Economic activity

After a sharp drop in economic activity in Q2, to −18.9% compared to Q4 2019, then a strong rebound which reduced this gap to −4.1% in Q3, the end of 2020 has been affected by a second wave of the epidemic and the introduction of a further lockdown of the population. The gap between current activity and the pre-crisis level is therefore likely to widen further in November, to −13%. According to our median scenario, this gap is expected to be −8% on average across Q4, which would be a smaller loss of activity than in Q2. Consequently, GDP is expected to drop by about 4½% between Q3 and Q4 2020, and by about 9 to 10% as an annual average between 2019 and 2020. On the one hand, the health restrictions are a little less constraining than during the first lockdown, notably with the opening of schools and the stated objective of allowing as many people as possible to continue to work. On the other hand, the experience in the spring has resulted in a learning curve, whether in terms of general preventive measures, health protocols, teleworking, local production and supply chains and even household consumption behaviours.

After a strong, somewhat automatic rebound in Q3, French economic activity is expected to plummet once again during a Q4 spent partly in lockdown

After a collapse in activity of 18.9% in Q2 compared to the pre-crisis level (Q4 2019), this gap narrowed to −4.1% in Q3. The rebound was particularly strong in June, and continued into July and August, before slowing down in September (*Graph 1*).

In fact, after a lull during the summer, the spread of the virus intensified in September, first in a localised way in just a few major cities. Measures targeting specific local areas and sectors (accommodation-catering, cultural and sports activities) were taken from the end of September, then tightened in October with the introduction of a curfew. At first this was limited to a few departments, then extended to cover more of the country. With the epidemic continuing to spread, a new lockdown came into effect on 30 October, which is due to last at least until 1st December.

1 - Estimated then forecast monthly loss of economic activity
difference in economic activity compared to Q4 2019, in %
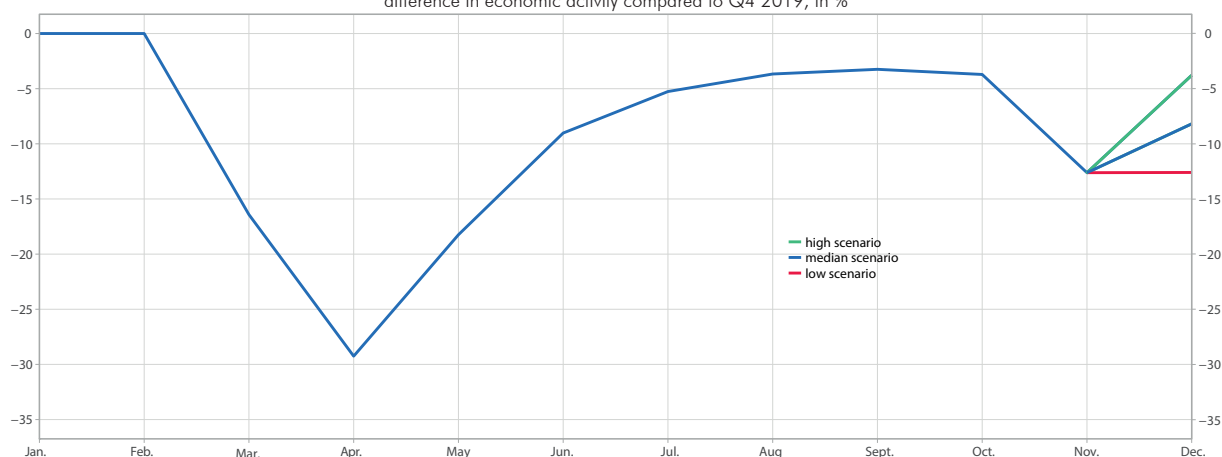
How to read: in November, economic activity is expected to be down by about 13% compared to its Q4 2019 level. According to the median scenario, it should settle at −8% in December
Source: INSEE calculations from various sources

This second lockdown is not an exact repeat of the first, however. For the most part, factories and building sites are continuing their activity. When teleworking is not possible, health protocols are now well established in workplaces to enable work to continue. More shops remain open, especially in the wholesale sector. Finally, schools (but not higher education establishments) are to a large extent welcoming their students back.

In this respect, some "high-frequency" indicators can provide advance information on activity in specific sectors. This is the case, for example, with the number of queries on the *Google* search engine (*Graph 2*). Searches for the word "restaurant", which were already down at the end of September, continued to decline in October then fell dramatically at the start of November; the same was true at the end of October for the words "hotel", "cinema" and "theatre", while searches for "flight" remained

steady, but at a very low level. Total time spent at home, compared to a normal situation, is an indicator derived from *Google Maps Mobility Reports*, and also gives a rather remarkable insight into estimated monthly losses of activity since April (*Graph 3*). The rise in the indicator during the first weeks of November suggests a further decline in activity, although teleworking may also be affecting changes in this indicator.

Meanwhile, the media sentiment indicator (see *Economic Outlook* of 17 June 2020 and Methodology Box) expresses the deterioration in the economic environment as seen by the media (*Graph 4*). The decline in the indicator in October seems to anticipate a decline in activity in November, although this time it is not nearly as strong as during the first lockdown. After 30 October, media reports seem to be indicating only moderate pessimism, perhaps reflecting announcements about the prospects for a vaccine

2 - Frequency of keyword searches on internet
average 100 between 2015 and 2019, SD 10, data SA
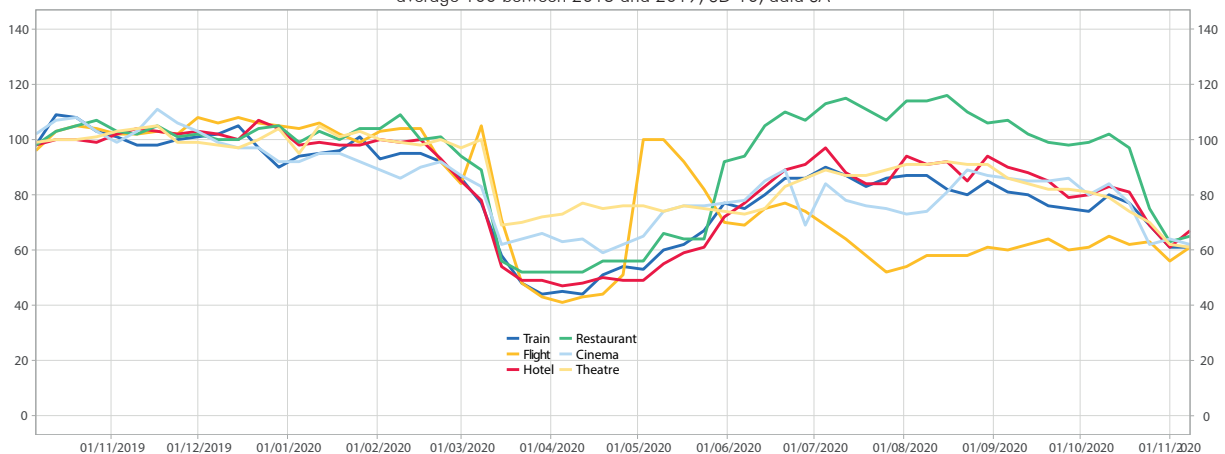
How to read it: during the week of 27 September to 3 October, the frequency of internet searches for the word "vol" ("flight" in English) via Google was almost 4 standard deviations lower than that observed on average between 2015 and 2019.
Source: Google Trends, INSEE calculations

3 - Indicator of total time spent at home monthly (compared to a normal situation) and monthly losses of economic activity (estimated and forecast)
in %
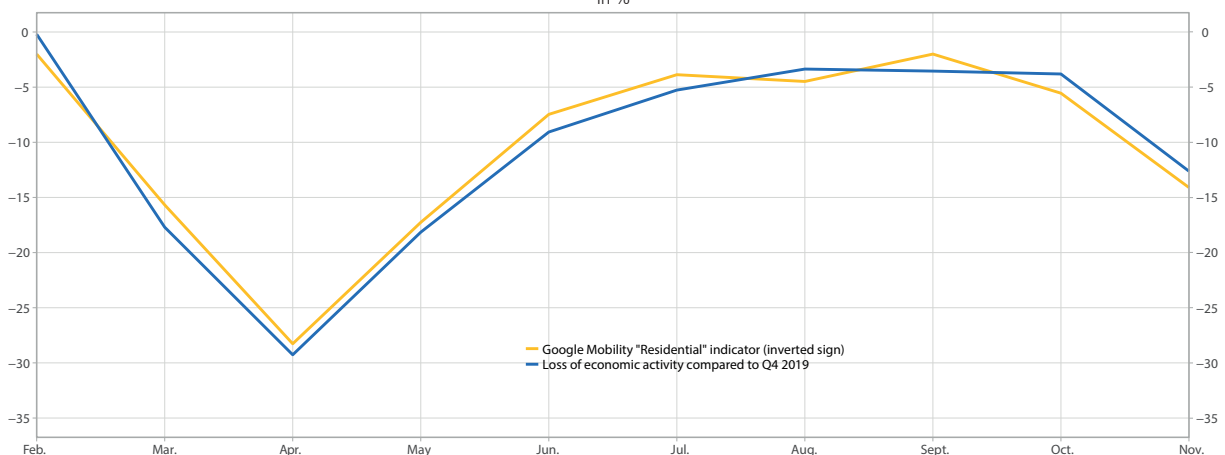
How to read: for November, the data for this indicator are currently available up to 10 November. Monthly values are the averages of daily indicator values. The sign of the indicator has been reversed for easier comparison with monthly loss of activity.
Source: Google Maps Mobility and INSEE

or the fewer restrictions introduced in the second lockdown compared with March.

Electricity data are also a good economic indicator, being correlated with changes in activity (*Economic Outlook* of 8 July 2020): total RTE consumption was at a standstill in week 45 (2 to 8 November), at −7.0% below its average level (*Graph 5*). Data on electricity withdrawals by businesses connected directly to RTE seem, on the whole, to be holding up (*Graph 6*), but with some disparities according to the branch (significant drop in transport in week 45, and a lesser decline in automobile construction that started in week 42, although with no sharp downturn).

In Q4, activity is likely to deteriorate, especially in services most directly affected by lockdown, but should be more resistant in industry and construction

In the latest editions of Economic Outlook, the trajectory of the economic recovery after the shock in Q2 had been forecast based on the ACEMO-Covid survey, carried out by DARES in association with INSEE. It questioned businesses on the pace at which they expected their activity to "return to normal". However, the, most recent

4 - Media sentiment indicator to 13 November 2020

3-week moving average, index average 100 since 2000 and SD 10
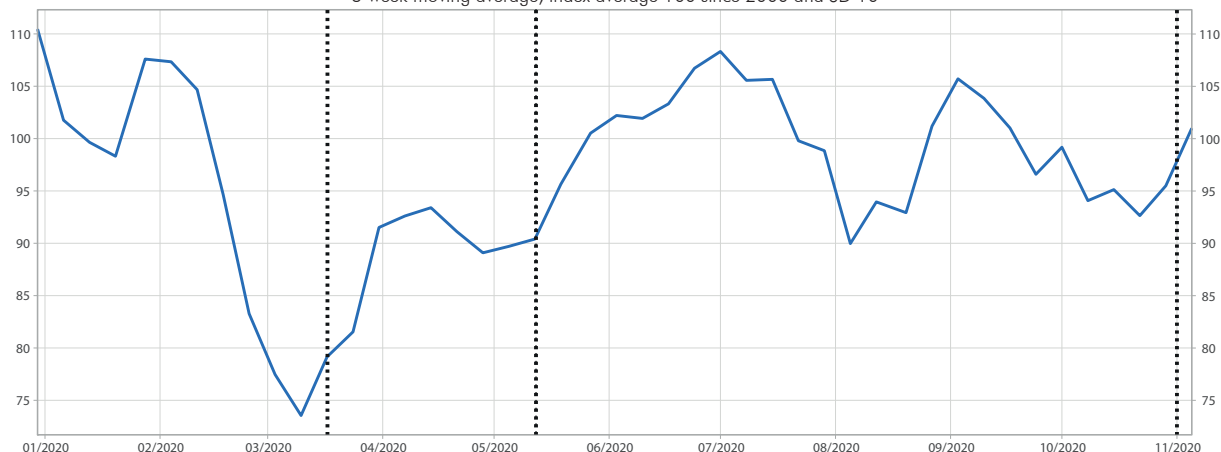
How to read: on 17 March 2020 (start of the first lockdown, shown by the first vertical dotted line) the value of the index stood at 75, i.e. 2.5 standard deviations from its average. In October 2020, the index fell to slightly over 90, suggesting a deterioration in the economic environment as the health situation worsened. The second dotted line shows the end of lockdown on 11 May, the third represents the start of the second lockdown on 30 October.
Source: INSEE calculations from Les Echos daily newspaper

5 - Weekly levels of electricity consumption and estimated then forecast monthly losses of activity

difference compared to average level, adjusted for temperatures, working days and months
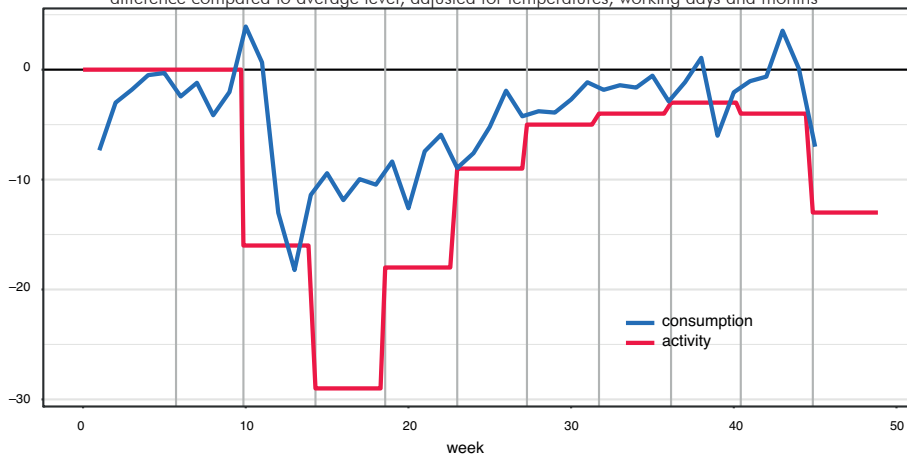
How to read: during week 45, electricity consumption was down by about −7% compared to the average level of consumption in an equivalent week with identical temperatures. Seasonality was estimated across these data from 2018, which means that the adjustment is relatively fragile.
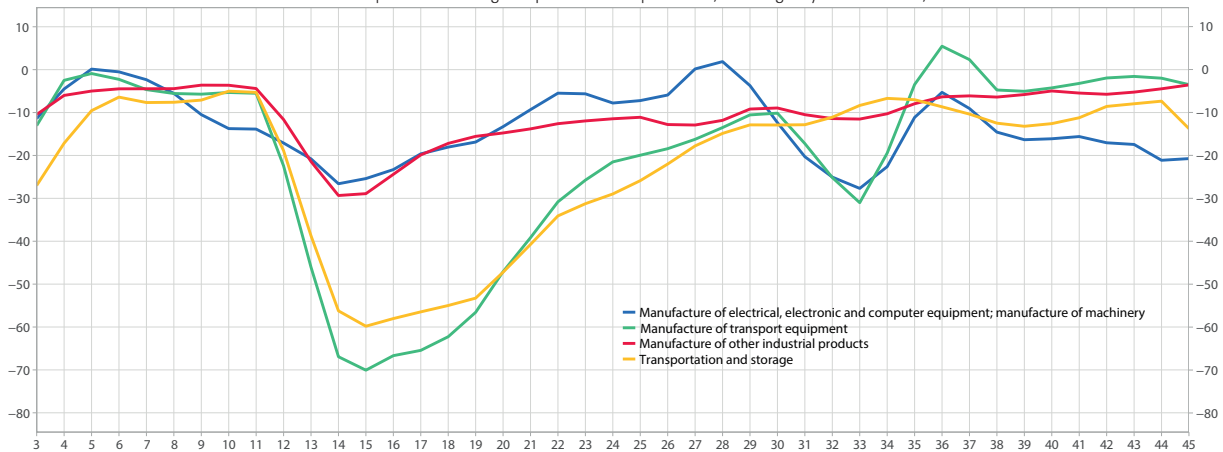*Source: Réseau de transport d'électricité (RTE), INSEE calculations*

edition of the survey covered October and the current environment is no longer one of recovery. Activity for November was estimated by mobilising other methods and information sources: "high-frequency" indicators for the first days of November, feedback from professional federations, losses of activity in April, May and June as points of comparison for branches directly affected by lockdown, which are concentrated mainly in services, and finally, an estimate of how this shock has spread to the rest of the economy, in the other branches that are most dependent on those that are directly affected.

All in all, economic activity in November is likely to be 13% below its pre-crisis level (after −4% in October, *Table 2*). The forecast for activity for all of Q4 remains uncertain, as it depends on the development of the epidemic and health restrictions in December. The median scenario chosen here is for a lockdown that extends across the first half of December, followed by an easing of some measures during the second half of the month: the loss of activity in Q4 2020 would then be 8%, compared to Q4 2019. A more favourable scenario would see activity in December return to its October level, with ultimately a loss of activity of

6 - Electricity consumption in some of the main consumer sectors
difference compared to average adjusted for temperatures, working days and months, in %

Manufacture of electrical, electronic and computer equipment; manufacture of machinery
Manufacture of transport equipment
Manufacture of other industrial products
Transportation and storage

How to read: during week 45, electricity consumption by companies in the transport and storage branch connected directly to the electricity network was down by 14% compared to the consumption level in a normal week.
Source: Réseau de transport d'électricité (RTE), INSEE calculations

7 - Comparison of losses of activity by branch observed in April and forecast for November
difference compared to Q4 2019

- - - estimate for April   —— forecast for November
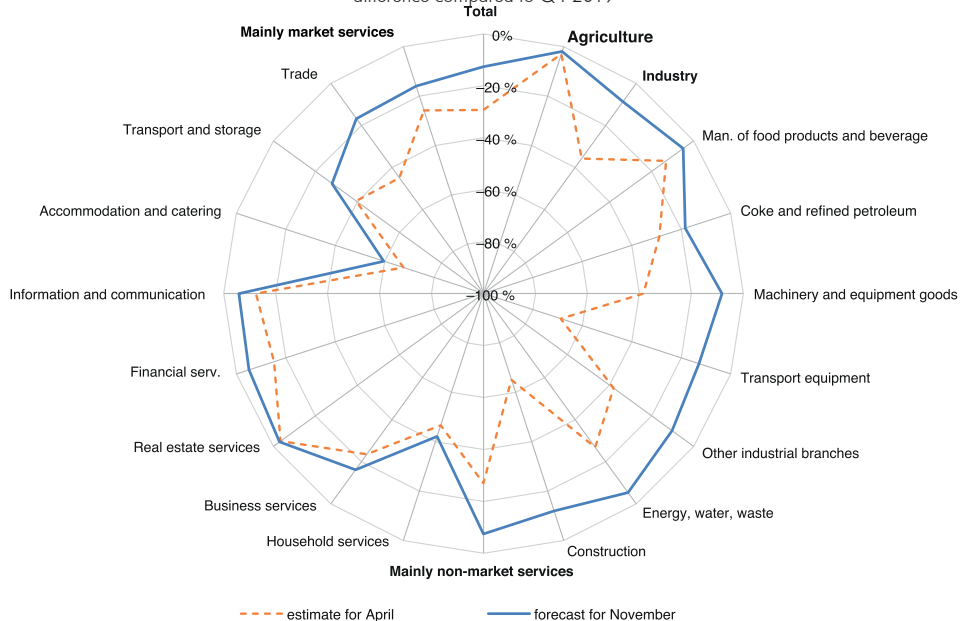
How to read: in November, economic activity in the accommodation-catering branch is expected to decline by about 60% compared to the pre-crisis level according to our median scenario, against −68% in April.
Source: INSEE estimation from various sources

6½%. Conversely, a more unfavourable scenario would be for lockdown to be extended until the end of December, with ultimately a loss of activity of –9½% over the quarter compared to the pre-crisis level. After the rebound to +18.2% in Q3 (in progress), GDP is expected to fall again in Q4, by 4½% according to our median scenario (Table 1). As an annual average, the forecast for GDP contraction in 2020 is likely to be around –9 to –10%.

Overall, November is expected to see a considerable decline in activity, less so than in April, but extending to all branches (*Graph 7*). On the one hand, fewer branches are directly affected by the restrictive measures: although it is certainly still the case for accommodation-catering, transport services and other service activities (especially leisure activities), it is much less so for scientific activities and support services (for the most part the environment has deteriorated less and businesses are continuing with their activity), construction (worksites carrying on), trade and repair (context deteriorated less and wider range of stores not closed under the regulations), and most branches of industry (factories in operation). On the other hand, some branches that are directly affected are perhaps able to adapt in part to the lockdown regulations and avoid a total shutdown of their activity (takeout sales in restaurants, collection of prepaid purchases from bookshops, etc.), although they are nevertheless seriously affected.

In November, the greatest losses in activity (*Table 2*) look set to be in accommodation-catering (–60% compared to their pre-crisis level, after October was already affected by the curfew), other service activities (–42%, due to the closure of museums, libraries and sports centres, and the cancellation of shows) and transport services (–28%, due to restrictions on tourist travel and business trips). Other branches, such as agrifood, for example, are not expected to be affected directly, but are likely to deteriorate nevertheless, because of the drop in activity of the more severely affected branches on which they depend, such as accommodation-catering. Negative expectations, even in branches where regulatory constraints are weak, could also contribute to a decrease in activity. This could be the case in construction (especially work for private individuals) where the loss of activity is expected to be –12%, scientific and technical activities, and administrative and support services (–16%). In other branches, such as the manufacture of transport equipment or materials, activity is expected to hold up. ■

Table 1 – Estimate then forecast of losses of economic activity in 2020

in %

| | | | | scenario | | | | | |
| | | | | high | médian | low | high | médian | low |
	2020Q1	2020Q2	2020Q3	2020Q4			2020		
Change	–5.9	–13.7	18.2	–2 ½	–4 ½	–6	–8.9	–9.3	–9.6
loss of activity		–18.9	–4.1	–6 ½	–8	–9 ½			

How to read: in Q4, loss of activity compared to the pre-crisis level is estimated at –8% in our median scenario (against –6½% and –9½%, in our most favourable and least favourable scenarios respectively); this represents a drop in GDP of about –4½% compared to Q3, after a rebound of 18.2% in Q3.
Note: loss of economic activity in a given month or quarter is measured in relation to Q4 2019. However, the variation in GDP for a given quarter is, by definition, calculated from the level of activity in the previous quarter. Change and loss of activity for Q4 2020 are rounded to the nearest half percentage point.
Source: IINSEE calculations from various sources

**Table 2 - Detailed forecast of loss of activity in Q4 2020 (median scenario)
difference compared to pre-crisis level (Q4 2019)**

in %

Sectors	Share of GDP (in %)						
Agriculture, forestry and fishing	**2**	**–1.9**	**–1.6**	**–1**	**–2**	**–1**	**–1**	**0**
Industry	**14**	**–23.2**	**–6.6**	**–4**	**–9**	**–7**	**–6**	**–1**
Manufacture of food products, beverages and tobacco-based products	2	–9.6	–1.8	–2	–5	–3	–3	0
Coke and refined petroleum	0	–17.3	–28.8	–18	–18	–18	–18	0
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	–24.1	–5.8	–5	–8	–7	–7	0
Manufacture of transport equipment	2	–50.9	–20.9	–10	–13	–11	–11	0
Manufacture of other industrial products	6	–23.9	–5.6	–3	–10	–7	–7	0
Extractive industries, energy, water, waste treatment and decontamination	2	–15.1	–3.6	–3	–5	–5	–4	0
Construction	**6**	**–31.2**	**–5.6**	**–3**	**–12**	**–7**	**–7**	**0**
Mainly market services	**57**	**–17.9**	**–4.9**	**–5**	**–16**	**–11**	**–11**	**–6**
Trade; repair of automobiles and motorcycles	10	–19.6	–3.2	–3	–17	–10	–10	–1
Transport and storage	5	–32.1	–14.6	–20	–28	–24	–24	–1
Accommodation and catering	3	–52.6	–14.3	–31	–60	–45	–45	–1
Information and communication	5	–9.7	–3.9	–4	–6	–5	–5	0
Financial and insurance activities	4	–10.6	–1.8	–1	–5	–3	–3	0
Real estate activities	13	–3.0	–0.1	0	–3	–1	–1	0
Scientific and technical activities; administrative and support services	14	–20.5	–6.0	–1	–16	–9	–9	–1
Other service activities	3	–35.3	–9.5	–18	–42	–30	–30	–1
Mainly non-market services	**22**	**–16.8**	**0.0**	**0**	**–7**	**–4**	**–4**	**–1**
Total	**100**	**–18.9**	**–4.1**	**–4**	**–13**	**–8**	**–8**	**–8**
of which mainly market	*78*	*–19.4*	*–5.2*	*–5*	*–14*	*–9*	*–9*	*–7*
of which mainly non-market	*22*	*–16.8*	*0.0*	*0*	*–7*	*–4*	*–4*	*–1*

How to read it: in June, economic activity would seem to have declined by 4% compared to a normal situation. The loss of activity in industry in November is estimated at 6%, which is expected to contribute 1.9 percentage points to this decline.
Source: INSEE calculations from various sources

Methodology for constructing the media sentiment indicator

Using text analysis techniques, automated online data collection (*web scraping*) and machine learning, a media sentiment indicator on the French economy was produced from online articles in *Les Echos*, a French daily newspaper. To do this, the words appearing in every article are categorised and classified as "positive" (or "negative"), according to whether they reflect an "optimistic" (or "pessimistic") opinion on French economic activity on the day the article was published. An indicator can then be calculated comparing the occurrence of "positive" words with "negative" words: this measures the general tone of the newspaper regarding the country's economic situation on a given day. According to the number of positive and negative terms in the article, a "sentiment score" can be attributed: the value of the media sentiment indicator in a given month is the average of the "scores" from that month's articles. The indicator is therefore dependent on the quality of the dictionary and the vocabulary used in the article. It is then centred around a mean of 100 and reduced to a standard deviation of 10 for the entire period from 2000. ■