

France: A wave of pessimism

The strict lockdown in France has led to a sharp deterioration in the business climate in November, confirming our expectation of a significant decline in the fourth quarter



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Wave of pessimism among business leaders

The second lockdown led to a sharp deterioration in the business climate in November, with the composite index standing at 79 compared with 90 in October, erasing the recovery seen in the summer and returning to the level observed in June 2020.

Given the current lockdown is less stringent than the lockdown in the spring, the business climate indicator didn't deteriorate as much as in April (when it had reached the low point of 54).

Nevertheless, the current wave of pessimism concerns all sectors, including industry, where the indicator fell to 92 against 94 in October, even though the sector isn't affected by the current lockdown. The opinion of French industrialists on production prospects is deteriorating sharply, while order books are slightly on the rise, but still below their pre-crisis levels.

Pessimism is hitting those sectors the hardest that have been most affected by the current lockdown (accommodation and catering, specialised retail trade, motor vehicle trade and repair) due in particular to the closure since 30 October of all restaurants, bars and non-essential shops. The business climate in the retail trade has contracted sharply to reach 72 compared with 95 in

October. This 23-point drop is nonetheless slightly less sharp than that observed in April during the first lockdown (30 points). In the services sector, the indicator fell to 77 against 89 the previous month and the deterioration is visible in all sub-sectors.

Furthermore, the overall employment outlook in France continues to deteriorate, losing six points in one month (from 89 to 83), mainly in the service sector, but also in the industrial sector.

The French economy is suffering more than its European neighbours

Overall, the data highlights the economic damage caused by the second lockdown in force since 30 October to limit the spread of the coronavirus pandemic. As this new lockdown is stricter in France than in other European countries, the deterioration of the French economic situation is more marked. The PMI indicators for the month of November illustrate this, with those for France well below the average for the eurozone (composite indicator at 39.9 in France compared with 45.1 in the eurozone and 52 in Germany).

Even more worryingly, the French industrial sector seems to be suffering much more from the current situation than the European industrial sector as a whole, with a PMI index below 50 in France compared with 57.9 in Germany and 53.6 in the eurozone.

The economic situation in France in November seems worse than the eurozone, confirming our forecast of a stronger deterioration in economic activity in the fourth quarter (-5% QoQ) than in the eurozone (-2% QoQ). Nevertheless, the question of what happens in December remains crucial.

On this matter, President Macron is likely to announce tonight the reopening (under certain conditions) of non-essential shops in France from 1 December, which could allow an improvement in the business climate in December, however, this will not significantly improve the outlook for the fourth quarter.

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