

French economic outlook

Economic activity

After Q4 2020 was affected by the second national lockdown (-1.5% compared to Q3), GDP was almost stable (-0.1%) in Q1 2021, according to the detailed results in the quarterly accounts published at the end of May. In a context where restrictive health measures were gradually strengthened from January, economic activity deteriorated slightly from month to month, until the new lockdown in April when it would appear to have reached -5½% compared to the pre-crisis level, i.e. by convention Q4 2019.

The gradual lifting of lockdown restrictions then proceeded according to the calendar set out at the end of April, with the lifting of the curfew even being brought forward to 20 June as the virus was circulating less. Thus activity would seem to have rebounded, to -4% in May then -2½% in June compared to its pre-crisis level, an increase of 0.7% in Q2 (compared to the previous quarter). Assuming that the health situation stabilises by the end of the year, activity then looks set to accelerate in Q3 (+3.4%), driven by the buoyancy of domestic demand and the sharp rebound in the branches most affected by the restrictions, notably services (accommodation-catering, transport, other service activities). It is then expected to slow in Q4, to +0.7%. Thus in December, GDP is likely to have returned almost to its pre-crisis level. All in all, across the whole of 2021, it should increase by 6.0% compared to 2020 (after -8.0%).

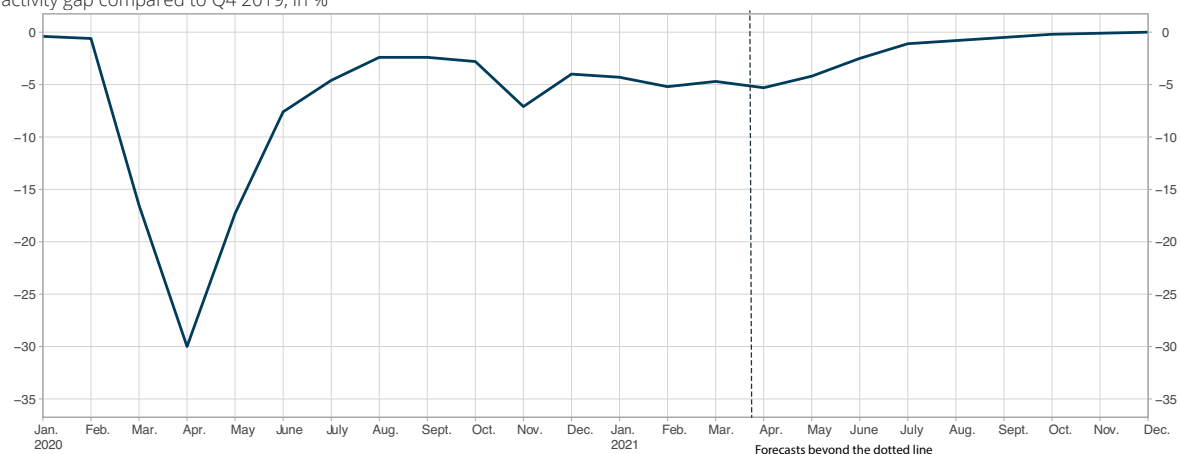
In Q1 2021, economic activity was still much affected by health restrictions, but was almost stable compared to the previous quarter

In Q1 2021, according to the detailed results in the quarterly accounts, economic activity was 4.7% below its pre-crisis level, virtually the same as in Q4 2020 (-4.6%). The strengthening of restrictive health measures in force since October 2020 (curfew, closure of certain activities) between January and March resulted in the introduction of a lockdown at the end of March, initially at a local level.

After a one-off peak in January then a backlash in February, industry stabilised in March, and across the whole of Q1 it stood at -3.5% compared to its pre-crisis level (after -3.7% in Q4 2020, ► **Figure 8**). Despite monthly fluctuations, activity in agrifood, the manufacture of capital goods and "other industrial branches" increased compared to Q4 2020, rising above -2% compared to the pre-crisis level. Conversely, the automotive industry was affected by shortages of electronic components: activity in the transport equipment branch was already penalised by problems in aeronautical construction, and declined to 23.9% below its pre-crisis level (after -18.0% in Q4 2020). Meanwhile, building construction increased slightly throughout Q1. Activity in market services was affected by the

► 1. Estimated and then forecast monthly activity losses

economic activity gap compared to Q4 2019, in %



How to read it: in March, economic activity was down by about 5% compared to its Q4 2019 level. In April, it would appear to be settled at -5½% compared to this level

Source: INSEE calculations from various sources

strengthening of health measures, and deteriorated slightly, reaching -6.8% compared to pre-crisis (after -6.3% in the previous quarter). For the branches of accommodation-catering, other service activities (culture, leisure, sport) and, to a lesser extent, trade and services to businesses, their activity fell back compared to the previous quarter. On the other hand, activity in non-market services increased slightly, exceeding the pre-crisis level, driven by coronavirus testing and the ramping up of the vaccination campaign.

Q2 2021 was much more contrasted than Q1: lockdown in April, then gradual reopening in May and June

From 3 April, lockdown was extended to national level: closure of “non-essential” businesses once again (although the list was shorter than in November), ban on inter-regional travel and journeys beyond a radius of ten kilometres. According to the industrial production index, production declined slightly in the manufacturing industry, especially in agrifood, transport equipment and,

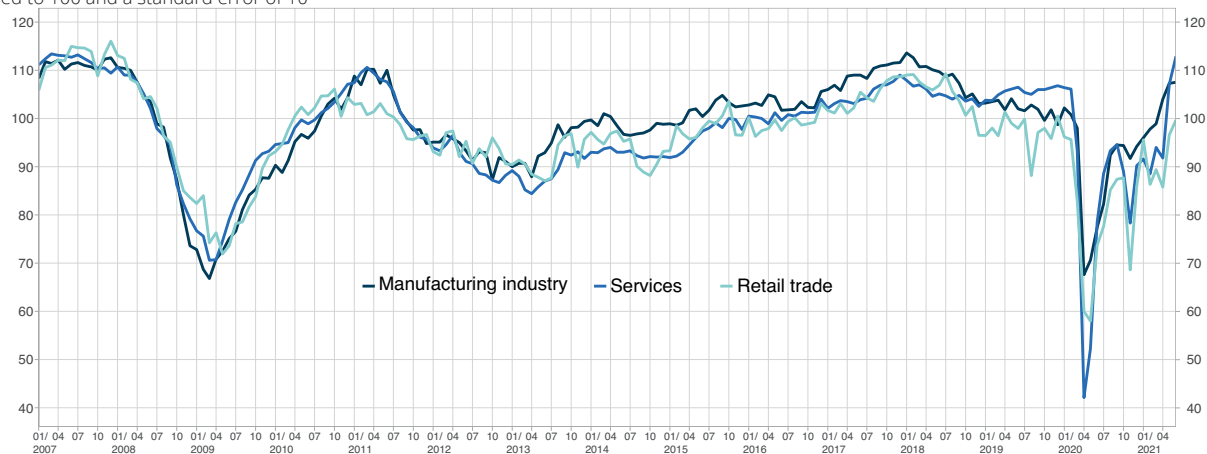
to a lesser extent, other industrial products. The turnover index is also in decline in most service branches (trade, transport services, accommodation-catering, services to businesses and other service activities).

In June, the business climate, as calculated from companies’ responses to INSEE’s business tendency survey, continued to improve sharply, reflecting the lifting of lockdown and hopes for an end to the crisis. It improved particularly in retail services and trade, sectors that had been badly affected by the health restrictions and which were therefore galvanised as these measures were gradually lifted (► Figure 2).

Among the high-frequency indicators available, all vehicle road traffic declined sharply in April 2021, to as much as 25% below the pre-crisis level, then returned above this level in May with the lifting of restrictions on travel (► Figure 3). Heavy goods traffic remained stable in April – apart from a dip linked to the Easter weekend – suggesting, as in November, that lockdown had little impact on movement linked directly to industrial activity; then from May it too was back above the pre-crisis level.

► 2. Business climate in manufacturing industry, services and retail trade

normalised to 100 and a standard error of 10

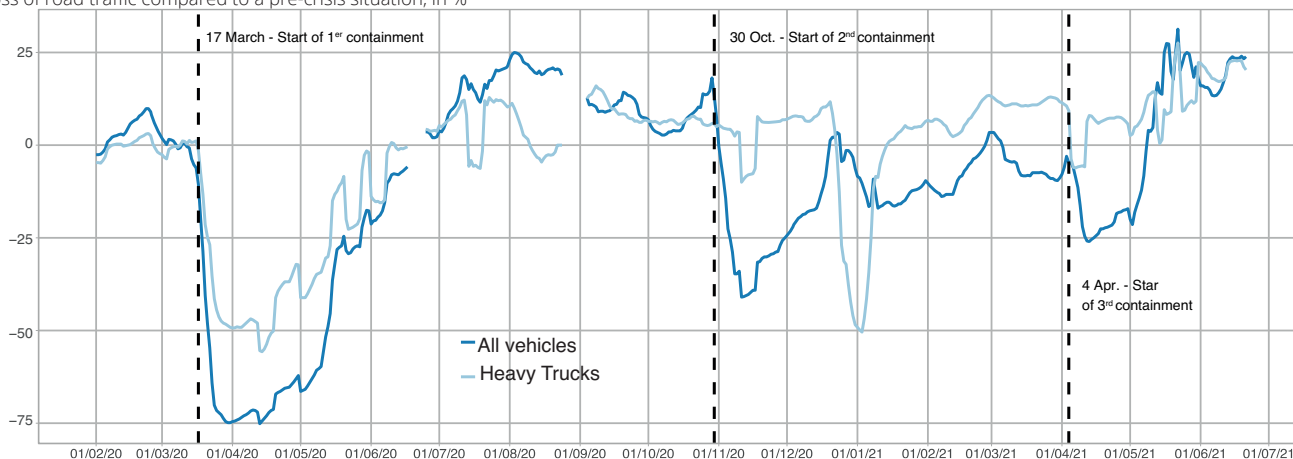


How to read it: in June 2021, the composite indicator for the business climate in services was 112.9.

Source: INSEE

► 3. Road traffic in France

loss of road traffic compared to a pre-crisis situation, in %



How to read it: on 1st June 2021, road traffic in France was 22% higher for heavy goods vehicles and 16% higher for all vehicles combined, compared to a similar day before the crisis.

Note: the last point represents 21 June 2021.

Source: Cerema, INSEE calculations

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Daily electricity consumption by companies connected directly to RTE (► **Figure 4**) also gives an idea of change in economic activity in certain specific branches. It suggests stability around the pre-crisis level in “other branches of industry” (textiles, chemical products, metallurgy, etc.), and around a lower level in transport equipment. In transport services, however, electricity consumption rose substantially in May.

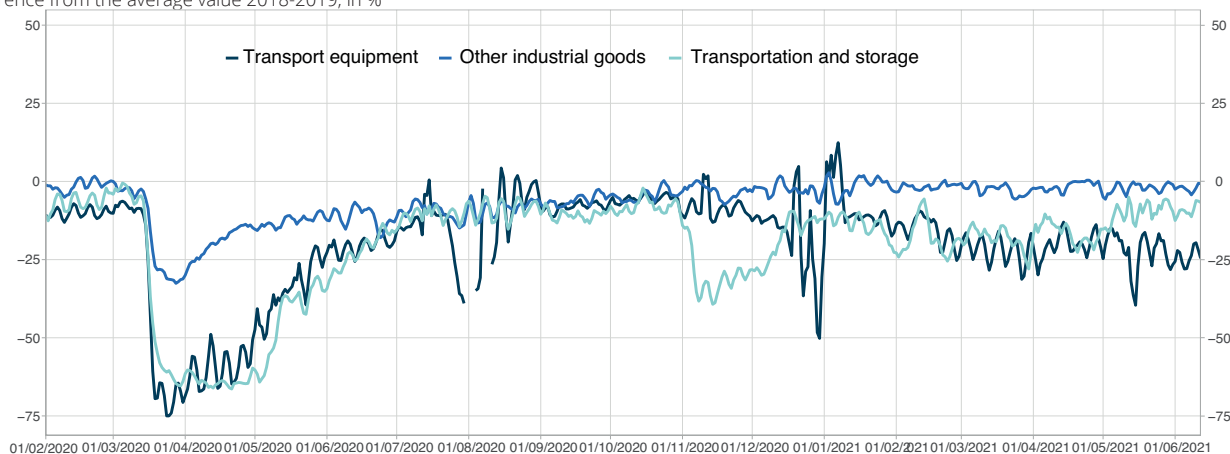
Regarding services, the number of Google searches in April was very much in decline in the semantic fields “shop”, “hotel”, “restaurant”, “cinema”, “theatre” and “air” (► **Figure 5**). These numbers later bounced back from mid-May as businesses reopened. Searches for the term “shop” returned almost to the pre-crisis level in mid-June, while searches for “restaurant” exceeded this level; meanwhile, other fields still remained below this level (“theatre”, “air”).

All in all, these different information sources tend to confirm the estimate given in the Economic Outlook of 6 May 2021 of a loss of activity of around 5½% in April (compared to the pre-crisis level). In May and June, activity would appear to have moved back up gradually, as a result of the gradual easing of restrictive measures: it would therefore appear to stand at -4% in May and -2½% in June compared to pre-crisis, i.e. -4% on average over the whole of Q2 (after -4.7% the previous quarter, ► **Figure 8**).

At sectoral level, industry would seem to have steadily continued its recovery, reaching -3% compared to pre-crisis (after -3.5%). This would appear to have been driven by agrifood and capital goods which are expected to return to their pre-crisis level, and by other industrial products (-1% from the pre-crisis level). Sourcing difficulties in the automotive sector would again

► 4. Daily electricity consumption by companies connected directly to RTE

in difference from the average value 2018-2019, in %



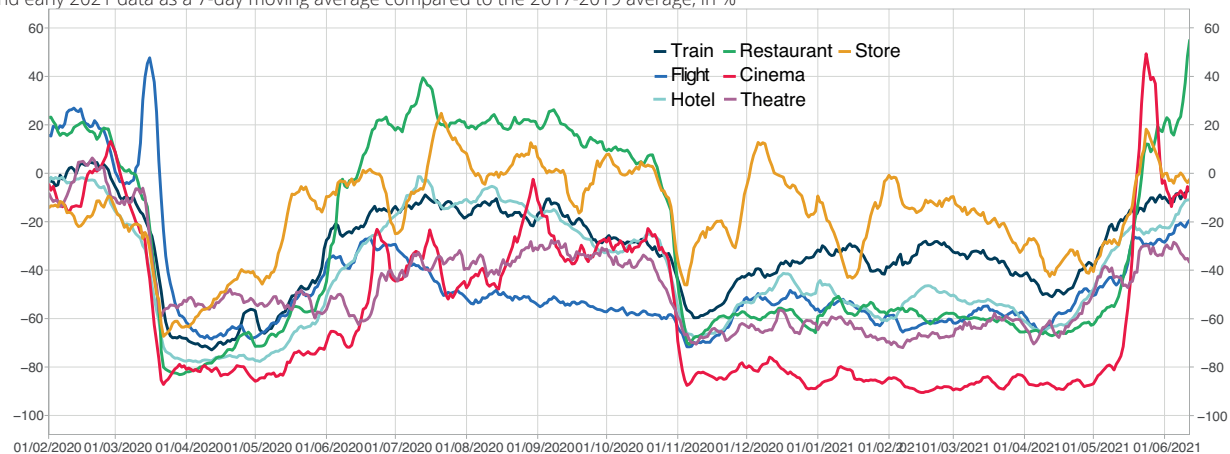
How to read it: on 10 June 2021, electricity consumption in the transport services branch was 6% lower than the average consumption for a similar month and weekday.

Note: the last point represents 13 June 2021. The seasonal adjustment of these data was performed on relatively short series and is therefore uncertain; in the transport equipment branch, some extreme points linked only to seasonal effects (during summer 2020) have been removed to improve clarity.

Source: RTE, INSEE, INSEE calculations

► 5. Frequency of keyword searches on internet

2020 and early 2021 data as a 7-day moving average compared to the 2017-2019 average, in %



How to read it: on 24 May 2021, the 7-day moving average for the number of Google searches in France in the semantic field “shop” was 23% higher compared to the average of the 7-day moving averages for every 24 May between 2017 and 2019.

Note: the last point represents 26 June 2021.

Source: Google Trends, INSEE calculations

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seem to have hampered the manufacture of transport equipment (-25% compared to pre-crisis in Q2 2021), with repercussions on suppliers and metallurgy, whereas manufacturers of electronic components faced high demand. Naval and aeronautical construction, on the other hand, would appear to have experienced a (slight) improvement, while still remaining at a reduced level. Building construction would appear to have maintained a similar level to the previous quarter. In market services, activities most affected by the easing of restrictions in May and June would seem to have picked up significantly, whether in accommodation-catering, transport services or other service activities (where restrictions had been in force, depending on the circumstances, sometimes since October 2020). Due to its dramatic fall in April related to lockdown, and despite the recovery that would appear to have followed (as the level of activity in June exceeded that in January), activity in trade would appear to have declined slightly in Q2 compared to Q1, settling at 3% below its pre-crisis level. In the other service branches, activity would seem to have continued to increase, even exceeding the pre-crisis level (financial and real estate services, information-communication). After a dynamic Q1 (especially in March), activity in non-market services is likely to remain almost stable, especially in health services, with the drop in testing offset by the continuing vaccination programme and by some catch-up effects with the backlog of operations that had to be postponed given the health context of recent months.

All in all, GDP would appear to have increased by 0.7% in Q2 2021 (► **Figure 10**). From the point of view of demand, household consumption, stimulated by the

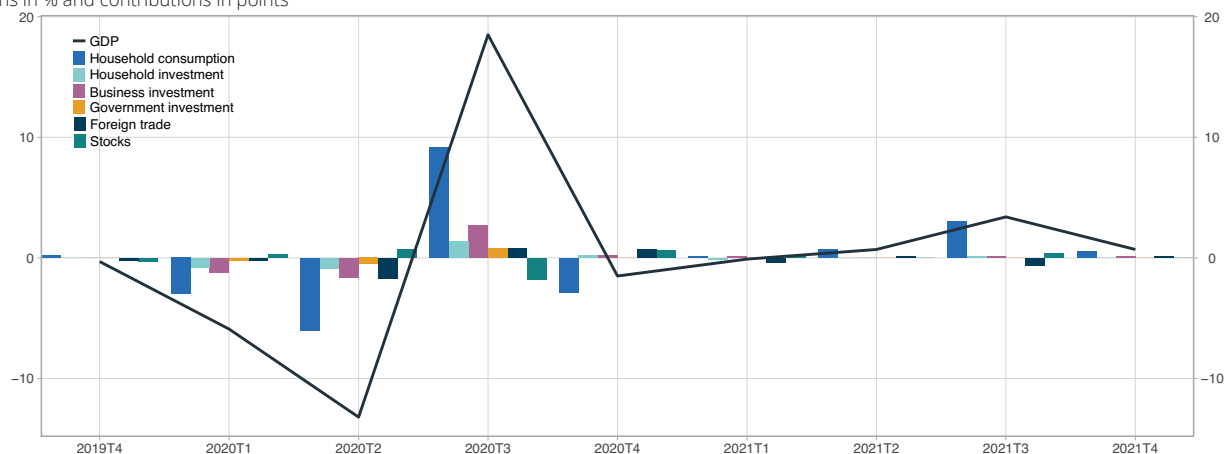
lifting of restrictions, would appear to be the main driving force behind this increase (contribution of +0.7 points, ► **Figure 6**). Foreign trade would also seem to have contributed (+0.1 points): exports would seem to have benefited from the upswing in world demand for French products, in a context of a general improvement in the health situation for our partners; imports would also appear to have increased but less vigorously, and they were penalised in April by the drop in consumption associated with lockdown. Lastly, the contribution of investment is expected to be less (+0.1 points) and that of changes in inventories marginal.

In H2 2021, economic activity looks set to continue its growth, driven by the momentum of domestic demand

In Q3 2021, and assuming that the health situation has stabilised, activity is expected to increase briskly in July then – as was the case in summer 2020 – slow in August and September as it gets closer to the pre-crisis level, to settle finally at around 1% below this level in September (► **Figure 1**). Industry should continue its recovery, with its level across the whole quarter standing at -2% compared to pre-crisis, while market services look set to rebound very vigorously once restrictions are lifted, to -1% compared to their pre-crisis level after -5% the previous quarter (► **Figure 8**). In addition to these rebounds associated with reopenings, a growing number of branches are likely to return in the longer term to levels higher than their pre-crisis level, following more trend growth.

► 6. Quaterly variations in GDP and contributions of main demand items

variations in % and contributions in points



How to read it: in Q2 2021, GDP would appear to have increased by 0.7% compared to Q1 2021; the contribution of household consumption would appear to have been 0.7 points.

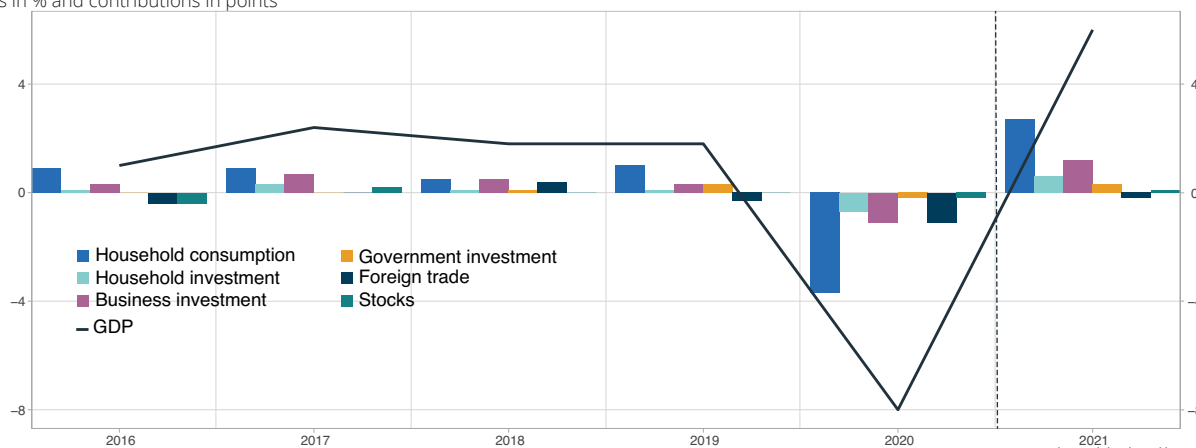
Source: INSEE calculations from various sources

1st July 2021 - Economic activity

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► 7. Annual variations in GDP and contributions of main demand items

variations in % and contributions in points



How to read it: in 2021, GDP is expected to increase by 6.0% compared to 2020; the contribution of household consumption is expected to be 2.7 points.
Source: INSEE calculations from various sources

► 8. Estimate then forecast of losses of economic activity in 2021 by branch

difference to the fourth quarter of 2019, in %

Branch	weight	2020				2021				Contrib. Q2 2021
		Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	
Agriculture, forestry and fishing	2	0.3	0.2	0.1	-0.8	-2.0	-1	-1	-1	0
Industry	14	-5.3	-22.1	-5.0	-3.7	-3.5	-3	-2	-1	0
Manufacture of food products, beverages and tobacco-based products	2	-1.1	-9.3	-0.8	-3.0	-1.1	0	0	1	0
Coke and refined petroleum	0	4.6	27.4	30.5	28.8	111.4	126	127	127	0
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-7.1	-24.7	-6.3	-4.3	-1.8	0	0	1	0
Manufacture of transport equipment	2	-12.7	-51.1	-20.5	-18.0	-23.9	-25	-19	-18	0
Manufacture of other industrial products	6	-5.9	-23.1	-5.0	-3.2	-2.2	-1	0	0	0
Extractive industries, energy, water, waste treatment and decontamination	3	-2.2	-13.2	0.4	2.5	1.4	1	2	3	0
Construction	6	-13.1	-31.5	-7.9	-9.6	-9.2	-9	-8	-7	0
Mainly market services	57	-5.7	-17.9	-4.3	-6.3	-6.8	-5	-1	0	-3
Trade; repair of automobiles and motorcycles	10	-6.7	-17.8	-0.2	-1.9	-2.5	-3	1	1	0
Transport and storage	5	-11.5	-33.6	-17.4	-21.9	-19.6	-18	-9	-7	-1
Accommodation and catering	3	-20.5	-59.6	-27.1	-48.5	-55.1	-40	-10	-8	-1
Information and communication	5	-1.9	-7.2	0.1	2.6	4.0	7	7	9	0
Financial and insurance activities	4	-5.0	-15.2	-1.8	-1.4	-1.1	0	2	3	0
Real estate activities	13	-1.4	-3.9	-0.8	-0.5	-0.5	0	1	1	0
Scientific and technical activities; administrative and support services	14	-4.9	-17.8	-2.5	-2.5	-3.5	-2	0	1	0
Other service activities	3	-9.8	-41.2	-13.4	-25.3	-26.5	-23	-12	-8	-1
Mainly non-market services	22	-4.6	-14.9	1.1	-0.2	0.5	0	1	0	0
Total VA	100	-5.7	-18.3	-3.4	-4.7	-4.8	-4	-1	0	-4
Taxes and subsidies		-7.0	-18.0	-1.5	-3.9	-4.4	-4	-1	0	
GDP		-5.9	-18.3	-3.1	-4.6	-4.7	-4	-1	0	

■ Forecast

How to read it: in Q2 2021, loss of activity in the accommodation-catering branch would appear to have been -40% compared to the pre-crisis level; the contribution of this branch to the total loss would appear to have been -1 point.

Source: INSEE calculations from various sources

► 9. Estimated then forecast loss of economic activity in 2021

	2020				Q1	2021			2020	2021
	Q1	Q2	Q3	Q4		Q2	Q3	Q4		
Quarterly variation (in %)	-5.9	-13.2	18.5	-1.5	-0.1	0.7	3.4	0.7	-8.0	6.0
Difference compared to pre-crisis level (Q4 2019)	-5.9	-18.3	-3.1	-4.6	-4.7	-4.0	-0.8	-0.1		

■ Forecast

Note: annual changes for the last two columns.

How to read it: In Q2 2021, GDP would appear to stand at -4.0% compared to the pre-crisis level (Q4 2019), an improvement (+0.7%) compared to Q1 2021.

Source: INSEE calculations from various sources

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Thus in Q4, industry is expected to be only 1% below its pre-crisis level, while market services generally look set to return to their pre-crisis level. All in all, GDP is expected to have almost returned to its pre-crisis level by the end of the year. However, sectoral differences are still likely to remain within this time period, with some branches still well below their pre-crisis level: accommodation and catering, services to households, manufacture of transport equipment, transport services (► [Special analysis](#)).

As a quarterly variation, GDP is expected to increase by 3.4% in Q3, then 0.7% in Q4 (► [Figure 9](#)). As in Q2, domestic demand, and especially household consumption, is expected to drive this improvement (household consumption contributions +3.0 points in Q3 then +0.5 points in Q4, ► [Figure 6](#)). Foreign trade, however, is likely to hamper activity (contribution of -0.6 points in Q3). The buoyancy of domestic demand is likely to lead to a sharp increase in imports, whereas exports are expected to increase during the summer at

a more moderate pace. At the end of 2021, among the different demand items, exports are expected to have fallen behind most compared to pre-crisis levels (-3.9%) whereas household consumption is likely to exceed its pre-crisis level by 1.0% (► [Figure 11](#)).

All in all, as an annual average, GDP looks set to rebound sharply in 2021 (+6.0% after -8.0%). Household consumption, which made the greatest contribution to losses in 2020, is now likely to balance this by contributing most to the increase in 2021, at around +2.7 points (► [Figure 7](#)), followed by investment, at +2.0 points. The contribution of foreign trade is expected to be slightly negative, as in 2019 and 2020. Of course, the scenario for H2 is surrounded by uncertainties: it is still conditional on the health situation remaining stable. Any new restrictions could weigh heavily on the economy in the event of an upswing in the epidemic; conversely it is quite possible that activity will grow faster than expected if the health situation remains favourable. ●

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► 10. Goods and services: resources-uses balance at chain-linked prices for the previous year

changes Q/Q-1 (in %), seasonally adjusted data - YTD

	2019				2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross domestic product	0.6	0.6	0.2	-0.3	-5.9	-13.2	18.5	-1.5	-0.1	0.7	3.4	0.7	1.8	-8.0	6.0
Imports	2.0	0.1	-0.4	-1.0	-5.1	-18.3	16.2	2.2	1.1	1.2	5.0	1.3	2.4	-12.2	8.9
Total resources	0.9	0.6	0.0	-0.6	-5.6	-14.5	18.1	-0.6	0.1	0.8	3.6	0.8	2.1	-8.9	6.7
Household consumption expenditure	0.8	0.4	0.4	0.3	-5.7	-11.6	18.3	-5.6	0.1	1.3	5.9	1.0	1.9	-7.2	5.2
General government consumption expenditure**	0.1	0.3	0.4	0.3	-2.9	-11.4	17.5	-0.9	-0.1	-0.3	1.7	-0.4	1.0	-3.5	4.7
of which individual general government expenditure	-0.1	0.3	0.2	0.2	-4.1	-13.0	20.9	-1.7	-0.1	-0.1	3.2	-0.3	0.6	-4.9	5.9
of which collective general government expenditure	0.5	0.4	0.7	0.3	-0.7	-8.2	12.6	1.0	-0.2	-0.7	-0.7	-0.7	1.8	-0.1	3.2
Gross fixed capital formation (GFCF)	0.9	1.7	1.1	-0.1	-9.8	-13.9	23.3	1.7	0.2	0.3	1.0	0.8	4.1	-8.9	9.2
of which Non-financial enterprises (NFE)	0.1	1.4	1.1	-0.1	-9.2	-12.8	22.1	1.2	1.0	0.3	1.0	0.7	2.7	-8.1	9.5
Households	0.8	1.5	0.5	-0.1	-13.8	-17.2	31.0	4.6	-2.0	0.3	1.0	0.9	2.8	-12.2	10.9
General government	2.7	2.5	1.8	0.0	-5.4	-12.6	20.8	0.0	-0.1	0.2	1.0	0.8	9.1	-4.4	6.8
Exports	1.5	-0.4	-0.9	-1.6	-5.9	-24.8	21.6	4.9	-0.2	1.6	3.2	1.7	1.5	-16.1	9.0
Contributions (in points)															
Domestic demand excluding inventory**	0.6	0.7	0.6	0.2	-6.0	-12.1	19.6	-2.8	0.1	0.7	3.6	0.6	2.1	-6.7	6.1
Changes in inventories**	0.2	0.0	-0.2	-0.4	0.3	0.7	-1.9	0.6	0.2	0.0	0.3	0.0	0.0	-0.2	0.1
Foreign trade	-0.2	-0.2	-0.1	-0.2	-0.2	-1.8	0.9	0.7	-0.4	0.1	-0.6	0.1	-0.3	-1.2	-0.2

■ Forecast

* Consumption expenditure of general government and non-profit institutions serving households (NPISH)

** Changes in inventories include acquisitions net of valuable items

How to read it: in Q2 2021, exports would appear to have grown by 1.6% compared to Q1 2021; the contribution of foreign trade to quarterly GDP growth would appear to be 0.1 points.

Source: INSEE calculations from various sources

► 11. Goods and services: resources-uses balance at chain-linked prices for the previous year, compared to pre-crisis

changes Q/Q-1 (in %), seasonally adjusted data - YTD

	2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross domestic product	-5.9	-18.3	-3.1	-4.6	-4.7	-4.0	-0.8	-0.1
Imports	-5.1	-22.4	-9.9	-7.9	-6.9	-5.8	-1.1	0.2
Total resources	-5.6	-19.2	-4.6	-5.2	-5.1	-4.3	-0.8	-0.1
Household consumption expenditure	-5.7	-16.7	-1.4	-6.9	-6.8	-5.6	0.0	1.0
General government consumption expenditure**	-2.9	-14.0	1.0	0.1	0.0	-0.3	1.4	1.0
of which individual general government expenditure	-4.1	-16.6	0.8	-0.9	-1.0	-1.2	2.0	1.6
of which collective general government expenditure	-0.7	-8.8	2.7	3.7	3.5	2.8	2.0	1.3
Gross fixed capital formation (GFCF)	-9.8	-22.3	-4.2	-2.6	-2.3	-2.0	-1.0	-0.3
of which Non-financial enterprises (NFE)	-9.2	-20.8	-3.3	-2.1	-1.1	-0.8	0.2	0.9
Households	-13.8	-28.6	-6.4	-2.1	-4.1	-3.8	-2.9	-2.1
General government	-5.4	-17.4	-0.2	-0.2	-0.2	0.0	1.0	1.8
Exports	-5.9	-29.2	-13.9	-9.7	-9.9	-8.4	-5.5	-3.9

■ Forecast

* Consumption expenditure of general government and non-profit institutions serving households (NPISH)

How to read it: in Q2 2021, exports would appear to be at -8.4% compared to the pre-crisis level (Q4 2019).

Source: INSEE calculations from various sources