in this Focus were selected on the basis of *Graph 1*, retaining those where the loss of activity in September looks set to be more than 15% of their pre-crisis level (Q4 2019).

1 - Change in loss of activity estimated in April and forecast in December by sector



Note: the threshold of –15% of activity in September, shown by a dotted line, was used as a selection criterion for sectors impacted in the long term.
The size of the circles representing the sectors with long-term impacts is proportional to their contribution to value added.
How to read it: activity in the catering branch was –68% in April compared to its pre-crisis level, and should increase to –17% in September.
Source: INSEE, DARES, Acemo-Covid survey, INSEE calculations

Table - Characteristics of sectors affected in the long term

in %

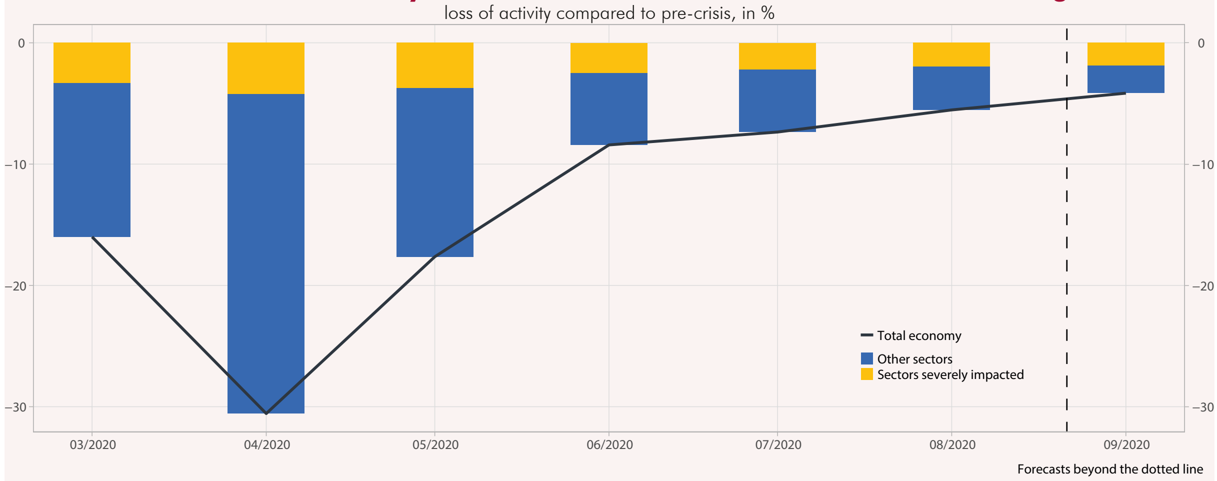
Branches/Products (A88)	Weight in VA	Loss activity April	Loss activity August	Loss activity September
Manufacture of other transport equipment	0.8	–45	–21	–17
Land and pipeline transport	2.2	–33	–21	–17
Air transport	0.3	–48	–27	–29
Warehousing and services incidental to transportation	1.5	–36	–21	–18
Accommodation	0.7	–68	–26	–41
Catering	2.2	–68	–17	–17
Film production and related activities	0.4	–47	–48	–48
Programming and Dissemination	0.2	–24	–25	–20
Travel agency and related activities	0.1	–82	–55	–39
Creative, artistic and entertainment activities	0.1	–35	–23	–16
Sporting, recreational and leisure activities	0.2	–51	–24	–18
Sectors most affected	8.7	–48	–22	–21
Others sectors	91.3	–29	–4	–3
Total Economic	**100**	**–31**	**–6**	**–4**

How to read it: all in all, the most severely affected sectors represent 8.7% of value added and their activity was 22% below their pre-crisis level in August. Among these sectors, air transport represents 0.3% of value added and its activity declined by 27% in August compared to its pre-crisis level.

Source: INSEE, DARES, Acemo-Covid survey, INSEE calculations

2 - Loss of economic activity and contribution of sectors worst affected in the long term

loss of activity compared to pre-crisis, in %



How to read it: in September, the loss of activity in the French economy is expected to be 4%. The sectors impacted in the long term account for about 45% of this loss, or a little under 2%.

Source: INSEE, DARES, Acemo-Covid survey, INSEE calculations

In contrast, some sectors appear to be winners, at least in the short term, with a higher level of activity than before the crisis: this is the case, for example, for the pharmaceutical industry, information services, telecommunications and retail trade. These sectors represent a significant share of the economy – about 8% of total value added; however, the extent of their additional activity is likely to remain low in view of the losses sustained by the most severely affected sectors.

The decline in employment between the end of 2019 and Q2 2020 was highly concentrated in the sectors affected in the long term

Between Q4 2019 and Q2 2020, more than 700,000 payroll employment jobs were lost (*Employment Sheet*). Almost a third of these losses were concentrated in the sectors suffering long-term effects, or 220,000 jobs, although they represent only 13% of payroll employment. These sectors more often used the short-time working scheme. 45% of short-time working hours were targeted on sectors where the effects were far-reaching. The decline in the workforce measured in these sectors in H1 2020, a little below 7% compared to Q4 2020, thus remains lower than the deterioration in their activity, which stands at about 30%. ■

Jérémy Marquis ■

Foreign trade

During the first two quarters of 2020, international trade fell dramatically (–3.1% then –14.9%), due to the global coronavirus epidemic and the restrictions put in place to attempt to prevent its spread. The decline in world demand for French goods was even more significant (–3.5% then –16.8%). In fact, the countries of Western Europe, which are France's main trading partners, were more affected by the health crisis than the average seen for other countries and by the resulting halt to activity: their imports therefore declined further.

In this context of a downturn in international trade, French exports fell sharply (–6.0% in Q1 2020, then –25.0% in Q2); the same was true for imports, although to a lesser degree (–5.6% then –16.4%). The branches most affected were transport equipment manufacture (in Q2, –56.9% for exports and –42.3% for imports), where the loss of activity was particularly severe, and tourism (–67.3% and –64.4% respectively), with international tourism virtually ceasing at the peak of the epidemic. However, agricultural products and other services held up better.

In Q3 2020, French exports are expected to rebound (+16%), mainly as a result of the recovery in manufactured products, especially in the automobile and aeronautics branches. By the end of the year, this rebound should bring them back to a little above four-fifths of French exports in Q4 2019. French imports are also expected to rise again (+14% in Q3) and by the end of the year should reach almost nine-tenths of imports in Q4 2019.

After the sharp fall in H1 2020, world trade is expected to bounce back in H2

In H1 2020, the health crisis severely affected world trade (measured as the sum of imports): after –3.1% in Q1, it fell back –14.9% in Q2 (Table 1). The restrictions linked to the fight against the epidemic disrupted global value chains: activity came to a standstill in the countries under lockdown, foreign demand plummeted, as did domestic demand, while supply difficulties increased. The advanced countries were more affected than the emerging countries: their imports fell by –16.9% in Q2 (after –4.0% in Q1), and their exports by –19.4% (after –2.6%). During this period, imports by the emerging countries fell back by –10.7% (after –1.2%) and their exports dropped by –6.2% (after –2.6%).

In H2, world trade is expected to increase (+10% in Q3 then +3% in Q4), as a result of the improvements in the global health situation. After suffering a greater decline than the emerging countries in H1, the advanced countries are also likely to see a greater rebound, in part automatic. Their imports are expected to grow by 11% then 4% in the last two quarters while in the emerging countries growth is likely to be more moderate (+7% in Q3 then +1% in Q4 2020, *Table 1*).

World demand for French goods fell sharply at the beginning of the year (–16.8% after –3.5%), because it was greatly affected by the decline in imports by its European neighbours (the European Union accounted for 64% of total

Table 1 - World trade and word demand for French products

variations trimestrielles et de moyenne annuelle en %

	2019				2020				2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
World trade	**0.7**	**–0.4**	**0.2**	**–0.7**	**–3.1**	**–14.9**	**10**	**3**	**0.5**	**–10**
Imports from advanced economies	0.7	–0.4	0.5	–0.8	–4.0	–16.9	11	4	2.0	–12
Imports from emerging economies	0.9	0.9	0.8	0.3	–1.2	–10.7	7	1	5.8	–5
Global demand addressed to France	**1.2**	**–1.0**	**0.5**	**–0.7**	**–3.5**	**–16.8**	**10**	**4**	**1.1**	**–11**

Forecast

Sources: DG Trésor, INSEE

French exports in 2019, *Graph 2*). By the end of 2020, due to the upturn in imports by the advanced countries, world demand for French goods is expected to increase in Q3 by around +10%, a rebound that should continue into Q4 (+4%).

French exports are expected to increase in H2 2020, driven by the partly automatic rebound in exports of manufactured products and tourism which were very badly affected in H1

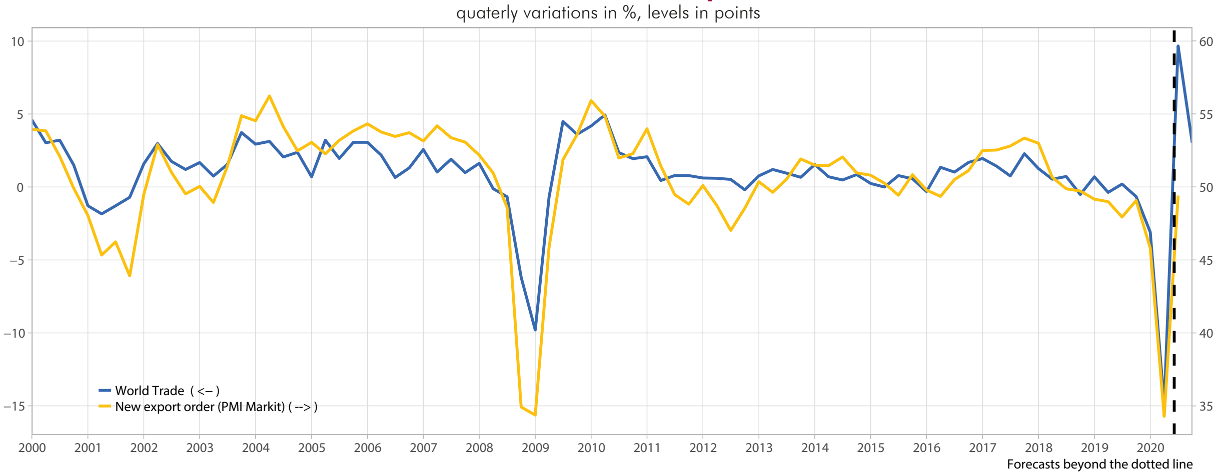
In Q2 2020, the downturn in French exports that had started in Q1 (–25.0%, after –6.0%, *Table 2*) gathered pace – since the epidemic had reached France and its European neighbours from March onwards, later than in Asia, health measures and the economic impact were concentrated in this spring period. Thus, foreign demand decreased while at the same time domestic production difficulties increased.

The two branches that contributed most to this decline were manufactured products (–28.3%, after –5.6%; see *Focus*) and tourism, which experienced the largest decline as a result of borders being closed (–67.3%, after –20.7%). Aeronautical and naval deliveries also fell sharply in H1 2020 (–60.4%, after –13.2%). Civil aviation exports were severely affected when international tourism came to a halt, due to the resulting collapse of commercial air traffic. Lastly, exports of services and agricultural products held up better in the face of the decline (around –5% in Q2).

In Q3 2020, in line with the upturn in world demand for French goods, exports should bounce back (+16%), probably spurred on by exports of manufactured products (+17%), and driven in particular by the aeronautics and naval branch. Meanwhile energy and services exports are expected to increase at a more moderate pace (+9% and +4% respectively). Exports are then likely to slow in Q4 to +3%, reflecting a slower return to activity at the end of the year and uncertainties over a second wave of the epidemic.

1 - World trade and new export orders

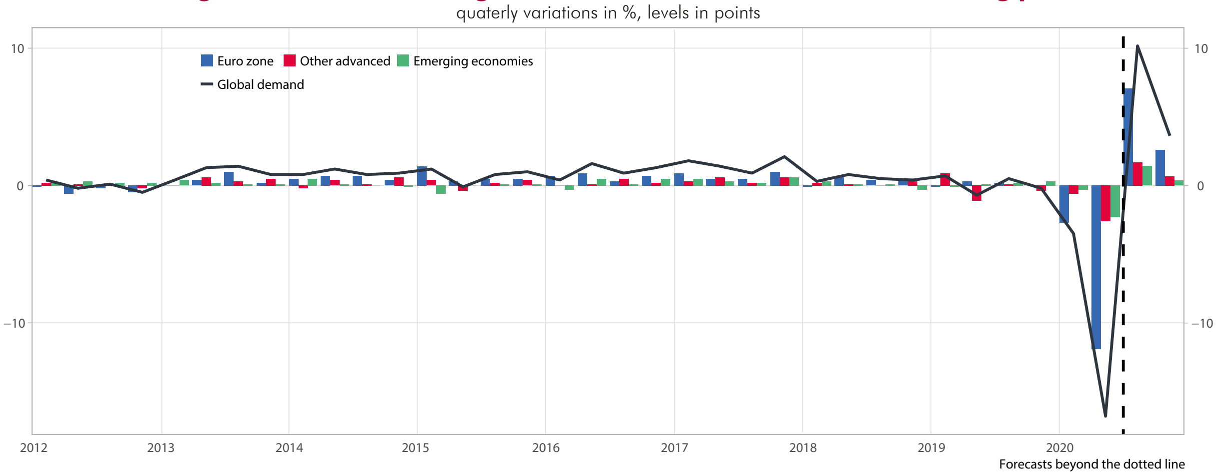
quaterly variations in %, levels in points



Source: PMI Markit, INSEE

2 - Foreign demand for French goods and contributions of the main trading partners

quaterly variations in %, levels in points



Source: INSEE

Although equally affected by the crisis, French imports declined a little less than exports, with the same branches being most affected

In H1 2020, French imports also fell back, although to a lesser degree than exports (–16.4%, after –5.6%, Table 2). With the halt in domestic activity, there was less recourse to foreign goods, especially manufactured goods, whose imports contributed most to the decline (especially in transport equipment, –42.3% after –11.1%). Imports associated with tourism fell dramatically (–64.4%, after –13.4%). As with exports, imports of agricultural products and services declined less (–3.7% after –2.3%, and –3.3% after –3.2% respectively).

In Q3 2020, imports should bounce back (+14%), as purchases of manufactured products are very buoyant (+ 15%), while purchases of agricultural products and services are expected to increase at a more moderate pace (+8% and +5% respectively). In Q4, imports are likely to be almost stable, due to the slower pace of recovery in domestic activity until the end of 2020 and uncertainties over the health situation.

The contribution of foreign trade to growth looks set to be negative in 2020

In 2019, foreign trade was already weighing down GDP growth by 0.3 points. In H1 2020, because exports fell more than imports, the contribution of foreign trade to GDP was very negative (–0.1 points in Q1, then –2.5 points in Q2). In H2, the contribution should be slightly positive, as the rebound in exports is stronger than that in imports. Across the whole of 2020, it is likely to be negative, at around –2 points. ■

Table 2 - French foreign trade

variations in %, volumes at previous year's chained prices, contributions in points

	2019				2020				2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Exports										
All goods and services	0.5	–0.5	–0.5	–0.9	–6.0	–25.0	16	3	1.8	–18
Manufactured products (67%*)	0.5	–0.6	–0.6	–0.8	–5.6	–28.3	17	5	2.0	–20
Imports										
All goods and services	1.2	0.1	0.6	–0.8	–5.6	–16.4	14	0	2.6	–12
Manufactured products (69%*)	1.0	0.5	1.0	–0.6	–5.0	–19.0	15	0	2.8	–13
Contribution of foreign trade to GDP	**–0.2**	**–0.2**	**–0.3**	**0.0**	**–0.1**	**–2.5**	**0**	**1**	**–0.3**	**–2**

Forecast

* Part of expors (resp. imports) of non-energy industrial goods in exports (resp. imports) in a whole in 2019

Source: INSEE

In H1 2020, exports of goods contracted sharply in the main European economies, mainly due to a decline in exports of machinery and transport equipment

In H1 2020, the fall in economic activity in the main European economies was accompanied by a collapse in their foreign trade. Exports of goods in particular contracted dramatically in April-May, more in France, Italy and Spain than in Germany and the United Kingdom. This unprecedented contraction was due mainly to the collapse in exports of machinery and transport equipment. In June, exports of goods rebounded but remained below their pre-crisis level. Nevertheless, since imports also declined, foreign trade contributed only moderately, from an accounting point of view, to the decline in GDP in Q2. This is especially the case for France, mainly because it is a more import-based economy, and therefore the decline in foreign trade was less significant in accounting terms for GDP than was the case for its Eurozone neighbours.

In H1 2020, exports of goods contracted in an unprecedented manner, especially in France, Italy and Spain

In the main Eurozone countries, exports collapsed in H1, even more sharply than imports. In the United Kingdom, foreign trade also shrank, but exports declined less than imports. In April, exports of goods[1] by value were more than 40% below their 2019 average in France and Italy, 40% below in Spain, more than 30% below in Germany and almost 25% in the United Kingdom (*Graph 1*). In May, exports of goods bounced back in Italy and Spain (–25% and –30% respectively compared to the 2019 average) and to a lesser degree in France, Germany and the United Kingdom. Then in June, there was a clearer rebound in the Eurozone countries, which continued in Italy and Spain, strengthened in France and Germany, and remained less dynamic in the United Kingdom.

The fall in exports of goods was due mainly to the fall in exports of machinery and transport equipment

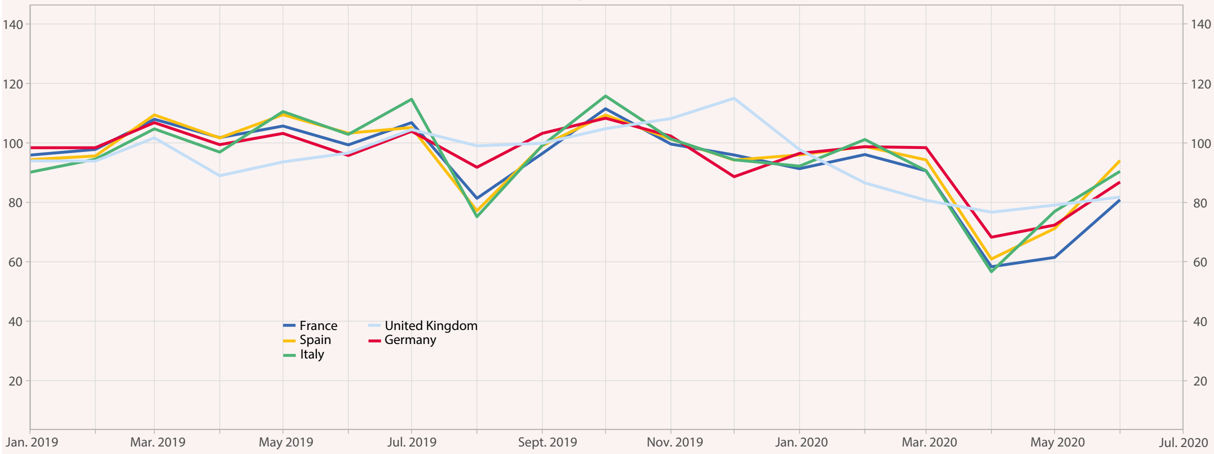
In France, exports of machinery, transport equipment and miscellaneous manufactured articles (professional and scientific instruments, clothing, travel items, etc.) represented the main contribution to the drop in exports: these items accounted for 22 and 7 points respectively of the 40% decline in April and May compared to the 2019 average. Exports of aircraft and cars were the main caused of this contraction. Manufactured goods, combustible minerals and chemical products also affected exports by –3.5 points, –2 points and –3 points respectively (*Graph 2*).

Compared to the other Eurozone countries, exports of goods from Germany contracted a little less during lockdown (–30% on average in April and

1. Here the focus is on the change in exports of goods until June, the most recent information currently available for all the countries under consideration.

1 - Exports of goods

base 100 = average 2019, SA data in value



Note: quarterly level of monthly exports of goods in value.

Source: Eurostat for Germany, Spain, France and Italy ; Office for National Statistics for United Kingdom

May compared to 2019). Specifically, exports of miscellaneous manufactured products (professional and scientific instruments, clothing, etc.) contributed to the decline in German exports of goods (–6 points), though this decline was less severe than in neighbouring countries. However, exports of machinery and transport equipment accounted for 20 points in the 30% decline overall in German exports of goods. Notably, since the German automotive sector was very much turned towards the exterior, exports of cars and other motor vehicles alone accounted for a 7-point drop in total exports of goods.

In Italy, the decline in exports of goods fell midway between the levels of Germany and France (–33% on average over April and May compared to 2019). Three types of goods accounted for most of this downturn: machinery and transport equipment (–14 points), and manufactured goods and miscellaneous goods (–6 and –10 points respectively). The fall in Spanish exports of goods was similar to that in Italy (–34% on average over April and May compared to 2019). More than half of this decline is attributable to the drop in exports of machinery and transport equipment (–17 points). In addition, exports of food goods (excluding beverages and tobacco) increased compared to 2019 (+1 point).

In the United Kingdom, exports of goods in value decreased much less sharply in April-May than in the other European countries (–22%). This exception in the United Kingdom is due to a strong positive contribution (8 points) by other articles and transactions, which relate mainly to transfers of non-monetary gold. Faced with the uncertainty caused by the health crisis, gold became a safe haven investment and there was large-scale repatriation from the United Kingdom, as London is a major centre for storing precious metals. The large increase in gold exports in value partly offset the decrease in exports of other types of goods during lockdown. As elsewhere in Europe, it was mainly machinery, transport equipment and miscellaneous manufactured products that affected exports of British goods in April-May (–16 and –6 points respectively).

Exports of goods are rebounding only gradually

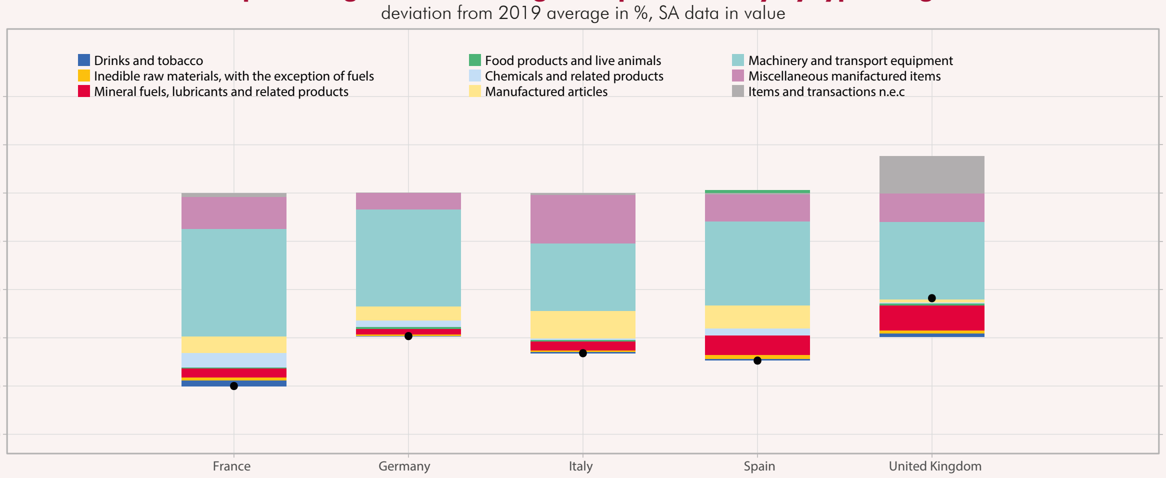
In June, French exports bounced back strongly (*Graph 3*) but still remained a long way from the 2019 average (–19%). As exports of machinery and equipment (or miscellaneous manufactured articles) picked up, they now accounted for only –11.5 points (or –2 points) deviation from the 2019 average. The contributions of manufactured goods and chemical products were half of those recorded in April-May (–1.5 points and –1 point respectively).

In June, exports of German goods were established at around –13% below their average 2019 level. This upturn in exports of goods is mainly due to machinery and transport equipment and miscellaneous manufactured products which contributed significantly to the smaller overall decline in exports compared to 2019 (–7 points and –3 points respectively).

In Italy, exports of goods increased in June but remained below the 2019 level (–10%, after –33% in April-May). Compared to April and May, exports of machinery and transport equipment, manufactured goods and miscellaneous manufactured goods increased. In June, their levels were still lower than those of 2019, contributing 7 points to the deviation from 2019 (against 30 points in April-

2 - Exports of goods on average in April and May by types of goods

deviation from 2019 average in %, SA data in value



Source: Eurostat for France, Germany, Italy en Spain and ONS for United Kingdom

May). However, the upturn was not so strong for manufactured goods.

In Spain, exports of goods increased in June more quickly than in Italy, as they were 6% down on their 2019 level (after –34% in April-May). Again, this is mainly due to the recovery in exports of machinery and transport equipment, which now contributed a drop of only 1 point in exports (against 17 points on average over April-May). In addition, exports of food products excluding beverages and tobacco remained at the same level as the April-May average, making a positive contribution of 1 point compared to the 2019 average.

Lastly, exports of British goods, unlike those of its European neighbours, increased only slightly in June, remaining well below their 2019 level (–18%). Once again it was machinery and transport equipment that affected exports most, but to a lesser extent than at the start of the quarter (–10 points). The positive impact of sales of gold stocks eased in June (contributing 2.5 points).

The accounting contribution of foreign trade to change in GDP depends on exports and imports

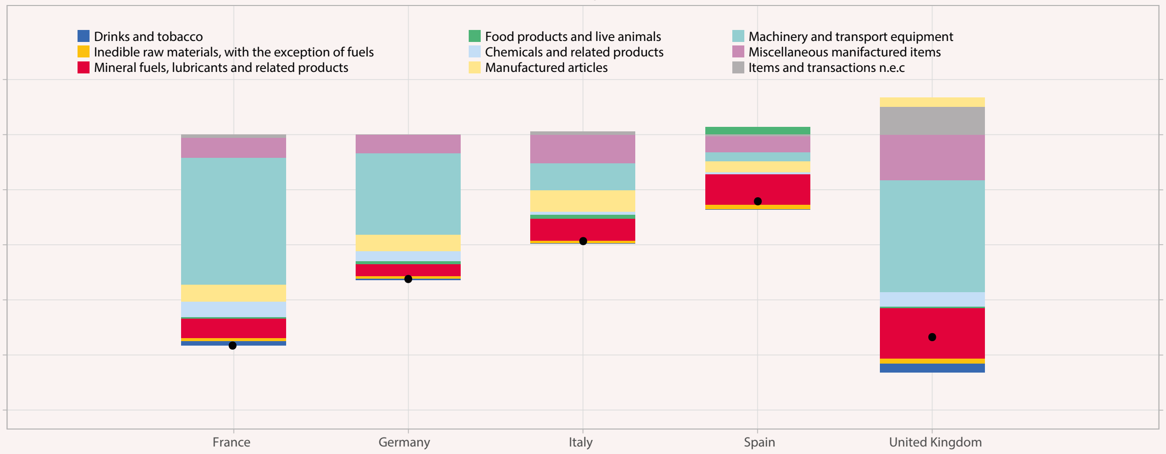
In H1 2020, in the main European economies, with the exception of the United Kingdom, imports fell less sharply than exports (Table). This smaller drop in imports compared to exports is reversed if we look at the change in the trade balance in China. After falling in H1 (–6.4% in accordance with the national accounts and adjusted for the seasonal effects of the Chinese New Year), Chinese exports in fact rebounded strongly in Q2 (+8.3%), driven mainly by world demand for electronic products and medical equipment, whereas Chinese imports remained in decline (–2.3% in Q1 then –1.7% in Q2).

All in all, the contribution of foreign trade to the change in GDP in European countries appears to be fairly modest compared to the decline in activity, bringing it down by –2.6 points for France (for a cumulated decline in GDP of –18.9% compared to the average for 2019), by –3.7 points for Germany (for a decline in GDP of 11.5%) or, on the contrary, making a positive contribution for the United Kingdom of 4.3 points (for a decline in GDP of 21.6%). In France, in particular, and compared with its neighbours in the Eurozone, foreign trade contributed less, relatively speaking, to the decline in GDP: its contribution counted for 0.3 points less than in Italy, 0.6 points less than in Spain and 1.1 points less than in Germany. In order to better understand these differences, there are three distinct factors to consider:

• the openness rate: this reflects a country's degree of interaction with world trade; an economy's openness rate (half-sum of its exports and imports as a ratio to GDP) can be seen as a factor of scale for its foreign trade (all things otherwise equal, in a country that is more open, its exports and imports will affect GDP more). It thus determines the scale of the contribution of foreign trade to the change in GDP. For example, in a context where foreign trade collapses and where exports decline even further than imports, the contribution of foreign trade is driven by the decline in exports, in proportion to their weight in the GDP, or in other words in proportion to the openness rate;

• the relative weight of exports to imports: at a given openness rate and to return to the previous example of a context of a collapse in foreign trade, in a country where exports have more effect than imports, the contribution from its foreign trade will also affect GDP more;

3 - Exports of goods in June by types of goods
deviation from 2019 average in %, SA data in value



Source: Eurostat for France, Germany, Italy and Spain, ONS for United Kingdom

• specific change in foreign trade: for a given openness rate and relative weight of exports to imports, the contribution of foreign trade to change in GDP also depends on specific changes in foreign trade.

Taking France as a point of comparison, we can then asses in accounting terms the role of these three factors in the difference between the contribution of foreign trade for each country and that of France (*Box*). First, the differences in openness rate played a relatively small role, except in relation to Germany. In fact, France is overall just as open as its European neighbours, apart from Germany where the openness rate is significantly higher (44% of GDP in 2019, against 32% for France). This greater openness in Germany increased the weight of the contribution of its foreign trade in Q2, increasing the difference between it and France by 1.0 point.

In addition, the differences in the relative weight of exports to imports led to increased contributions from the foreign trade of other countries compared to that of France. In fact the weight of exports in France is less than that of imports (32% and 33% of GDP respectively in 2019), unlike the other countries of the Eurozone (exports and imports accounted for 47% and 40% of GDP respectively in 2019 for Germany, 32% and 28% of GDP for Italy, and 35% and 30% of GDP for Spain).

Lastly, the specific change in foreign trade also played a role, but in the opposite direction: in France, exports declined significantly more than imports, more so than in the other countries, and, all other things being equal, this added to the contribution of its foreign trade to the change in GDP in Q2. With regard to the United Kingdom in particular, where exports declined significantly less than imports, specific changes in foreign trade account for most of the difference in the foreign trade contribution. However, in other countries, this factor was not such as to make up for the weight of the previous factors and, all in all, their foreign trade affected the decline of GDP more than in France. ■

Change in GDP and foreign trade in Q2 2020

compared to average 2019 level (in %) and contribution of foreign trade to change in GDP by volume (in GDP points)

	France	Germany	Italy	Spain	United Kingdom
Change in Q2 2020, compared to average 2019 level (in %):					
GDP	–18.9	–11.5	–17.9	–22.1	–21.9
Imports	–21.3	–17.5	–26	–33.6	–31.9
Exports	–30.3	–22.9	–32.3	–38.3	–18.9
Foreign trade contribution (GDP pts)	**–2.6**	**–3.7**	**–2.9**	**–3.3**	**3.6**
Difference from France (GDP pts)	**0.0**	**–1.1**	**–0.3**	**–0.7**	**6.2**
of which contribution					
of differences in openness rate		*–1*	*0.2*	*0*	*–0.2*
of differences in relative weight between exports and imports		*–1.2*	*–1.5*	*–2*	*–0.7*
of differences in changes in foreign trade		*1.1*	*0.9*	*1.4*	*7.1*

How to read it: in Q2 2020, GDP declined by 18.9% in France compared to its average quarterly level in 2019. Foreign trade accounted for –2.6 points of this decline, or 1.1 points less than in Germany. 1.0 point of this variation can be explained by the difference in openness rate between Germany and France.

Source: national statistical institutes

Bloc

Contribution of foreign trade to change in GDP and accounting breakdown of the difference in relation to France

Let X (or M) represent the amount of exports (or imports) and x (or m) their weight in the GDP of a given country, Y, in 2019 and g_Y, g_X and g_M their change in Q2 2020, compared to the average quarterly level in 2019, the contribution of foreign trade to g_Y can be written:

$$C = x\, g_X - m\, g_M$$

We then assume:

α the rate of openness: $\alpha = (x + m)/2$

β the degree of imbalance between exports and imports: $\beta = (x - m) / (2\, \alpha)$

The contribution of foreign trade C is then rewritten:

$$C = \alpha\, (g_X - g_M + \beta\, (g_X + g_M))$$

In order to compare this economy with that of another reference country designated by index 0, the difference between C and C_0 can be broken down in accounting terms into a sum of three terms:

$$\begin{aligned} C - C_0 &= \alpha\, (g_X - g_M + \beta\, (g_X + g_M)) - \alpha_0\, (g_{X0} - g_{M0} + \beta_0\, (g_{X0} + g_{M0})) \\ &= (g_X - g_M + \beta\, (g_X + g_M))\, \Delta\alpha + \alpha_0\, (g_X + g_M)\, \Delta\beta + \alpha_0\, \Delta(g_X - g_M) + \alpha_0\, \beta_0\, \Delta(g_X + g_M) \end{aligned}$$

where $\Delta\alpha = \alpha - \alpha_0$ and similarly for $\Delta\beta$, $\Delta(g_X - g_M)$ et $\Delta(g_X + g_M)$

Thus, the term in **red** designates the way in which the differences in openness rates affect the gap between C and C_0; the term in **blue** refers to the way in which the differences in relative weights of exports and imports affect this gap and the term in **green** refers to the way in which specific changes in foreign trade also affect the gap between C and C_0. ■

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Employment and unemployment

In H2, payroll employment is expected to continue to fall in the sectors worst affected in the long term by the health crisis: transport services, accommodation-catering, cultural and leisure services, while it should bounce back moderately in the other sectors. All in all, payroll employment is expected to fall between the end of June and the end of December, but at a more moderate pace than during the first half of the year. From Q3, the unemployment rate is likely to increase substantially, after an artificial decline during lockdown when a large number of unemployed people interrupted their job searches. It should reach 9.7% of the active population by the end of the year.

After a drop of 715,000 in H1, payroll employment is expected to contract moderately between June and December 2020

Between the end of December 2019 and the end of June 2020, payroll employment decreased by 715,000, or –2.8%. This unprecedented decline was still much less severe than the decline in activity (–13.8% in Q2 after –5.9% in Q1). This relative resistance shown by employment suggests that a large number of employers were able to retain their workforce, mainly as a result of short-time working schemes. From March to May, short-time working benefitted many employees in most sectors of activity. From June onwards, its use was gradually limited to the sectors most badly affected by the health restrictions, i.e. accommodation-catering and cultural activities. There were also other sectors affected by a substantial drop in activity that retained a large proportion of their workforce, even beyond the period of support provided by the short-time working scheme: this was particularly the case in transport services and the automobile and aeronautics industries.

In H2, payroll employment is likely to evolve in two stages: it will probably increase in Q3 then decline again in Q4. In Q3, the rebound is expected to be mainly due to temporary employment. The monthly data show that the rise in temporary employment, which began in May, continued at a steady pace in July and August (about +10% per month). The resumption of hiring on fixed-term contracts would also appear to have contributed to the rebound in employment, especially in industry, accommodation-catering and construction. Public sector employment is also expected to increase, with the resumption of hiring contract workers and temporary workers, some of whom had been suspended in the spring. In Q4, payroll employment will probably decline once again, mainly in the sectors affected in the longer term by the crisis. This is especially the case in transport, accommodation-catering and services to households: given the decline in their business prospects and/or their financial constraints, businesses in these sectors, are less likely to be able to retain the size of workforce that they had kept right up until the autumn.

All in all, payroll employment is likely to decline slightly over the half-year with two opposite effects in play which will offset one another to a large

Change in employment
in thousands, SA

	2020					
	Change over 3 months				Annual evolution	
	Q1	Q2	Q3	Q4	thousands	%
Agriculture	–3	–4	0	–1	–7	–2.2
Industry	–126	–5	46	33	–53	–1.5
Construction	–97	54	25	–45	–63	–4.0
Commercial tertiary sector	–251	–191	69	–144	–517	–4.3
Transports	*–50*	*0*	*–4*	*–60*	*–113*	*–7.4*
Accomodation and catering	*–61*	*–83*	*40*	*–28*	*–131*	*–11.3*
Household services (including culture and recreation)	*–45*	*–36*	*7*	*–93*	*–168*	*–12.6*
Other commercial tertiary activities	*–95*	*–73*	*26*	*37*	*–105*	*–1.3*
Tertiary non-trading	–23	–70	23	–19	–88	–1.1
Together	**–500**	**–215**	**163**	**–176**	**–728**	**–2.8**

Forecast
Note: in this table, temporary workers are included in the sector where they carry out their assignment.
Scope: France excluding Mayotte
Source: INSEE

extent: on the one hand, the rebound in activity and the resumption of hiring in some sectors (industry excluding transport equipment, construction, trade, services to businesses and non-market services) should invigorate employment; on the other hand, it is likely that the workforce will continue to decline in sectors suffering long-term effects as a result of the crisis (transport and services to households). In accommodation-catering, after a small rebound in the summer, it seems likely that activity will remain in decline in the long term. In this context, the extensive use of short-time working should mean that payroll employment can remain virtually stable for the half-year. Finally, the effect of the stimulus plan introduced in July to support the employment of young people (hiring premium for employees aged under 26, apprenticeship contracts and vocational contracts) is likely to be fairly limited over the forecasting period, while preventing the level of employment from deteriorating further.

Across the whole of 2020, self-employment is likely to fall at the same pace as payroll employment, which would bring the total number of net job destructions (employees and self-employed) to 840,000 over the year.

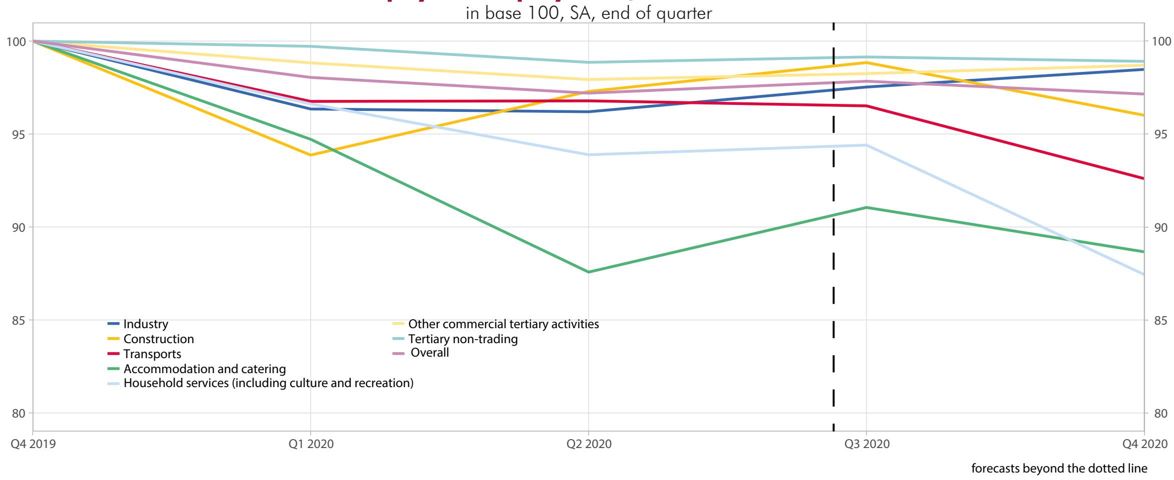
The unemployment rate is likely to reach 9.7% by the end of the year

During lockdown, a large number of unemployed people interrupted their job search. The result was that, despite the fall in employment, there was a drop in the number of unemployed within the meaning of the International Labour Organization (ILO) and an increase in the halo of unemployment (people without a job who want to work but who are not actively seeking work and/or are not available for work). In Q2, 6.0% of people aged 15 to 64 were within the halo, or 1.9 points more than in the previous quarter. At the same time, the unemployment rate fell back 0.7 points, to 7.1% of the active population.

This effect of a decline in the number of unemployed at the same time as an increase in the halo of unemployment was very specific to lockdown, although not specific to the French labour market, and to a large extent it is expected to fade in H2. As a result, the unemployment rate is set to increase very sharply in H2: it will probably settle at 9.0% in Q3 2020 and reach 9.7% by the end of the year, or 1.6 points more than one year earlier. ■

1 - Level of payroll employment, base 100 = end of 2019

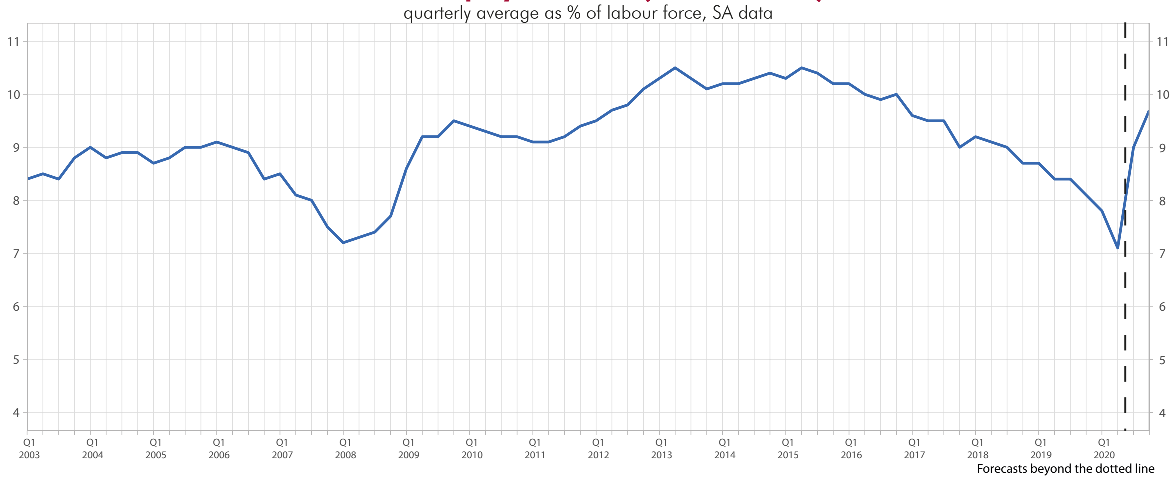
in base 100, SA, end of quarter



Note: in this graph, temporary workers are included in the sector where they carry out their assignment
Scope: France excluding Mayotte
Source: INSEE

2 - Unemployment rate (ILO definition)

quarterly average as % of labour force, SA data



Scope: France (excluding Mayotte), household population, persons aged 15 or over
Source: INSEE

Consumer prices

Since the start of the health crisis, headline inflation has decreased substantially. The lockdown measures and the subsequent drop in demand affected most prices, and especially the price of energy. In September 2020, headline inflation reached its lowest level since 2016, +0.1% year-on-year (according to the provisional estimate) after +1.4% in February, mainly due to the price of petroleum products and transport services, especially air transport. At the same time, the delaying of the date of the summer sales in July and August gave a one-off boost to the year-on-year rise in prices in July which was followed by a downturn in August. Core inflation would also appear to have declined, settling at +0.4% year-on-year in September, although it was +1.3% last February.

This period of low inflation should continue into the coming months: headline inflation is expected to be zero in December 2020 and core inflation will probably settle at +0.2%. As an annual average, headline inflation is expected to decline sharply in 2020, to +0.5% after +1.1% in 2019.

Inflation has remained at a low level since the start of the health crisis, despite some unusual price developments in some sectors

Headline inflation has fallen sharply since the start of the health crisis, from +1.4% in February to +0.1% in September (*Graph 1*).

The decline in activity as a result of the restrictive health measures introduced in many countries led to a sharp drop in demand, especially for petroleum products. Prices of these products fell by 14.6% in September year-on-year, after –0.5% in February, which contributed significantly to the global slowdown in prices. In addition, the prices of regulated electricity and gas tariffs were increased by +1.5% and +1.0% respectively in August. All in all, energy prices fell sharply in September, to –8.0% year-on-year, after +1.1% in February.

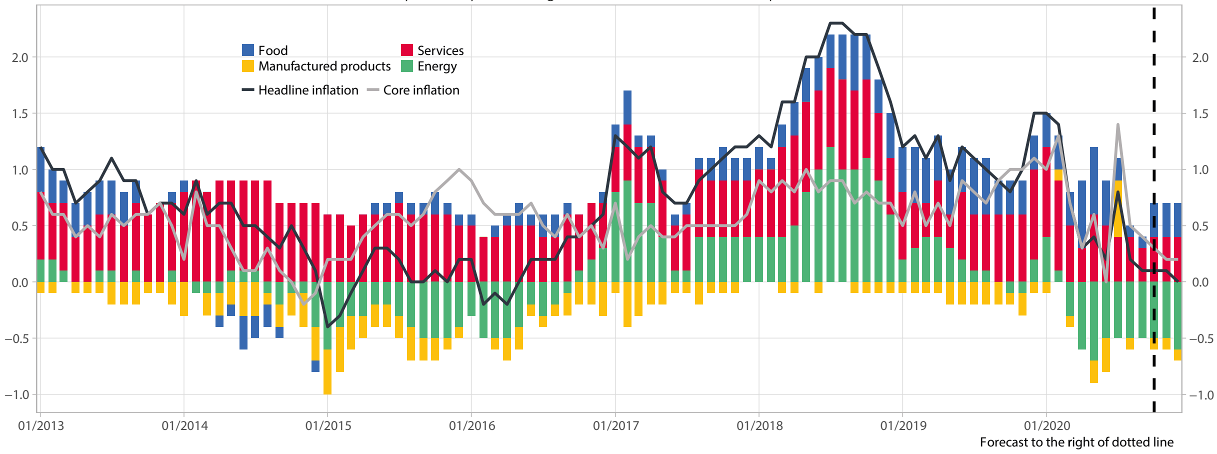
Conversely, food prices – especially fresh food – accelerated from March onwards and throughout lockdown, reaching +3.7% in April year-on-year. Difficulties in supplying businesses, combined with greater demand than usual, sustained this increase. In the summer, food prices began to slow, reaching +0.9% year-on-year in September, after +1.8% in February.

At the same time, prices of services slowed dramatically. The price of transport services in particular –especially air transport– have decreased significantly since March, settling at –3.7% year-on-year in September after +1.8% in February. In fact, the sector has been very much affected by travel restrictions and the health situation: since March, monthly price changes in this sector no longer follow the usual seasonal pattern dictated by the school holidays (*Graph 2*).

The prices of manufactured goods also fell from March onwards, by –0.2% year-on-year in September, after +0.3% in February. This downward trend in prices started in April

1 - Headline inflation and contributions by item

year-on-year change in % and contributions in points



Source: INSEE

2020, when "non-essential" businesses closed during lockdown, and continued thereafter. In July 2020, headline inflation in these products increased substantially, reaching +1.8% year-on-year. This rise was due mainly to the increase in the prices of clothing-footwear, which rose by 10.1% year-on-year, affected by the delaying and shortening of the summer sales period: in 2020, the sales lasted 4 weeks, from 15 July to 11 August 2020, compared to 6 weeks the previous year, from 26 June to 6 August 2019 (*Graph 3*). In August, the variation in clothing-footwear prices dropped to –7.0% before climbing back up in September to +9.1%. These variations in clothing-footwear prices contributed +0.4 percentage points to headline inflation in July, then –0.1 points in August.

Between now and December 2020, inflation is likely to remain very low

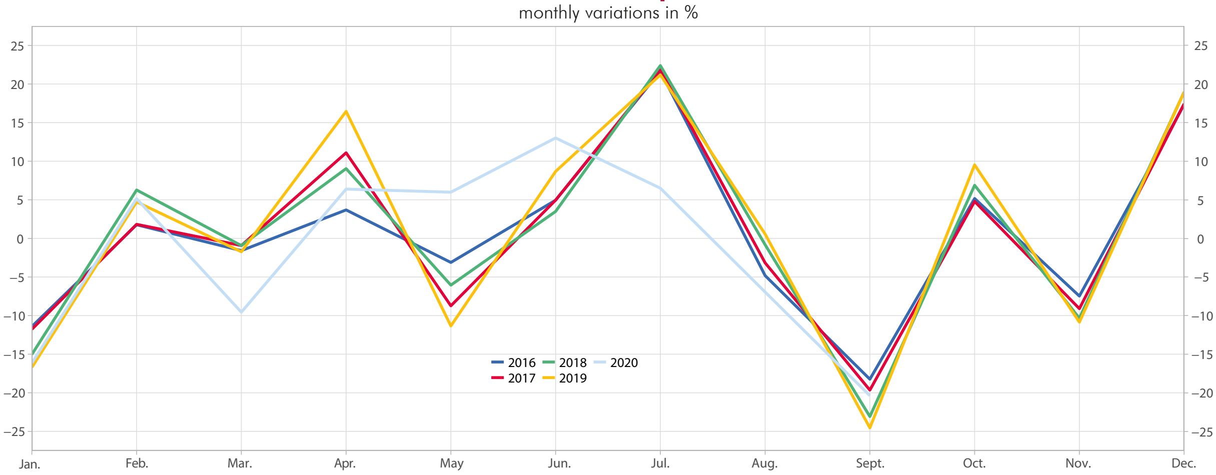
In December 2020, headline inflation is likely to be zero year-on-year, after +0.1% in September (*Table*). Core inflation is expected to settle at +0.2% year-on-year after +0.4% in September.

The prices of manufactured products are expected to decline by 0.6% year-on-year in December, after –0.2% in September, in line with the drop in prices for other manufactured products – especially electronic and electrical domestic appliances.

Finally, prices of services are expected to rise by 0.6% year-on-year in December, as in September. The prices of rents, communication

2 - Prices of air transport services

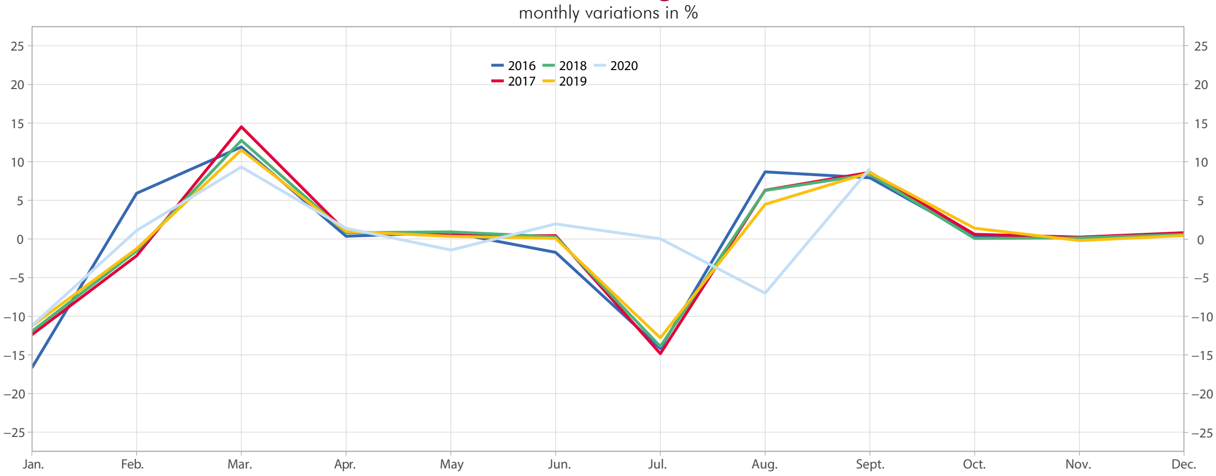
monthly variations in %



How to read it: as a forecast, in September 2020, the prices of air transport services are expected to fall by 20.4% compared to August 2020 while in September 2019, the prices of these services had fallen by 24.5% over one month.
Note: the Consumer Price Index is not seasonally adjusted.
Source: INSEE

3 - Prices of clothing-footwear

monthly variations in %



How to read it: in July 2020, clothing-footwear prices were stable over the month, whereas they had fallen by between 10% and 15% in previous years.
Note: the Consumer Price Index is not seasonally adjusted.
Source: INSEE

services and other services will probably increase at a similar pace to previous months. They slowed considerably in September, and this weak momentum is likely to remain in place until the end of the year. Conversely, health service prices are likely to fall due to the effect of dropping out of the year-on-year figures: these prices had increased much more strongly in Q4 2019, affecting year-on-year change. Transport service prices should continue to fall, despite a return to a more usual seasonal profile being forecast.

The prices of food products are expected to accelerate, to +1.2% year-on-year after +0.9% in September, in the wake of fresh food prices. Assuming that the price of a barrel of Brent is $40, energy inflation is likely to remain distinctly negative, at –8.2% year-on-year in December.

Tobacco prices are expected to slow slightly, reaching +11.8% after +13.7% in September. The price of a packet of cigarettes is likely to be increased by 40 euro cents on 1st November bringing the target price to 10 euros on average. ■

Consumer prices

changes as %

Regroupements IPC* (pondérations 2020)	February 2020		July 2020		August 2020		September 2020		December 2020		Moyennes annuelles	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2019	2020
Food (16.1 %)	**1.8**	**0.3**	**1.1**	**0.2**	**0.9**	**0.1**	**0.9**	**0.1**	**1.2**	**0.2**	**2.5**	**1.8**
including: fresh food (2.3 %)	*3.3*	*0.1*	*2.2*	*0.1*	*1.5*	*0.0*	*2.3*	*0.1*	*4.5*	*0.1*	*4.3*	*6.5*
excluding fresh foods (13.8 %)	*1.5*	*0.2*	*0.9*	*0.1*	*0.8*	*0.1*	*0.7*	*0.1*	*0.6*	*0.1*	*2.1*	*1.1*
Tabacco (2.1%)	**14.5**	**0.3**	**13.8**	**0.3**	**13.8**	**0.3**	**13.7**	**0.3**	**11.8**	**0.2**	**10.6**	**13.5**
Manufactured products (24.9 %)	**0.3**	**0.1**	**1.8**	**0.5**	**–0.2**	**–0.1**	**–0.2**	**0.0**	**–0.6**	**–0.1**	**–0.6**	**–0.2**
including: clothing and footwear (3.8 %)	*2.1*	*0.1*	*10.1*	*0.4*	*–1.7*	*–0.1*	*–1.3*	*0.0*	*–1.3*	*0.0*	*–0.3*	*–0.3*
medical products(4.1 %)	*–2.3*	*–0.1*	*–1.9*	*–0.1*	*–2.0*	*–0.1*	*–1.9*	*–0.1*	*–2.1*	*–0.1*	*–2.8*	*–2.1*
other manufactured products (17.0 %)	*0.5*	*0.1*	*1.1*	*0.2*	*0.4*	*0.1*	*0.3*	*0.0*	*–0.1*	*0.0*	*–0.1*	*0.2*
Energy (8.1 %)	**1.1**	**0.1**	**–7.4**	**0.0**	**–7.1**	**–0.6**	**–8.0**	**–0.6**	**–8.2**	**–0.7**	**1.9**	**–6.1**
including: oil products (4.4 %)	*–0.5*	*0.0*	*–12.8*	*–0.6*	*–12.7*	*–0.6*	*–14.6*	*–0.6*	*–16.5*	*–0.7*	*0.6*	*–12.1*
Services (48.9 %)	**1.4**	**0.7**	**0.9**	**0.4**	**0.9**	**0.4**	**0.6**	**0.3**	**0.6**	**0.3**	**1.0**	**0.9**
including: rent-water (7.5 %)	*0.4*	*0.0*	*0.2*	*0.0*	*0.2*	*0.0*	*0.2*	*0.0*	*0.2*	*0.0*	*0.4*	*0.3*
health services (6.0 %)	*0.0*	*0.0*	*0.6*	*0.0*	*0.3*	*0.0*	*0.3*	*0.0*	*–0.1*	*0.0*	*–0.1*	*0.2*
transports (3.0 %)	*1.8*	*0.1*	*–0.8*	*0.0*	*–4.4*	*–0.1*	*–3.7*	*–0.1*	*–3.9*	*–0.1*	*0.7*	*–1.9*
communications (2.2 %)	*2.2*	*0.0*	*1.5*	*0.0*	*1.8*	*0.0*	*1.2*	*0.0*	*1.2*	*0.0*	*–1.1*	*1.3*
other services (30.2 %)	*1.9*	*0.6*	*1.2*	*0.4*	*1.6*	*0.5*	*1.1*	*0.3*	*1.2*	*0.4*	*1.6*	*1.4*
All (100 %)	**1.4**	**1.4**	**0.8**	**0.8**	**0.2**	**0.2**	**0.1**	**0.1**	**0.0**	**0.0**	**1.1**	**0.5**
All excluding energy (91.9 %)	*1.5*	*1.3*	*1.4*	*1.3*	*0.5*	*0.4*	*–0.1*	*–0.1*	*0.7*	*0.6*	*1.1*	*1.1*
All excluding tabacco (97.9 %)	*1.2*	*1.2*	*0.5*	*0.4*	*0.0*	*0.0*	*0.0*	*0.0*	*–0.3*	*–0.3*	*1.0*	*0.2*
Core inflation (60.7 %)**	**1.3**	**0.8**	**1.4**	**0.8**	**0.5**	**0.3**	**0.4**	**0.2**	**0.2**	**0.1**	**0.8**	**0.5**

provisional
forecast
yoy: year-on-year ; cyoy: contribution to the year-on-year value of the overall index
* Consumer price index (CPI)
** index excluding public tariffs and products with volatile prices, corrected for tax measures.
Source: INSEE

Household income

Since the beginning of the year, households' gross disposable income (GDI) has shrunk as a result of the health crisis and the halt to all "non-essential" activities. The drop in disposable income, combined with the decline in earned income and, to a lesser extent, in property income, was much smaller than the drop in activity. In fact, the introduction of the short-time working scheme, the recourse to sick leave (especially for child care) and various measures to help households and sole proprietors have supported their income.
In H2, in conjunction with the upturn in activity, household earned income is expected to bounce back. However, as households have less recourse to the support mechanisms this will automatically bring down the amount of social benefits they receive. All in all, the GDI is likely to increase by 1.2% in Q3 then by 0.4% in Q4. In a context of sluggish consumer prices, purchasing power is likely to undergo the same trend. On average over the year, GDI is expected to shrink by 0.2% and household purchasing power by 0.6%.

After a strong decline at the beginning of the year, earned income is expected to pick up

In 2020, earned income is expected to fall by 4.9% (Table), mainly because in Q1, and even more so in Q2, there were job destructions and a reduction in working time (introduction of the short-time working scheme, absences for sick leave and child care, reduction in overtime). With the upswing in activity, gross payroll is expected to bounce back in H2 (+9.0% then +0.8% in Q3 and Q4). However, over the year, it will probably shrink by almost 5%.

In addition, sole proprietors saw their gross operating surplus (GOS) decline significantly in H1, mainly due to the closure of "non-essential" activities. In all likelihood, their income will continue to decline in H2; the resumption of activity is unlikely to compensate for the gradual fall in operating subsidies. As a result, in 2020 their GOS is likely to decline by 6.4%.

Household gross disposable income

	2019				2020				2019	2020
	T1	T2	T3	T4	T1	T2	T3	T4		
Gross disposable income (100 %)	**0.9**	**0.2**	**0.8**	**0.9**	**–0.3**	**–2.3**	**1.2**	**0.4**	**3.1**	**–0.2**
Earned income (72 %)	1.1	0.4	0.7	0.5	–2.1	–9.7	7.9	0.4	2.6	–4.9
Gross wages and salaries (64 %)	*1.2*	*0.5*	*0.8*	*0.5*	*–2.4*	*–10.0*	*9.0*	*0.8*	*2.9*	*–4.7*
GOS of sale proprietors (8 %)*	*0.3*	*0.0*	*0.4*	*0.6*	*–0.1*	*–7.8*	*–0.4*	*–3.8*	*0.4*	*–6.4*
Social benefits in cash (35 %)	1.4	0.4	0.6	0.3	2.3	7.9	–4.3	–0.7	3.1	6.5
GOS of «pure» households» (14 %)	–0.2	0.0	0.2	0.5	0.0	–1.3	3.1	0.6	0.2	1.2
Property income (6 %)	1.3	0.0	–1.1	–2.2	–3.7	–2.9	–2.2	–1.4	3.9	–9.2
Social contributions and taxes (–27 %)	1.7	0.8	–0.2	–1.8	–2.3	–8.0	10.6	–1.8	0.7	–5.1
Household consumer prices (quaterly national accounts)	**0.1**	**0.3**	**0.2**	**0.3**	**0.2**	**–0.2**	**0.0**	**0.0**	**0.9**	**0.4**
Purchasing power of gross disposable income	**0.8**	**–0.1**	**0.6**	**0.6**	**–0.5**	**–2.1**	**1.2**	**0.4**	**2.1**	**–0.6**
Household purchasing power by consumption	**0.6**	**–0.3**	**0.4**	**0.5**	**–0.6**	**–2.3**	**1.1**	**0.3**	**1.5**	**–1.2**

Forecast

* The gross operating surplus of "pure households" corresponds to the output of housing services, less the intemediate consumption required to generate this output (particularly financial services related to loans) and taxes (land tax). This output corresponds to the rents which properly awners receive from their tenants, or could receive if their property was rented ("imputed rents").
Note: the figures in brackets give the structure for 2018
How to read it: after a decrease of 0.3% in Q1 then 2.3% in Q2 2020, households' gross disposable income should increase by 1.2% during Q3 then by 0.4% in Q4. The annual change for 2020 would then be –0.2%.
Source: INSEE

Property income should continue to decline in H2, due to the drop in dividends paid to households. This is likely to represent a drop of 9.2% across the whole of 2020.

Social benefits should provide strong support for GDI in 2020, but are likely to decline towards the end of the year

In 2020, social benefits would appear to have accelerated significantly (+6.5%, after +3.1% in 2019). Across H1, two effects combined: exceptional measures and automatic stabilisers. The introduction of the short-time working scheme as well as the increase in allowances such as sick leave and child care leave, and the ad hoc assistance for those receiving the statutory minimum, have very much limited the decline in household income. To these exceptional measures were added the more obvious consequences of periods of decline in activity, such as the rise in numbers receiving the earned income supplement (RSA) or unemployment benefit. All in all, social benefits increased by 2.3% then 7.9% in Q1 and Q2.

In H2, these benefits are expected to fall back (–4.3% then –0.7%). The sharp decrease in those taking up short-time working schemes and daily allowances is expected to be a backlash to the increase seen in previous quarters. Conversely, unemployment benefits are expected to continue to rise and in Q3 in particular the increase in the back-to-school allowance will also support household income.

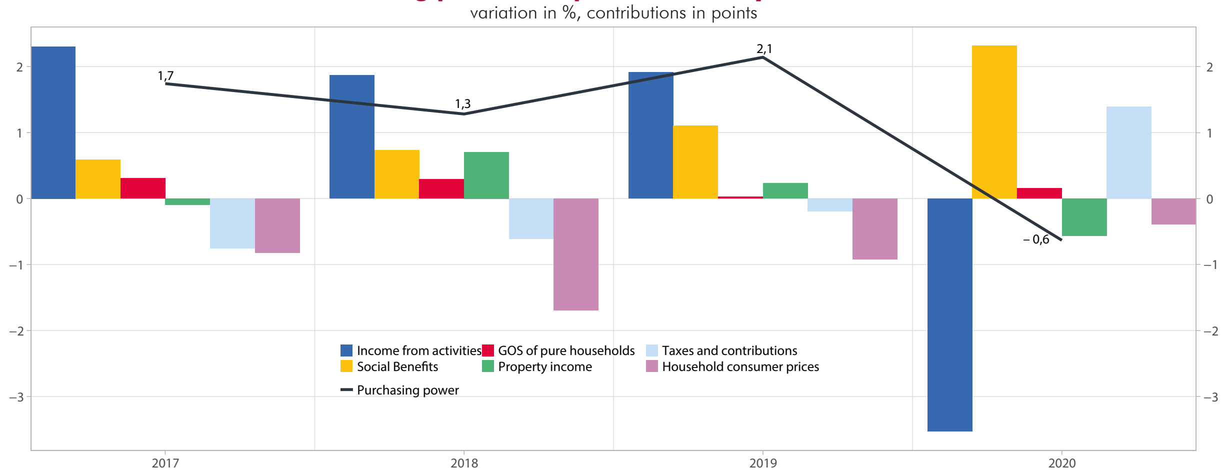
Social and tax contributions picked up in Q3 but are likely to decline sharply in 2020

In Q1, social and tax contributions declined, first as a result of the reform of the income tax scale, which came into force on 1st January 2020, then due to the decline in social contributions, and in the Generalised Social Contribution (CSG), in conjunction with the fall in payroll when lockdown was introduced. In Q2, the decline in social contributions and CSG increased. However, as activity recovered, these contributions bounced back in Q3. By the end of the year, the automatic increase in social and tax contributions is expected to be moderate, like the increase in activity, but ultimately they are likely to decline because of the latest housing tax relief which exempts 80% of households. As a result, across 2020 social and tax contributions overall are expected to decline by 5.1%.

In H2, households' GDI should increase by 1.2% in Q3 then 0.4% in Q4. Over the year, GDI is likely to shrink by 0.2% while consumer prices should slow (+0.4% after +0.9%). As a result, purchasing power is expected to decline 0.6% in 2020 (*Graph*). ■

Purchasing power is expected to fall by 0.6% in 2020

variation in %, contributions in points



Source: INSEE

Wages withstand the test of the health crisis

Short-term analysis of wages in the non-agricultural market branches is based mainly on monitoring two indicators: first, the hourly wage, where quarterly variations are followed by the index of hourly labour cost (ICT) –wages only, published every quarter;[1] second, average wage per capita (SMPT), published in the quarterly national accounts. Usually, these two indicators follow similar trajectories in that their ratio, which is similar to the average working time per individual in work, has been relatively stable since laws on the collective reduction of working time were implemented at the beginning of the 2000s. However, the onset of the health crisis in 2020 resulted in a sharp divergence between them.

The first indicator, the hourly wage, is the ratio of the gross payroll paid out by all businesses to the corresponding volume of paid hours of work. The hourly wage in the non-agricultural market branches increased sharply, by 2.8% in both of the first two quarters of 2020 (quarter-on-quarter, seasonally adjusted - SA). In fact, the short-time working scheme was used massively from the start of lockdown. While the main aim was to protect jobs as far as possible, it has also resulted in considerable reductions in payroll (which was replaced by compensation provided by the scheme) and in the number of paid working hours. Thus the first indicator fell back to a slightly lesser extent than the second, for two reasons. First, some amounts correspond to wages and since they form an integral part of the labour costs borne by employers they could continue to be paid, even if they were not remuneration for actual work. This was the case, for example, when an employer paid bonuses for previous activity; or when he paid out an additional amount to complement the State benefit over and above the possible remainder for which he was liable, or if he wanted to reassure employees on short-time schemes that they would continue to be paid, or if this was payment provided for in a collective agreement. Second, a composition effect also came into play: employees who were most affected by short-time working were usually manual workers and office workers, while those doing teleworking were more often managers; since the hourly wage for manual workers and office workers is on average lower than that for managers, the average level of pay for the remaining paid employees was higher.

The second indicator, average wage per capita (SMPT), is regularly presented in Conjoncture in France and as such is the subject of forecasts. Unlike the hourly wage, the SMPT compares gross payroll to the number of people in employment, and not to the hourly volume of work. The introduction of short-time work has enabled job losses to be contained, but has resulted in benefits replacing part of the wage bill. Consequently, the SMPT has dropped considerably: by 3.0%, in Q1 2020, and even more sharply, by 10.1% in Q2 (Box). As an after-effect, and assuming that there is a strong reduction in the use of short-time work schemes after the summer (as confirmed by the first data emerging for July and August), the SMPT would appear to have bounced back significantly, by more than 11% in Q3, and is then expected to increase more moderately in Q4 by around 1%. With this infra-annual dynamic, it is unlikely that by the end of 2020 the SMPT will return to the level it reached one year earlier, it will probably be about 2% lower. The use of short-time work schemes will probably continue in certain sectors particularly badly affected by the health crisis (such as accommodation-catering), certainly to a lesser extent than in the spring but nevertheless much more so than before the crisis; in addition, the SMPT is also likely to be disadvantaged at the end of the year by a reduction in the short-term components of pay (end-of-year bonuses, overtime, etc.).

The SMPT forecasts given in this Focus for the end of the year remain particularly fragile, given the many uncertainties surrounding the development of the health crisis in the coming weeks. They are based mainly on assumptions concerning the use of short-time working towards the end of the year which could be significantly revised, depending on how the situation develops. ■

1. "In Q2 2020, labour cost index – wages and salaries rose by 2.8% and total labour cost index by 2.9%", Informations Rapides n°233, INSEE, September 2020.

Fabien Guggemos ■

Bloc

How is the use of short-time work taken into account when explaining and predicting changes in average wage per capita (SMPT)?

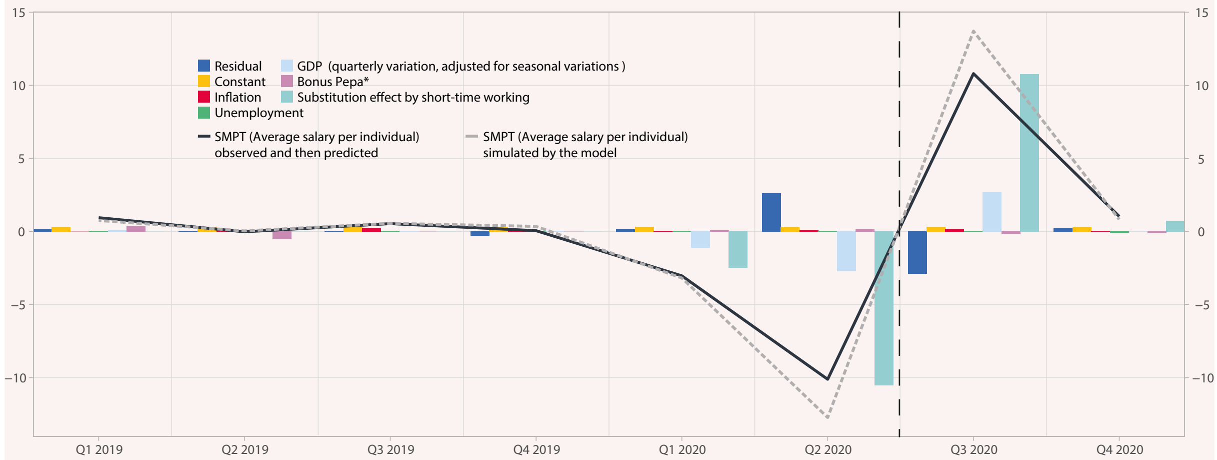
The *Graph* shows contributions of the different factors that account for quarterly variations in the SMPT (seasonally adjusted – SA), according to one of the four models normally used by INSEE to forecast wages in Conjoncture in France.[1] This model uses a linear regression to link the quarterly variation in the SMPT to that in GDP (in other words, to economic growth in the quarter under consideration) and to inflation and the unemployment rate.

Such a model usually has a high level of predictive power: residuals, or deviations between the quarterly variation observed in the SMPT and that explained by the model, are usually low. However, this was certainly no longer the case in the first two quarters of 2020, and the model therefore had to be adapted so that, in addition to the previously mentioned factors, it would take into account the use of short-time working, the main explanatory factor for the very significant decline observed in the SMPT during this period. Here, the contribution of short-time work to change in the SMPT is assimilated to the variation, in points, in the share of payroll not paid, which was replaced by the payment of benefits in the context of the scheme: thus the use of short-time work contributed –2.5 points to change in the SMPT in Q1 2020 and –10.5 points in Q2.

If we simulate a scenario for short-time working in H2 2020, we can then use the same principle to adapt the predictions resulting from the model based on GDP, inflation and the unemployment rate, while ensuring that the default prediction residual of this adjusted model, which was still considerable in Q2, is, as an average over 2020, around the same as that observed for the previous years. In Q3 2020, the strong decline in short-time working is expected to contribute around 11 points to the rebound in the SMPT, thus accounting for the majority of this increase; in Q4 2020, it should contribute less than one point. ■

1. "Do recruitment difficulties help to explain recent wage trends in France?", Conjoncture in France, INSEE, June 2019.

Prediction model for average wage per capita (SMPT): breakdown of quarterly variations (SA) in the observed, then predicted SMPT



* Extraordinary purchasing power bonus (PEPA - scheme enabling employers to pay a bonus of up to 1,000 euros in Q1 2019, exempt from social contributions and income tax, to employees whose remuneration is less than 3 times the minimum wage; this scheme was carried over into 2020, now with the possibility of paying the bonus at any time of year, and with a ceiling raised to 2,000 euros for businesses that have a profit-sharing agreement in place)
Scope: non-agricultural market branches.
Sources: Quarterly national accounts (INSEE), Acemo surveys (DARES), DSN, INSEE calculations

Household consumption

After rebounding as soon as lockdown was lifted in May, household consumption continued to rise in June and in Q3 would appear to have been maintained at a level close to that of Q4 2019. However, this overall dynamic masks contrasting consumption profiles between products that have clearly caught up (mainly manufactured goods) and others where spending is still below the pre-crisis level, especially in sectors subject to restrictions. As these restrictions continue, and the catch-up effects disperse, it is likely that consumption in Q4 will be slightly behind that of the previous quarter. Over the whole year, consumption is expected to be down 7% compared to 2019.

Compared to the previous *Point de Conjoncture*, the first feedback from the turnover indices for July and the publication of the consumption of goods data for August have meant that the estimate for household consumption for July and August could be refined. This confirms that household consumption remained at a fairly similar level to that before the crisis (Q4 2019), after the rebound that began in May as soon as lockdown restrictions were lifted and continued into June. Thus, household consumption in July would seem to have been around 4% below its Q4 2019 level and 2% below in August.

In September, consumption is expected to deteriorate slightly, but still remain close to its pre-crisis level (−4%). In this regard, over the first three weeks of September, the total amount of bank card transactions suggests a downturn in the dynamic observed during July and August (*Graph 1*). This is especially the case for transactions relating to purchases of clothing-footwear and household equipment, which took advantage of the summer sales (15 July – 11 August). Spending on accommodation and catering, as measured in bank card transactions, also seems to be in decline since the start of September, after a much more buoyant summer season (*Tourism Focus*). In addition, according to the monthly Consumer Confidence Survey, the balance of opinion on the opportunity to make major purchases, which had rebounded significantly as lockdown was lifted, has decreased since July (*Focus*). Conversely, the balance of opinion on the opportunity to save continued its sharp rise, which began in May, and in September reached a level not seen in the last five years.

Over the whole of Q3, household consumption would appear to have been 3% lower than its Q4 2019 level, increasing by 16% compared to Q2 (*Table 1*). This return to an overall level of consumption close to the pre-crisis level nevertheless reveals some contrasting consumption dynamics when considering products in detail. On the one hand, the consumption of certain products rebounded sharply from May onwards and would appear to be maintained during Q3 at a higher level than before the crisis (*Table 2*). This is especially the case for manufactured goods (household equipment, purchase of cars, clothing-footwear, etc.), as they benefitted from a catch-up effect as a result of purchases of items postponed during lockdown or incentive measures (e.g. exceptional conversion bonus in the case of car purchases). For other products, on the other hand, especially services, their consumption recovered much more slowly, and in Q3 it was still far below the pre-crisis level (*Graph 2*). This is particularly true for spending on accommodation and catering, transport services, cultural activities and to a lesser extent spending on fuel. The upturn in consumption in these sectors has been restricted further by the continuing application of health measures, the decline in international tourism, and the increased use of teleworking.

Change in household consumption for the end of 2020 is surrounded by uncertainty, and heavily dependent on any change in health conditions and households' consumption and savings behaviour. Consumption is likely to be on a downward trend in Q4 (–1% compared to the previous quarter). On the one hand, spending on goods is expected to return to

Table 1 - Estimation then forecast of household consumption losses in 2020

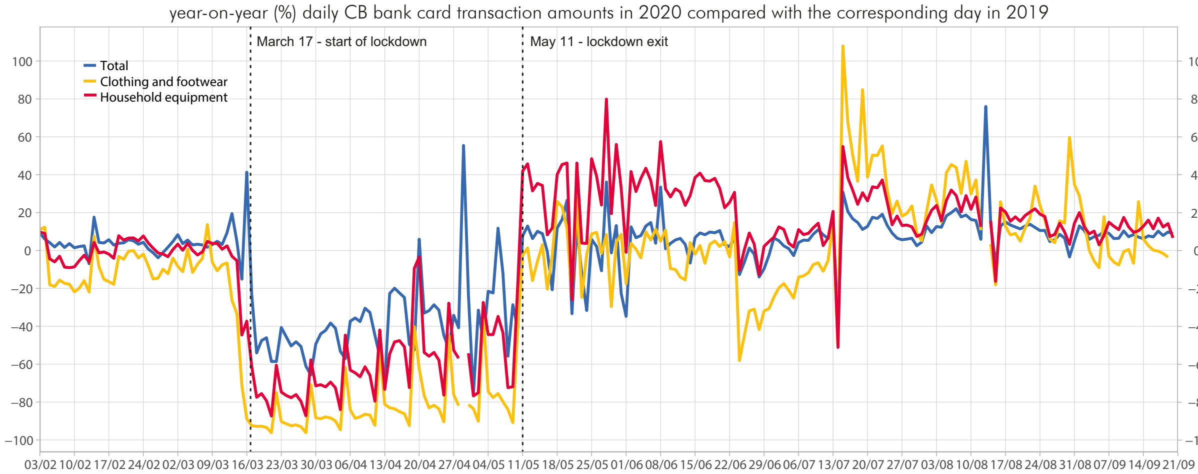
	Q1	Q2	Q3	Q4	Years 2020
Growth in household consumption (quarterly change)	−5.8	−11.5	+16	−1	−7
Loss of consumption (compared to the fourth quarter 2019)	−5.8	−16.7	−3	−4	

Forecast
Source: INSEE

its pre-crisis level, with the catch-up effects observed in Q3 gradually dissipating, as well as the support measures for vehicle purchase. On the other hand, the upturn in spending on services is likely to fade, due to the strengthening of health measures to combat the resurgence of the epidemic. In total, across the whole year, household consumption is likely to see a historic decline of 7%. After a substantial increase in households' savings ratio in Q2 (+7.7 points, Focus), in Q3 it is expected to return to a level closer to its long-term average, or a little higher (17% in Q3 then 18% in Q4). ■

1 - CB bank card transactions

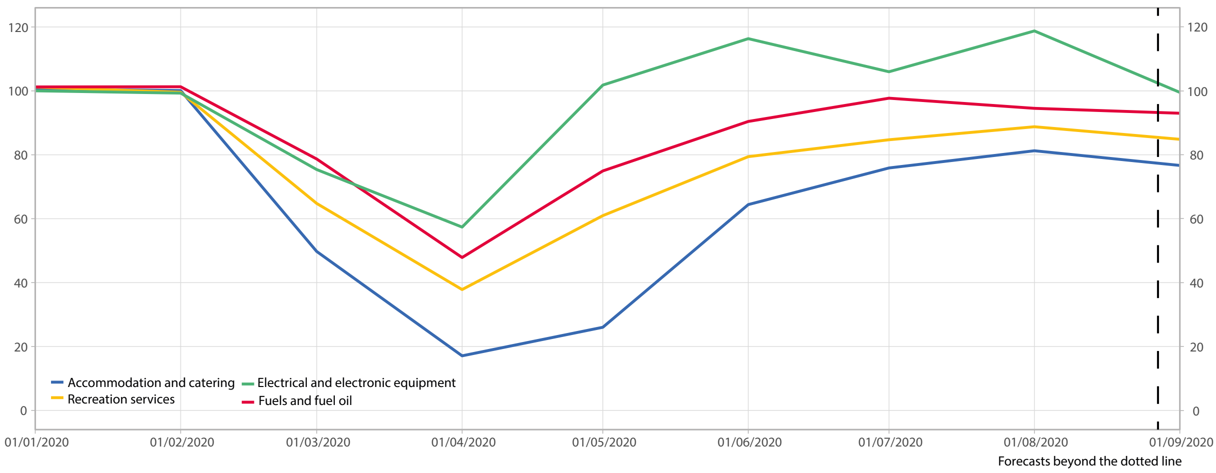
year-on-year (%) daily CB bank card transaction amounts in 2020 compared with the corresponding day in 2019



How to read it: on Tuesday 15 September 2020, the total amount of CB bank card transactions was 8% higher than on Tuesday 17 September 2019.
Note: from March onwards, the dynamism of these transaction amounts may be due to a higher level of payment by bank card.
Source: Cartes Bancaires CB, INSEE calculations

2 - Estimated and forecast level of monthly household consumption, compared to Q4 2019

Base 100 in Q4-2019



How to read it: in April 2020, household spending on accommodation-catering services was 17% of the average level in Q4 2019.
Source: INSEE calculations from various sources

2 - Estimated loss of final household consumption linked to lockdown measures

Products	Share of consumption* (%)	Q2 2020 (difference in %)	3Q 2020 (difference in %)	Contributions to the variance for the 3rd quarter (in percentage points)
Agriculture, forestry and fishing	**3**	**−5**	**−5**	**0**
Industry	**44**	**−15**	**1**	**0**
Manufacture of food products, beverages and tobacco-based products	15	4	0	0
Coke and refined petroleum	4	−29	−5	0
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	3	−8	8	0
Manufacture of transport equipment	6	−36	2	0
Manufacture of other industrial products	13	−28	−1	0
Extractive industries, energy, water, waste treatment and decontamination	5	−2	3	0
Construction	**2**	**−24**	**−4**	**0**
Mainly market services	**46**	**−19**	**−6**	**−3**
Trade; repair of automobiles and motor-cycles	1	−24	5	0
Transport and storage	3	−47	−29	−1
Accommodation and catering	7	−64	−22	−2
Information and communication	3	−5	1	0
Financial and insurance activities	6	1	1	0
Real estate activities	19	1	1	0
Scientific and technical activities; administrative and support services	2	−19	−6	0
Other service activities	4	−41	−14	−1
Mainly non-market services	**5**	**−32**	**−7**	**0**
Total	**100**	**−17**	**−3**	**−3**

*weight in final household consumption spending excluding territorial correction (2017)

How to read it: the level of household consumption of accommodation and food services would be 22% lower in the third quarter than in the fourth quarter of 2019, contributing to total household consumption being 1.6 percentage points lower than normal.

Source: INSEE calculations from various sources

Are employees turning more and more towards saving since the end of lockdown?

Since the end of lockdown, more and more households have said that this is a good time to save. The corresponding balance of opinion has trended upwards since May, and increased vigorously in July. In September 2020, it increased significantly once again, reaching well above its pre-crisis level (*Graph 1*). At the same time, after picking up when lockdown ended, the balance of opinion among households on the opportunity to make major purchases stabilised at a level very far below that of the previous year.

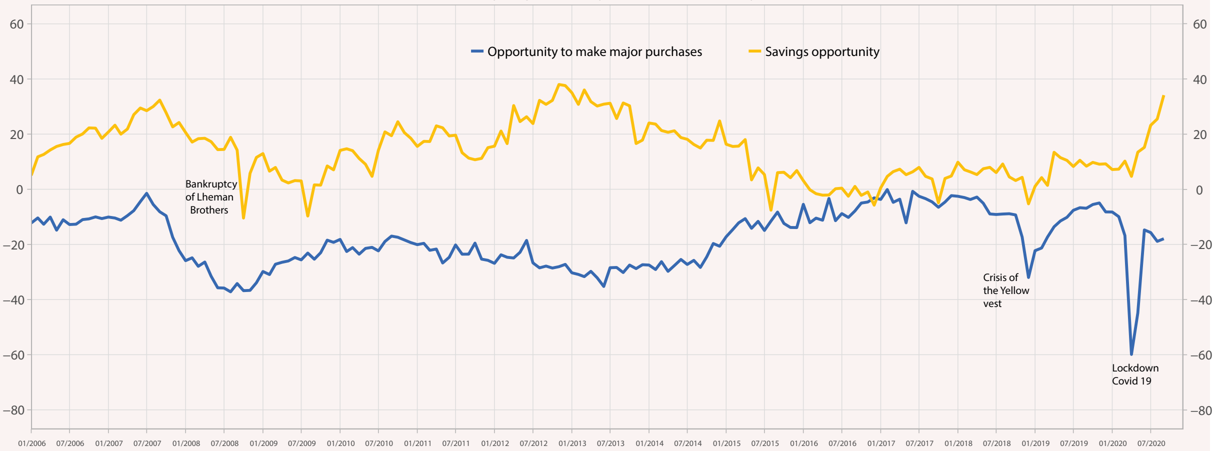
However, these changes are fairly varied, depending on the household's type of activity. The increase in the proportion of private sector employees who say that this is the ideal time to save has been relatively steady since the end of lockdown (*Graph 2a*). Concerning public sector employees, the balance of opinion increased vigorously in July, then once again in September. Conversely, the balance corresponding to the self-employed and business leaders fell back in August and stabilised in September. Unlike employees, at the end of summer, self-employed workers and business leaders were less likely to think that this was a good time to save.

However, this change is fairly uniform across other categories of household. Households in employment report more and more often that since the end of lockdown has been a good time to save (*Graph 2b*). This is also the case for retired households, although they are less concerned by the decline in earned income, perhaps a sign of intergenerational solidarity or general fears about the future. Similarly, given the current economic climate, more and more of the well-off and modest households consider that this is a good time to save (*Graph 2c*). ■

Benjamin Quevat ■

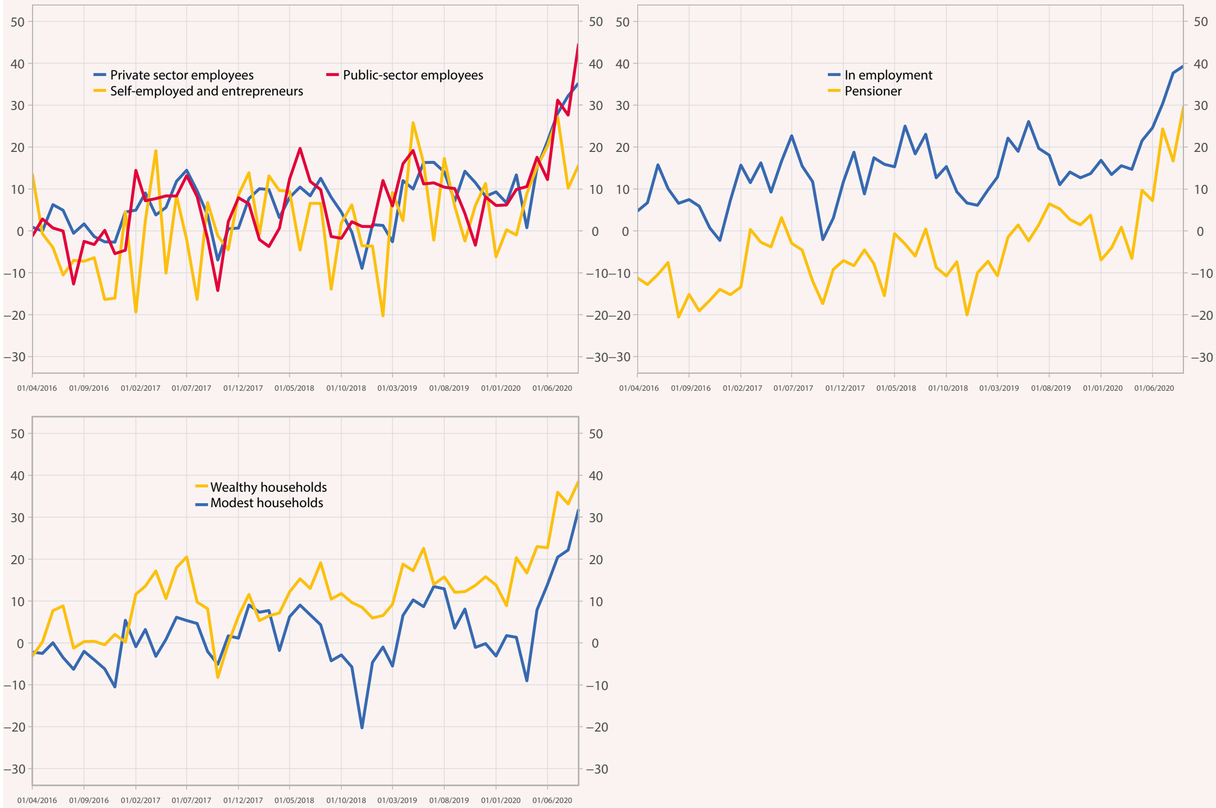
1 - Balances of opinion on the opportunity to save and the opportunity to make major purchases

seasonally adjusted response balances, in points



Source: INSEE calculations

2a à 2c - Balances of opinion on the opportunity to save by different household categories



Source: INSEE

Household income, expenditure and saving during H1 2020

In H1 2020, household gross disposable income (seasonally and working day adjusted) reached €734 billion, down €7 billion compared to H2 2019 (*Graph and Table*). Earned income and property income fell substantially, but households were in receipt of more social benefits (especially for short-time working) and their taxes decreased. Thus the decline in household disposable income between H2 2019 and H1 2020 remained relatively low compared to the drop in GDP of almost €125 billion during the same period.

At the same time, households reduced their consumption expenditure massively due to the unusual context of the total lockdown of the population. They spent €562 billion in H1 2020 after €631 billion in H2 2019, a drop of €69 billion.

As a result, their gross savings flow (the share of their income that they have not spent on consumption) increased by €61 billion, reaching €173 billion in H1 2020. In addition to consumption, households can also use their income to invest, particularly in real estate. In H1 2020, however, their investment dropped by €13 billion compared to H2 2019, falling to €58 billion.

Consequently, their flow of financial savings (or net lending), the share of their income that is neither consumed nor invested (and which has not been the subject of a capital transfer), and which increases their financial assets (deposits net of debt), has increased significantly, from €33 billion in H2 2019 to €110 billion in H1 2020, an increase of €77 billion. ■

Thomas Laurent ■

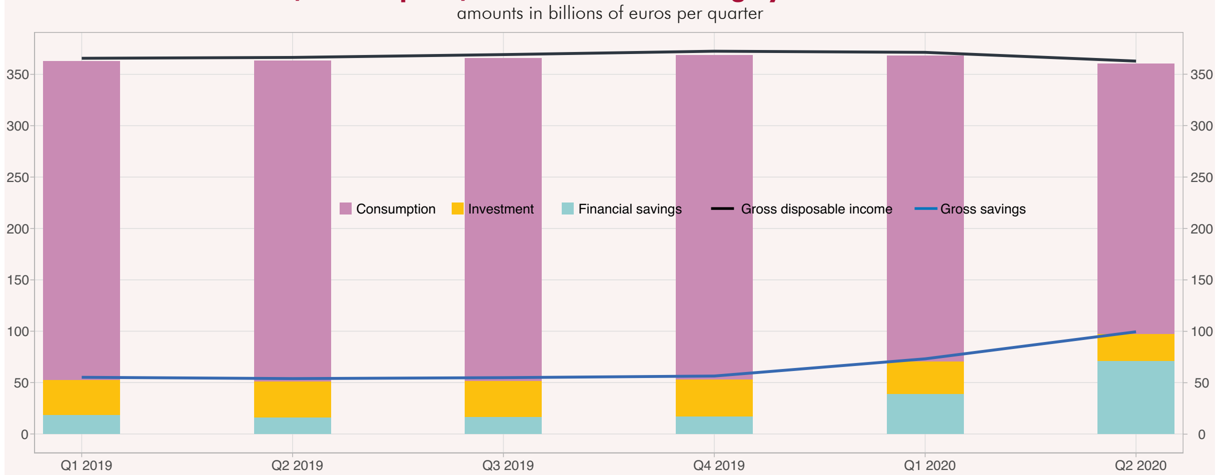
Table - Components of income, consumption, investment and savings of French households

amounts in billions of euros per half year

	Second half of 2019	Firth half of 2020	Difference
Gross Disposable Income	742	734	–7
of which			
Earned income	693	649	-45
Social benefits in cash	261	279	17
Gross operating surplus of pure households	97	97	0
Property income	44	42	-3
Taxes and social contributions	-356	-333	23
Consumption expenditure	631	562	-69
Savings	111	173	61
of which			
GFCF	71	58	-13
Financial savings	33	110	77

Income, consumption, investment and saving by French households

amounts in billions of euros per quarter



Source: INSEE, quarterly national accounts

International developments

After falling sharply in Q2, activity is gradually picking up in the advanced countries, although at varying rates. Household support measures have enabled domestic demand to make a more vigorous recovery than supply in most of the advanced economies, according to retail sales indices and manufacturing output. However, high-frequency indicators could suggest a slowdown in certain sectors of activity in September, linked with new precautionary health measures, especially in the United Kingdom, France and Spain. China is unlike the United States and Europe: because the country was affected by the pandemic earlier, activity rebounded more quickly, helped by the buoyancy of supply, and China is expected to avoid recession in 2020.

In China, production rebounded more quickly than consumption, while in the United States the reverse was true

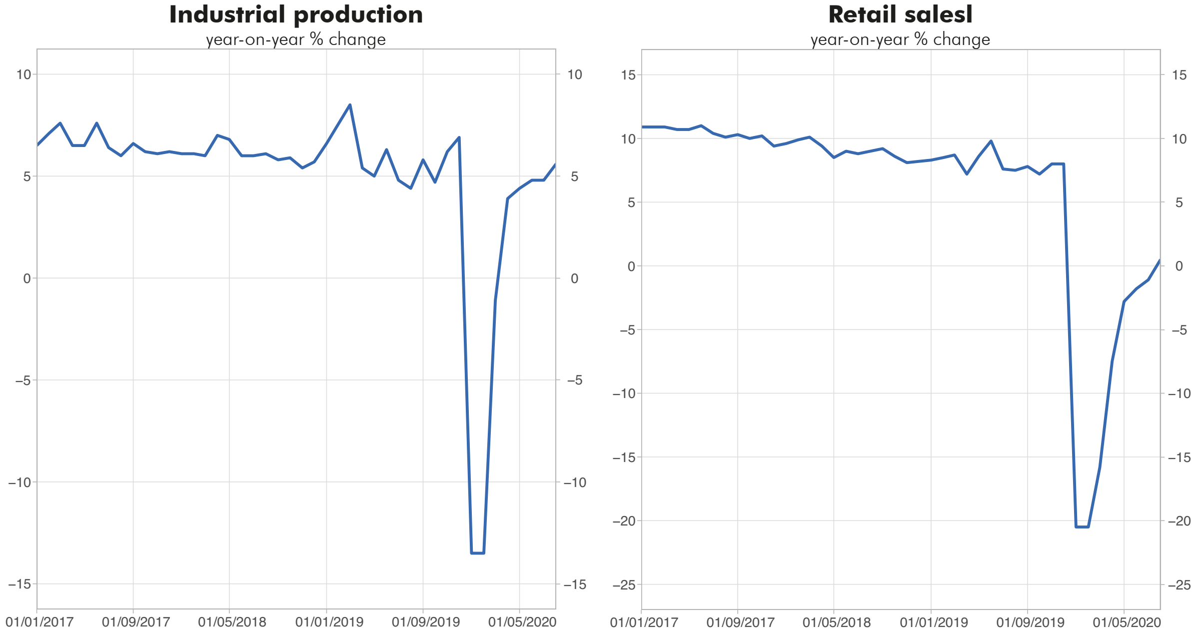
China

China was the first country to be affected by coronavirus, and was also the first to bounce back economically, and should be one the few countries to avoid recession in 2020, according to IMF and OECD forecasts. The decline in GDP was a significant episode but likely to be limited to Q1 (–10.4% quarterly variation). In Q2, economic activity rebounded by +11.8% and growth should continue until the end of the year, unless there is a resurgence of the epidemic resulting in new restrictions being put in place.

The rebound in the Chinese economy concerned production rather than domestic consumption. After falling dramatically in January-February (–13.5% year-on-year), industrial production was back to its pre-crisis level by April, up by 5.6% over one year in August, which was a similar pace of growth to its pre-crisis level (*Graph 1, left*). PMIs for the manufacturing industry and for services have been above the expansion threshold for several months, suggesting an increase in activity. Investment has also picked up, both in the manufacturing sector and in infrastructure, especially after the increase in the quota for local government borrowing to finance infrastructure projects.

However, recovery in domestic demand is lagging behind the rebound in production to some extent. Since the government's stimulus package focused on boosting investment and construction, the

1 - In China, production bounced back more quickly and more strongly than consumption



Note: since the NBSC published an index of industrial production and growth in retail sales for January and February combined at –13.5% and –20.5% respectively year-on-year, it was assumed that there was a fall in these values in both January and February when compared against 2019.
How to read it: in March 2020, industrial production (or the level of retail sales) was down 1.1% (or 15.8%) on its March 2019 level.
Source: NBSC

lack of support for households and the structural weakness of social protection mean that there has been no compensation in income for layoffs and for the decline in wages that resulted from the health crisis. Uncertainties linked with a potential second wave of the epidemic and international tensions have also affected household confidence. As a result, after falling dramatically in January-February (–20.5% in value year-on-year), retail sales were slower to pick up than production, with their year-on-year change remaining negative for six consecutive months, before becoming positive once again in August (+0.5% year-on-year), although levels are still a long way from the pace of growth seen before the crisis (*Graph 1, right*).

The dynamic recovery in production is therefore based more on exports than on domestic demand, despite the government's desire to redirect the Chinese market, given the context of ongoing trade tensions and a weak economic recovery abroad. Export data, reprocessed in accordance with the national accounts and adjusted for the seasonal effects of the Chinese New Year, showed a rebound of +8.3% in Q2 (after a drop of –6.4% at the beginning of the year), driven mainly by global demand for electronic products and medical equipment. Reflecting the weaker dynamism of domestic demand, imports seem to be affected in the longer term, with a decline in two consecutive quarters (–2.3% then –1.7%).

United States

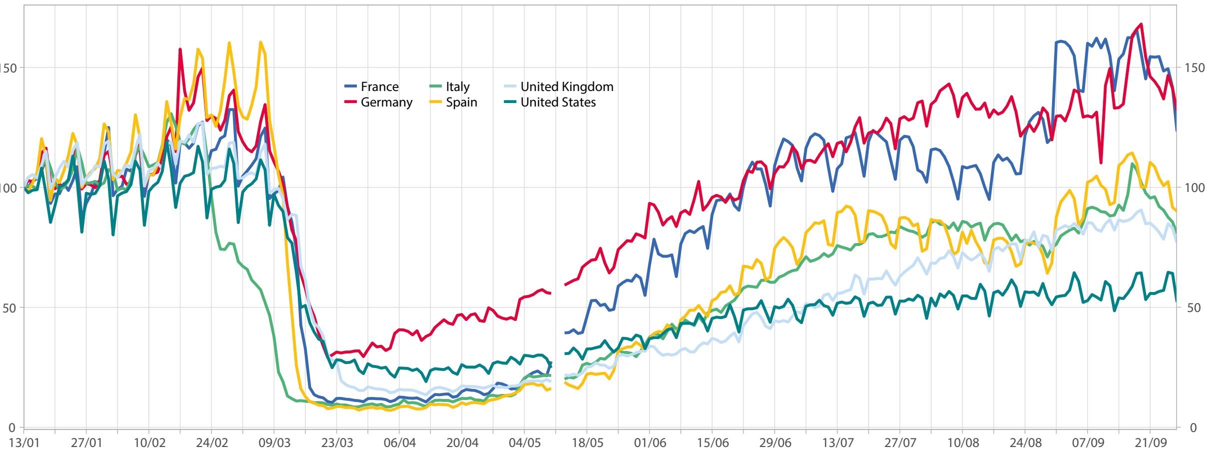
The United States has been severely affected by the coronavirus epidemic, and although there was no general lockdown at national level, GDP declined in both Q1 and then Q2 (–1.3% then –9.0% respectively). Activity was hampered by household consumption (–9.6% in Q2, a –6.5 point contribution to growth), exports (–22.8%) and corporate investment (–7.6%). The American elections, and possible concerns surrounding their organisation, have fostered a climate of uncertainty for the end of the year, in addition to the threat of an intensification of the epidemic. During the summer, the virus did not decline in the US as much as in the countries of Europe and it continues to have a serious effect on daily life for Americans, as can be seen from public transport use: according to Apple Maps Mobility data and in contrast to the Eurozone countries, it has not returned to its pre-crisis levels, and is still only half of what it was in January (*Graph 2*).

However, the rebound in PMIs, which have been higher than the expansion threshold of 50 since July (54.6 in September for services, 53.2 in the manufacturing industry), suggests an upturn in the US economy in Q3. Consumption is likely to be the main driving force behind this recovery: retail sales bounced back strongly in May (+18.3%) (*Graph 3, right*), and have been back at their pre-crisis level since June. The various support plans to boost the economy have certainly protected domestic demand to a large extent with measures specifically directed towards household consumption (unemployment insurance, tax reduction). Thus in Q2, despite a sharp rise in unemployment (11.1% in June after 3.5% in March and a peak at 14.7% in April), Americans' disposable income increased by 9.7%, encouraging both savings behaviour and consumption during the summer. There are uncertainties, however, surrounding this upturn in consumption for the end of year: political disagreements in the House of Representatives are currently preventing a possible extension of household support measures, while further layoffs are planned for October, especially in airline companies, in a context where unemployment is already high (7.9% in September).

Unlike China, the economic recovery appears to be more moderate in terms of production: after plummeting by 16.7% between March and May, industrial production bounced back but still

2 - Public transport use returned to its pre-crisis levels but slowed at the end of September in the Eurozone

base 100 on 13 January 2020



Note: search indicators for travel on public transport. Data for 11 and 12 May are not available.

Source: Apple Maps Mobility

remains significantly below its levels at the start of the year (*Graph 3, left*). Uncertainties surrounding the epidemic and the conduct of the elections may hamper corporate investment decisions, thus limiting the upturn in production.

In Europe, household consumption bounced back quickly, but the outlook is becoming more uncertain with the resurgence of the epidemic

Germany

In Germany, manufacturing output fell in the spring and recovered more slowly than that of its European neighbours in the summer (*Graph 4*). Thus in July, German production output remained below its 2019 level (–11.8%), a sharper decline than in France, Spain or Italy. The German automotive sector is contributing to this slower recovery of the manufacturing industry, as it did before the crisis at the beginning of 2020: in July, automobile production was still well below its 2019 level (–18.1%). The Manufacturing PMI returned to its expansion threshold in the summer, reaching 56.4 in September.

German consumption, however, seems to have recovered its pre-crisis level as soon as lockdown was lifted. In May, retail outlet sales grew by 13%, and were above their 2019 level (*Graph 5*). Despite a slight decline in June, they stabilised in July at a level well above that of 2019 (+4.1%). In addition, the reduction of German VAT, adopted in July and effective until December, should encourage German households to consume more during the rest of the year.

As a sign of the recovery that began in May, German mobility has rebounded very strongly since lockdown, as demonstrated by the use of public transport measured by Apple Maps Mobility. In September, the number of travel requests via public transport reached a level 40% higher than in January (*Graph 2*). This greater German mobility was also accompanied by an increase in road traffic in the main cities in September. The TomTom Traffic Index of road congestion reached 37.0% in the week of 21 September, double the average for the index in April.

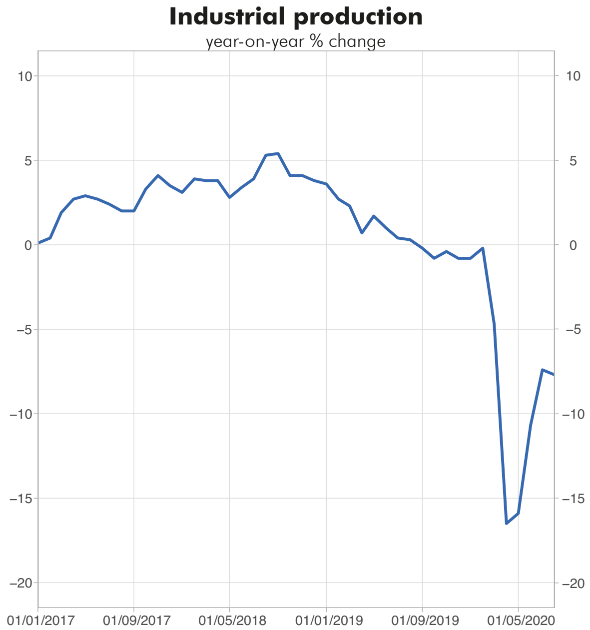
Although lower than elsewhere, relatively speaking, the number of Covid-19 cases continues to increase in Germany, which could lead to new restrictive measures at local level and could affect the resumption of activity.

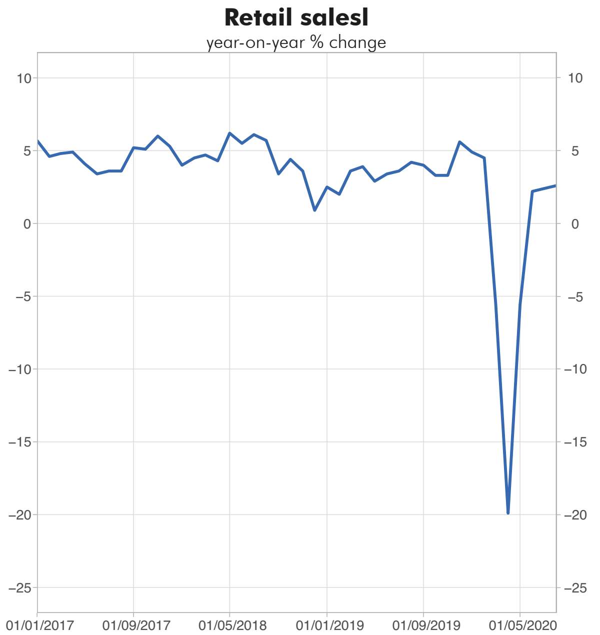
Italy

Between May and July, Italian manufacturing output made up for much of the decline due to lockdown. In July, output levels were around 7.4% below the 2019 level against 46.4% in April (*Graph 4*). Nonetheless, the manufacturing output index has slowed since June, suggesting that the country will take time to fully regain its pre-crisis level of production.

The upswing in domestic demand is expected to slow down slightly after the significant rebound observed as the country came out of lockdown. In June, sales in retail outlets were less than 5% from their June 2019 level but then they declined in July to 12.3% below the July 2019 level (*Graph 5*). Italy is the only European country where retail sales fell in July. Non-food retail

3 - In the United States, industrial production is seeing a more sluggish recovery than retail sales





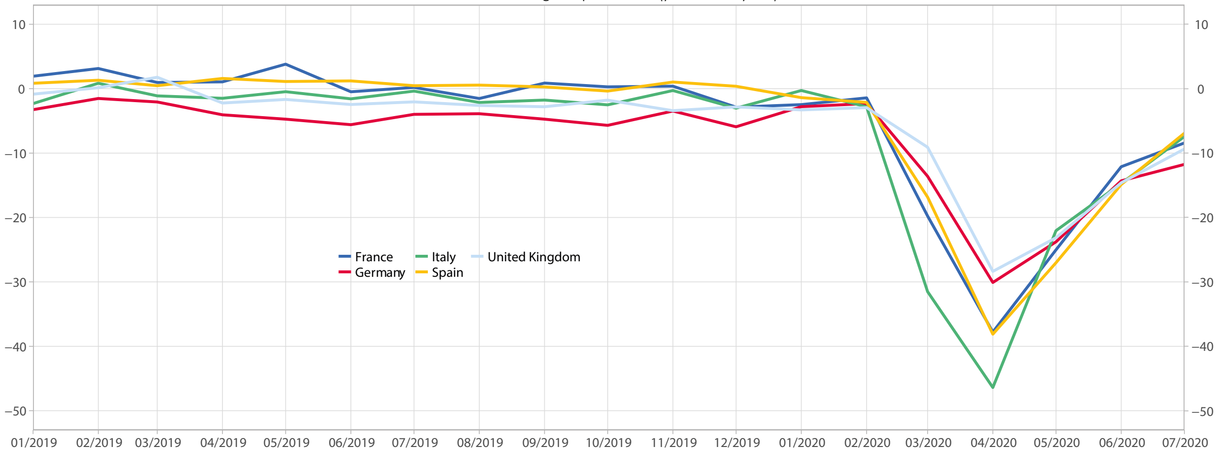
Source: Federal Reserve Board, Census Bureau outlets, excluding fuel sales, have suffered most from this economic situation, dropping from –2.3% in June to –18.5% in July compared to their 2019 level. Of all the businesses in this category, clothing outlets accounted for most of this decline (–27.5% in July). This sectoral phenomenon is partly explained by a quirk in the calendar. The summer sales usually start in the first week of July, but this year they started on 1st August.

In addition, high-frequency indicators seem to suggest a slow recovery in activity, especially compared to Germany and France. Of these indicators, only public transport use had returned to its pre-crisis level by mid-September (*Graph 2*), before slowing down as it did in the other European countries. After a drop in August, probably linked with the specific nature of the summer months, attendance at the workplace during September returned to its post-lockdown level, which was still significantly lower than the pre-crisis level (*Graph 7*). Concerning air traffic, Italy followed the European trend, with a level well below that of 2019 and, in addition, a drop in the number of flights in September (*Graph 6*). Furthermore, although currently less worrying than in Spain or France, the health situation requires preventive measures to be taken, the aim being either to control people arriving from abroad or to limit numbers in certain places (public transport, restaurants, etc.). At this stage there are no total restrictions in place as in Madrid, but the possibility of a more serious resurgence of the epidemic cannot be ruled out.

Spain

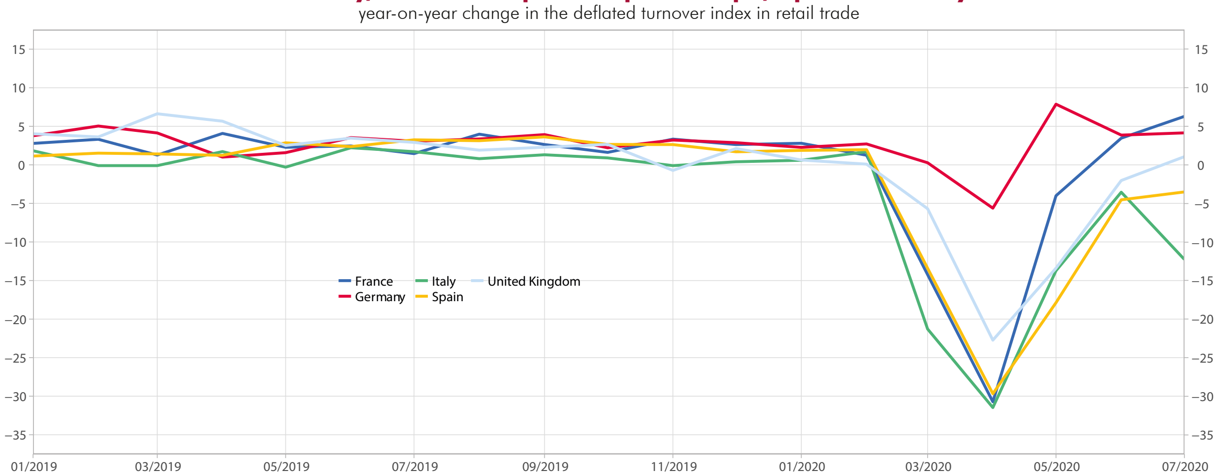
In Spain, the recovery in production was buoyed up after the lockdown period, but did not rebound to the same extent as in Italy. The manufacturing output index followed a similar pace to that observed in France (*Graph 4*): after the collapse in April (–38% compared to the level in April 2019), Spanish manufacturing output bounced back substantially, although in July it still remained 10% lower than its 2019 level.

4 - Manufacturing output is recovering gradually in Europe
manufacturing output index (year-over-year)



Note: each point corresponds to year-on-year change in the manufacturing output index for each country
How to read it: in April 2020, manufacturing output in Spain was 7% below its April 2019 level.
Source: Eurostat for Germany, Spain, France and Italy, ONS for United Kingdom

5 - In July, retail sales picked up in Europe, apart from Italy
year-on-year change in the deflated turnover index in retail trade



Note: each point corresponds to year-on-year change in the retail trade turnover index (with the exception of automobiles and motorcycles) deflated and seasonally adjusted.
Source: Eurostat

International developments

On the demand side, the recovery that began in May and June seems to have slowed down in July, although less strongly than in Italy. After improving steadily in May and June, retail outlet sales slowed significantly in July, although their level was only slightly below that of 2019 (–3.5%) (*Graph 5*). Compared to France, where retail sales, on the contrary, continued to grow strongly in July, Spain's reduced dynamism could be due to the country's greater dependence on foreign tourism, which was sharply reduced because of the health situation.

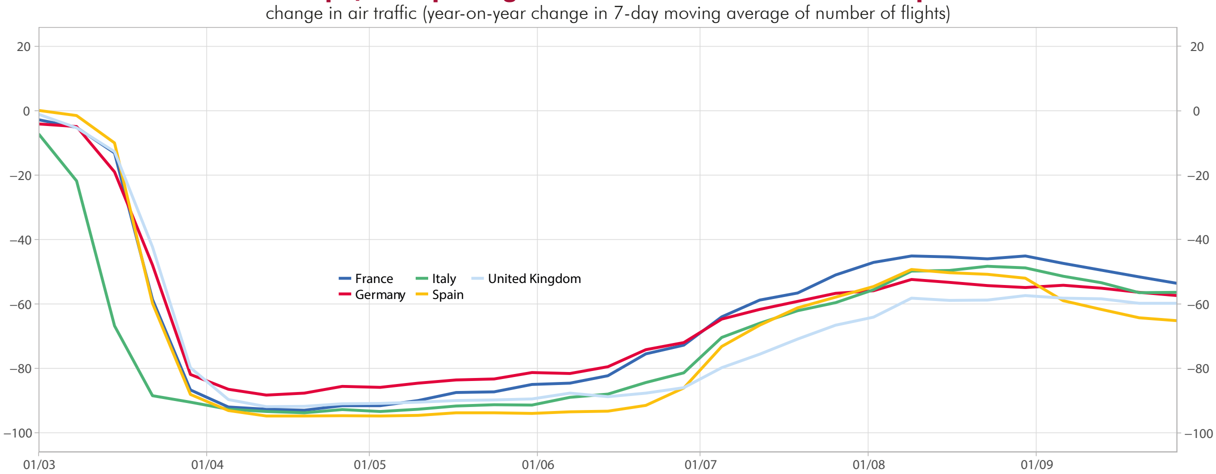
High-frequency indicators may confirm the idea of a slow-paced recovery. Only the use of public transport (*Graph 2*) has returned to a level similar to that before the crisis: as measured by Apple Maps Mobility, it returned to its January 2020 level at the beginning of September, slightly ahead of Italy but a long way behind France and Germany. Nevertheless, since mid-September, public transport use has been declining. The deterioration of the health situation and the introduction of restrictive measures, especially in the Madrid region, may account for this recent shift. From a more global perspective, a resurgence of the epidemic will most probably have repercussions for the country's activity, which could deteriorate in Q4. Lastly, as in the other European countries, air traffic in Spain is still very far below its 2019 level, with a further decline since the end of August which was more pronounced than in the other European countries (*Graph 6*).

United Kingdom

Finally, in the United Kingdom, the contraction in manufacturing output in April was of a similar magnitude to that in Germany, but the rebound in the months that followed appeared to be a little more sustained (–9.4% year-on-year in

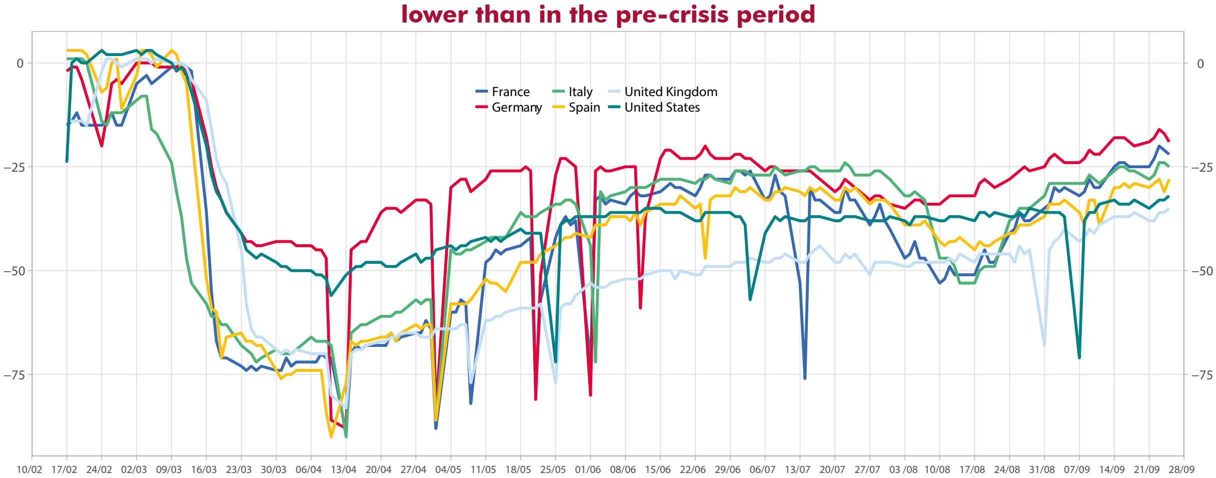
6 - In Europe, the upswing in air traffic came to a halt in September

change in air traffic (year-on-year change in 7-day moving average of number of flights)



Note: data trace the 7-day moving average of the daily difference in the total number of flights departing from and arriving at airports in the country concerned in 2020 compared to 2019. During the week of 14 to 20 September, air traffic in the United Kingdom was on average 60% lower than its level in the same week in 2019.
Source: Eurocontrol

7 - Numbers going to the workplace have stabilised in the main advanced countries but remain lower than in the pre-crisis period



Note: these data measure the difference between numbers going to the workplace on the day shown on the x-axis and average attendance across all the days of the corresponding week, during the period from 3 January to 6 February. For example, if the day on the x-axis is a Monday, then the reference is the average attendance across all the Mondays in the five weeks between January and February.
Source: Google Maps Mobility

July, against –11.8% in Germany, *Graph 4*). The Manufacturing PMIs exceeded the contraction threshold in June, reaching 55.2 in August, but they fell back slightly in September (54.3). In addition, the implementation of new restrictions in response to the recent increase in new cases of coronavirus could hamper activity, especially in certain sectors already seriously affected: as in the Eurozone, the recovery of air traffic in the United Kingdom has been struggling since August (–60% compared to one year earlier, *Graph 6*).

On the domestic demand side, retail sales returned to their pre-crisis level in June and July (*Graph 5*), testifying to a more vigorous recovery here than in production (+1.1% year-on-year in July). Despite job losses caused by the crisis (the number of people in employment would appear to have declined by 695,000 between March and September according to the ONS), British households benefit from the short-time working scheme, which has been extended by six months. Other measures have helped to boost consumption, like the "Eat out to help out" scheme which aimed to increase the numbers eating in restaurants in August. Despite these support measures, demand may also be penalised by the new social distancing measures, which plan to limit numbers at social gatherings and to impose a curfew for pubs and restaurants. In September, travel to the workplace and the use of public transport remained well below their pre-crisis levels, and mobility in the United Kingdom is lower than elsewhere in Europe (*Graphs 2 and 7*). ■

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