

# Economic activity

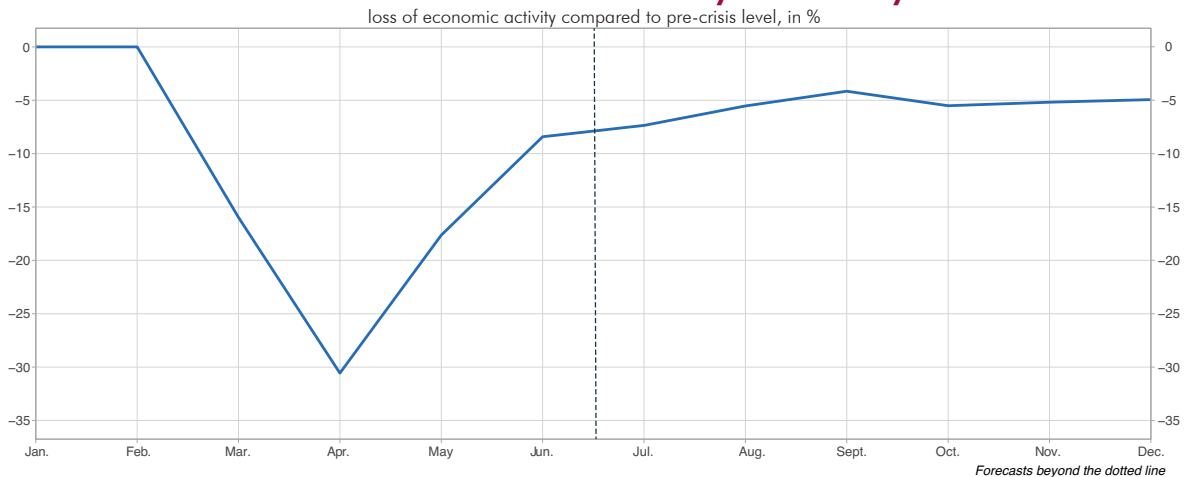
In Q3 2020, economic activity on average is likely to settle at 5% below its pre-crisis level, a substantial rebound compared to the very low point reached during lockdown, when the economy was operating at only two thirds of its capacity. The resurgence of the epidemic since September has increased 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**

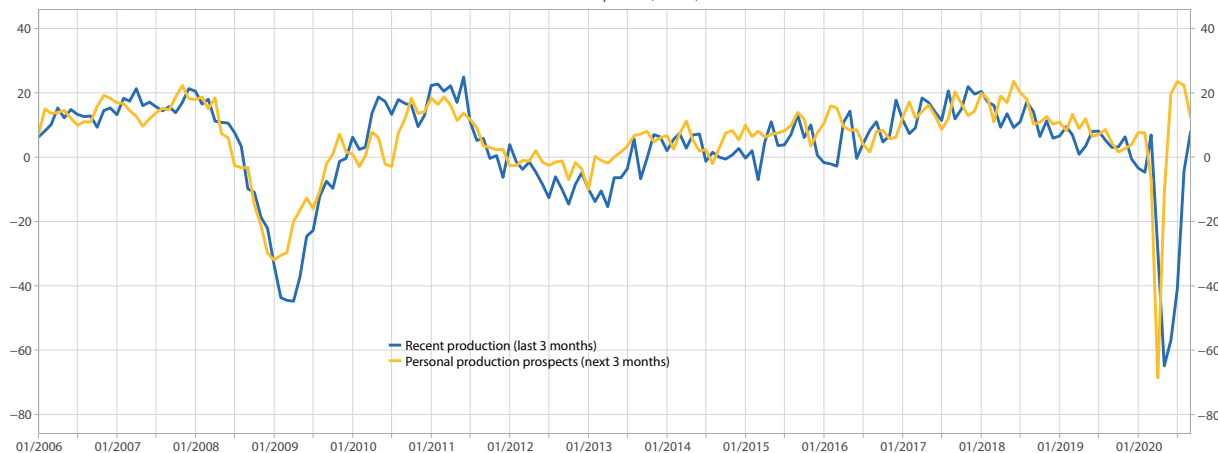


How to read it: in September, economic activity is expected to be down by about 4% compared to its pre-crisis level. By the end of the year, it is expected to settle at around -5%.

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

## 2 - Opinion of business managers in industry on their output

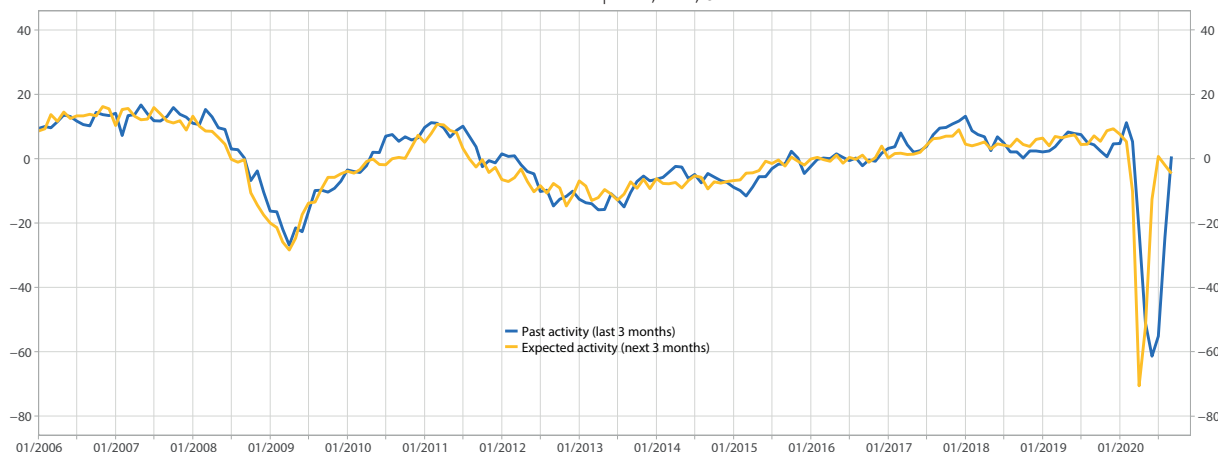
balance of opinion, in %, SA



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

## 3 - Opinion of business leaders in services on their activity

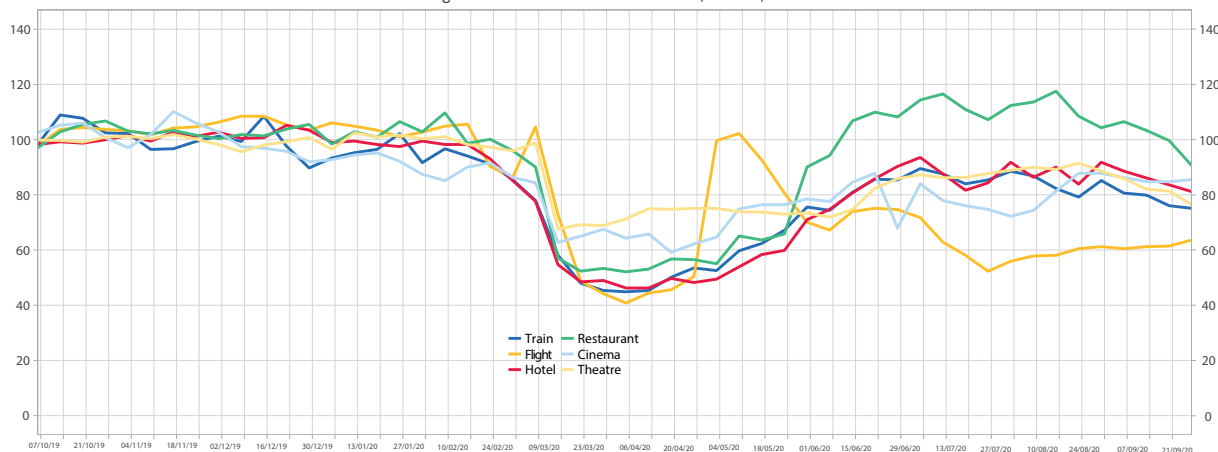
balance of opinion, in %, SA



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

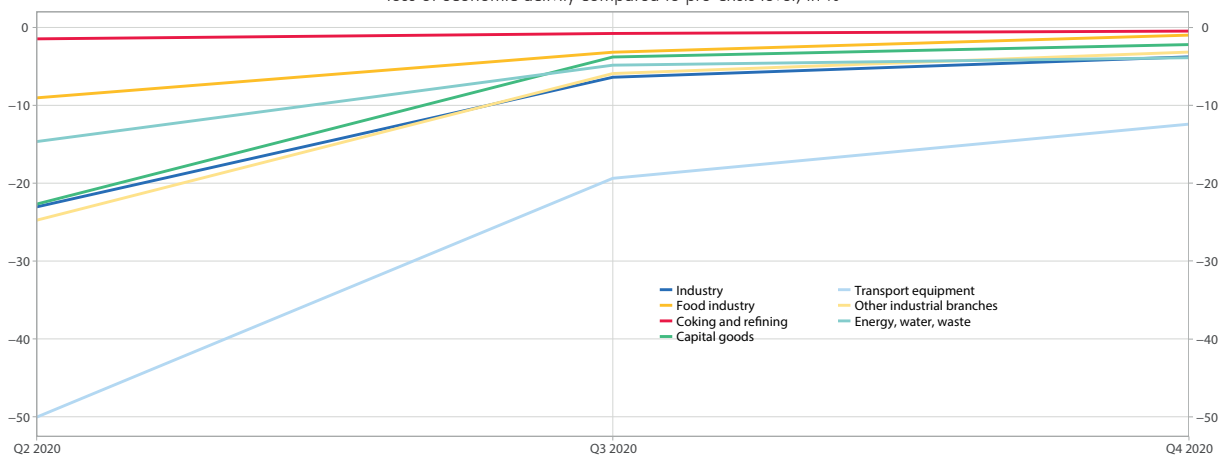
In this context of heightened uncertainty, the monthly business tendency surveys published by INSEE provide information on companies' prospects for activity for the next three months. The September surveys, although conducted before the new restrictive measures were announced, reflect the climate of 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<sup>1</sup> 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 %

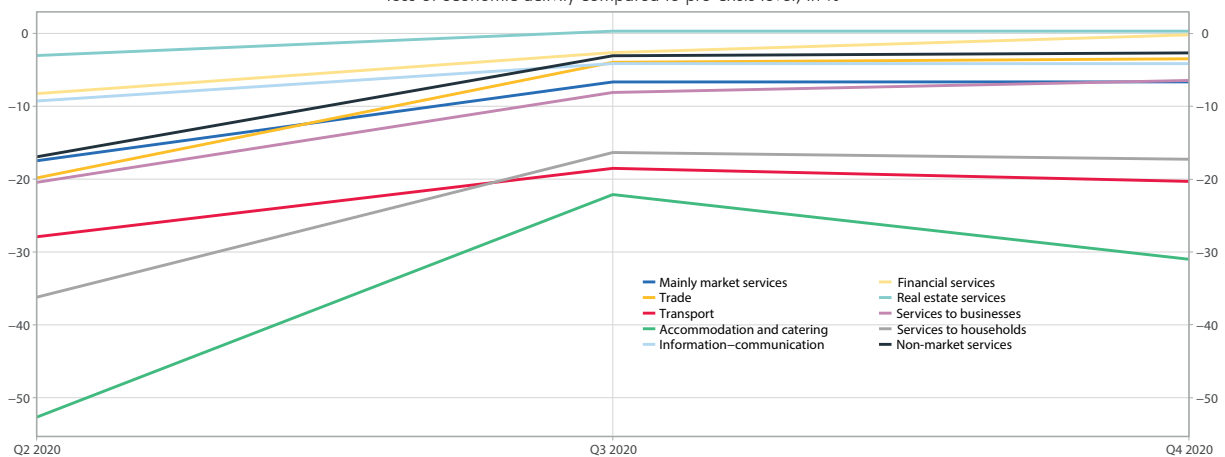


How to read it: in Q3, economic activity in the manufacture of food products, beverages and tobacco-based products branch (in terms of their output) is expected to be down 3% compared to the pre-crisis level.

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

## French economic outlook

**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
<b>Agriculture, forestry and fishing</b>	<b>2</b>	<b>-6</b>	<b>-3</b>	<b>-2</b>	<b>0</b>
<b>Industry</b>	<b>14</b>	<b>-23</b>	<b>-6</b>	<b>-4</b>	<b>-1</b>
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
<b>Construction</b>	<b>6</b>	<b>-32</b>	<b>-5</b>	<b>-5</b>	<b>0</b>
<b>Mainly market services</b>	<b>56</b>	<b>-17</b>	<b>-7</b>	<b>-7</b>	<b>-4</b>
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	<b>22</b>	<b>-17</b>	<b>-3</b>	<b>-3</b>	<b>-1</b>
<b>Total</b>	<b>100</b>	<b>-19</b>	<b>-5</b>	<b>-5</b>	<b>-5</b>
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		
<b>Gross domestic product (GDP)</b>	<b>0.5</b>	<b>0.2</b>	<b>0.2</b>	<b>-0.2</b>	<b>-5.9</b>	<b>-13.8</b>	<b>16</b>	<b>0</b>	<b>1.5</b>	<b>-9</b>
<b>Imports</b>	<b>1.2</b>	<b>0.1</b>	<b>0.6</b>	<b>-0.8</b>	<b>-5.6</b>	<b>-16.4</b>	<b>14</b>	<b>0</b>	<b>2.6</b>	<b>-12</b>
Total resources	0.7	0.2	0.2	-0.4	-5.6	-14.2	17	1	1.6	-9
<b>Household consumption expenditure</b>	<b>0.6</b>	<b>0.3</b>	<b>0.4</b>	<b>0.3</b>	<b>-5.8</b>	<b>-11.5</b>	<b>16</b>	<b>-1</b>	<b>1.5</b>	<b>-7</b>
<b>General government consumption expenditure*</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>-3.5</b>	<b>-10.9</b>	<b>11</b>	<b>1</b>	<b>1.6</b>	<b>-6</b>
<i>General government individual consumption expenditure</i>	0.3	0.5	0.4	0.5	-3.3	-10.5	11	1	1.7	-5
<i>Collective consumption expenditure</i>	0.4	0.4	0.7	0.2	-3.2	-9.8	14	0	1.7	-4
<b>Gross fixed capital formation (GFCF)</b>	<b>1.1</b>	<b>1.3</b>	<b>1.2</b>	<b>0.2</b>	<b>-10.0</b>	<b>-14.9</b>	<b>23</b>	<b>0</b>	<b>4.3</b>	<b>-10</b>
<i>Non-financial enterprises (incl. unincorporated enterprises)</i>	0.9	1.1	1.2	0.1	-8.8	-13.4	20	0	3.7	-9
<i>Household</i>	0.3	1.2	0.8	0.4	-13.0	-17.1	30	0	1.8	-13
<i>Government</i>	2.4	2.0	1.4	0.3	-10.2	-17.4	28	0	7.7	-10
<b>Exports</b>	<b>0.5</b>	<b>-0.5</b>	<b>-0.5</b>	<b>-0.9</b>	<b>-6.0</b>	<b>-25.0</b>	<b>16</b>	<b>3</b>	<b>1.8</b>	<b>-18</b>
<b>Contributions (in point)</b>										
Domestic demand excluding inventory changes**	0.7	0.6	0.6	0.3	-6.3	-12.2	17	0	2.2	-7
Inventories 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