

After France's dynamic recovery, a new contraction is coming

The dynamic, but incomplete, French economic recovery in the third quarter finally has a figure: GDP increased by 18.2% QoQ. But this recovery is already a thing of the past and the new lockdown will once again bring the French economy strongly into negative territory by the end of the year



President Macron of France in a video conference with members of the European Council

18.2%

French GDP increase

Third quarter

Better than expected

A dynamic recovery

18.2% quarterly growth in France in 3Q20, well above consensus (15.4%) and an obviously historic figure, but it only reflects the severity of the economic shock caused by the coronavirus pandemic (-13.8% in 2Q20 and -5.9% in 1Q20). The reopening of all sectors enabled economic activity to leap

forward.

Household consumption made a strong contribution to the dynamic growth in Q3, increasing by 17.3% quarter-on-quarter, thanks in particular to a catch-up effect on household purchases of goods, while household consumption of services, on the other hand, remains well below pre-crisis levels. Household consumption is one of the components of GDP that has recovered best from the crisis (along with public consumption). It now stands at 97.7% of its level at the end of 2019.

Gross fixed capital formation has rebounded strongly (+23.3% QoQ) but remains well below the pre-crisis level (-5.3% compared to end 2019), notably in the construction sector. Exports have also experienced a dynamic rebound (+23.2% QoQ), but this does not in any way compensate for the dramatic fall we saw in the first half of the year. At the end of Q3, French exports are still 15% below the level observed at the end of 2019. This can be explained by the fact that the coronavirus crisis has had a dramatic impact on the sectors traditionally the most buoyant for French exports, including aeronautics and international tourism.

In the end, although the recovery appeared particularly dynamic, it did not erase the shock of the lockdown. At the end of the third quarter, the French economy was still 4% below the level of activity that prevailed before the crisis.

The “artificial” boost in public spending

It should be noted that in France, more than in other European countries, the recovery has been helped by the rebound in public spending (+15.4%), but this is mainly due to the way public services have been accounted for during and after lockdown (more details on that [here](#)). During lockdown, the statistics agency, INSEE, estimated that 25% of public employees had continued to be paid, but could no longer work. This had led to a 13.2% statistical reduction in public spending in the first half of 2020.

In other European countries, this reduction hasn't been accounted for as public wages continued to be paid. As a result, the recession in the first half of the year in France was artificially stronger than in other European countries, including Germany. Conversely, in the third quarter, with the return of public employees to work, the effect was reversed and real growth in public consumption was very strong in France, boosting the GDP recovery more than in other countries.

Bleak prospects for Q4

Unfortunately, these figures are ancient history and the recovery is already over. The resurgence of the epidemic and increased uncertainty led to a decline in business climate and household confidence indicators in October.

The recovery is already over

But the worst will be in November. President Macron has announced that new lockdown measures will come into effect on 30 October for at least a month. As in the spring, the population must stay at home and teleworking is compulsory whenever possible. Bars, restaurants, non-essential shops and cultural and leisure centres will be closed. Private travel (and from one region to another) is

prohibited, except to work, go to school or for essential shopping. Each trip must be justified by a certificate.

In contrast to the spring lockdown, schools can remain open (except for universities that must offer distance learning) and work remains possible in areas not specifically targeted by the restrictive measures. That implies that industry and construction, which had to stop largely during the spring lockdown should be able to continue to operate in a relatively normal way.

Nevertheless, with the closure of non-essential shops, merchant services (which account for 56% of GDP) are likely to be affected in a similar way in November as they were in April (a drop in activity of around 30% compared to the pre-crisis level). Therefore, we estimate that French GDP could contract by 5% QoQ in the fourth quarter. The effect on the 2020 annual GDP of this new lockdown will be a further decrease of around 1 percentage point, bringing our GDP forecast for the year to -9.5.

An increasingly uncertain recovery for 2021

By the end of 2020, the economy is likely to be more than 9% below its end of 2019 level. While some recovery can be expected in the first quarter of 2021 on the back of a softening of the lockdown measures, it is highly unlikely that it will be as dynamic as the one observed in the third quarter. Firstly, because winter and indoor activities seem more conducive to the spread of the virus than summer, raising fears of a more gradual easing than the first time. Secondly, because the message is now clear: as long as there is no vaccine or treatment, the coronavirus will remain and fears of a third outbreak of the pandemic and the restrictive measures that follow will still be present. Unfortunately, neither households nor businesses will be able to exclude a third possible lockdown. As a result, people and businesses are likely to remain much more cautious and that will hamper any recovery.

French GDP growth figures for the third quarter are like a ray of sunshine that pierces the clouds for a short moment on a rainy autumn day: they remind us nostalgically of the heat of summer, but do not allow us to forget that current realities are much less pleasing. France has entered its second dip and the prospects for a significant recovery in 2021 are darkening sharply.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose

possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.