One year later…

In 2020, a global recession of historic proportions

A year after the start of the health crisis, which last spring led to declines in economic activity of an unprecedented size and suddenness in most countries of the world, the Covid-19 epidemic is still active, although the tools available to contain it are now considerably strengthened, mainly with the rapid development of vaccines.

Over the whole of 2020, the recession was particularly severe in Spain (–11.0%) and the United Kingdom (–9.9%). In France, gross domestic product (GDP) shrank by 8.2%, slightly less than in Italy (–8.9%) but significantly more than in Germany (–5.3%) and the United States (–3.5%). Unlike the 2009 crisis, market services – especially those most affected by the health restriction measures – were generally more affected than industry. Corporate investment fell, but held up rather better than expected.

In a number of countries, Q1 2021 is important both for the continuing major health restrictions and the start of vaccination campaigns. On the economic front, concerns persist on the services side, but surveys of European businesses suggest that industry is holding up relatively well. Producer prices are up substantially in the wake of commodity prices, and tensions have already emerged over supply. At the same time, the United States has recently adopted a huge new stimulus plan.

In France, Q1 2021 is teetering between weariness and resistance

In France, advance indicators of consumption, especially aggregated bank card transaction amounts, mirror fairly closely the pace of the health restrictions and regulatory measures (dates of winter sales), as well adaptations in households' behaviour.

In Q1 2021, consumption is therefore expected to hover around an average level of 5% below its pre-crisis level (i.e., Q4 2019; ► **figure**). After a sharp rebound in December, it would appear to have contracted in January (–6% below its pre-crisis level) with a slight rebound in February (–4%, benefiting from the delayed and extended winter sales). In March, it should return to its January level, in a context where some restrictive measures are being strengthened at local level. Online sales are expected to remain dynamic.

Regarding production, high-frequency indicators (electricity consumption by businesses connected directly to RTE, heavy goods vehicle road traffic, etc.) and the business tendency surveys suggest moderate growth in industrial production over the quarter, after the sharp rebound earlier. It is likely that activity in services will remain very mixed, according to the degree of exposure of each sector to restrictive measures.

All in all, economic activity (GDP) in Q1 2021 is expected to settle at around 4% below its pre-crisis level (i.e., quarterly growth of about +1%). Overall, this level of activity is likely to be similar to that recorded in Q3 2020, when health conditions deteriorated after last summer. But trajectories are expected to differ considerably in the different sectors: since then, industry has continued its recovery, whereas the situation in the services most affected by the health crisis (accommodation-catering, transport, leisure and culture) has declined significantly compared to last summer.

It is these services that are expected to bring down payroll employment in Q1 2021 (about 77,000 net job destructions forecast, all sectors combined), after 2020, badly affected by the loss of 284,000 payroll jobs, a considerable decline, but mainly offset by the short-time working scheme. The unemployment rate looks set to rise once again in Q1 2021, to 8.5%, after a drop at the end of 2020, which was linked more to the relatively good performance of employment than to the contraction of the labour force as a result of the second lockdown.

Activity in Q2 2021 will obviously remain dependent on the health situation

As has been the case since the start of the crisis, economic activity in the months to come will depend largely on the health situation. By way of illustration, we consider a scenario where industry looks set to continue its recovery very gradually and where, on average over Q2 2021, activity in transport and services to households seems likely overall to return to its level of October last year, with accommodation-catering expected to claw back half of the gap separating it from its level of activity last October.

French GDP would then rise once again by about 1% as a quarterly variation, and settle at 3% below its pre-crisis level in the spring. The annual growth overhang mid-2021 would then be of the order of +5½%.

This scenario is still dependent on the way the epidemic develops. Even with no further deterioration, at the start of the year more than 4 out of 10 enterprises reported in the business tendency surveys that health protection measures (preventive measures, reorganisation where necessary and/or teleworking) were having a negative effect on their productivity. And while the threat of a third wave remains, it is difficult to properly quantify the impact of any tightening of restrictive measures, let alone another national lockdown. A comparison of the two 2020 lockdowns shows that the way they were applied, the ability of the economy to adapt to them and ultimately the impacts they had were quite different. While it is unlikely that activity will fall back to the very low level of April 2020, it is possible that some of the measures put in place during the first lockdown but not the second (e.g. closure of schools) would produce a greater shock than in November if they were to be adopted.

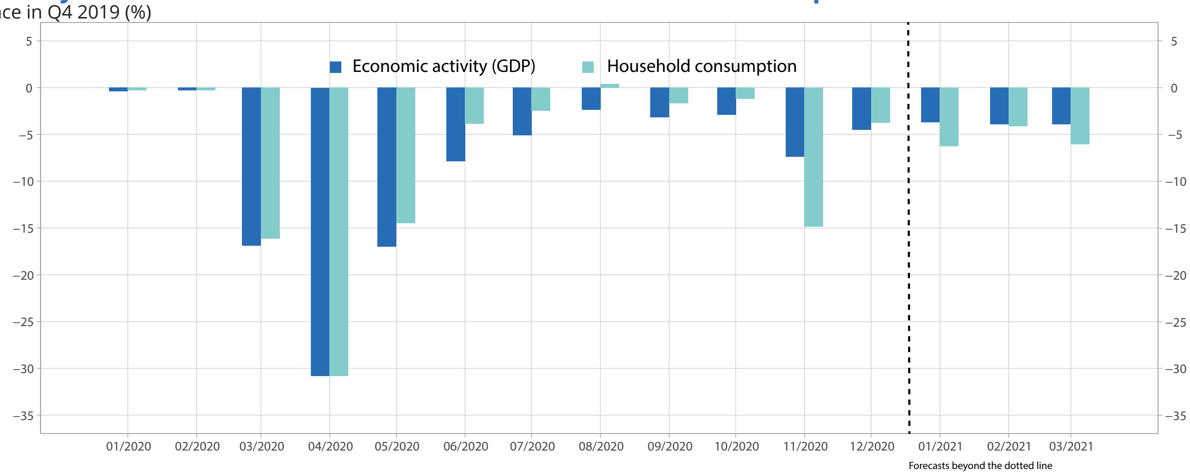
Making good use of high-frequency data, at the macro level but also at the microeconomic level

Over the past year, as a result of the crisis, the array of data mobilised to ensure continued economic monitoring has expanded. Some indicators – e.g. media sentiment indices, calculated from a database of press articles – mainly reflected the first shock that occurred in March, but proved less effective subsequently. Others, like sales data from major hypermarkets and supermarkets and aggregated bank card transaction amounts, continue to be widely used: in fact, they are taking advantage of the digital economy by tracking as closely as possible the purchases of goods and services that are directly part of household consumption, which will go on to be measured by the national accounts.

Some of these data also provide advance information at microeconomic level, and this Economic Outlook includes an analysis of banking data. At macroeconomic level, the national accounts have established that despite the decline in activity, household purchasing power measured per consumption unit remained stable overall in 2020, due in part to short-time working. When combined with the drop in consumption, this automatically inflated financial savings. However, these average figures mask some disparities: the banking data show that, for the sample studied, while this increase concerned all groups of household, irrespective of their level of wealth, it was greater (measured in euros and not as a percentage) in households with a high level of wealth, who were able to save more by reducing their consumption. Some active households (craftsmen, tradesmen, private sector in contrast to public sector employees) would seem to have been affected more than others by the decline in economic activity, thus increasing their savings by less. Of course these first results will need to be corroborated by more comprehensive data, but they nevertheless show the analysis potential of using both advance and microeconomic data. ●

► Monthly estimates and forecasts of GDP and household consumption

difference in Q4 2019 (%)



Source: INSEE calculations