France: Can the rebound in consumption last?

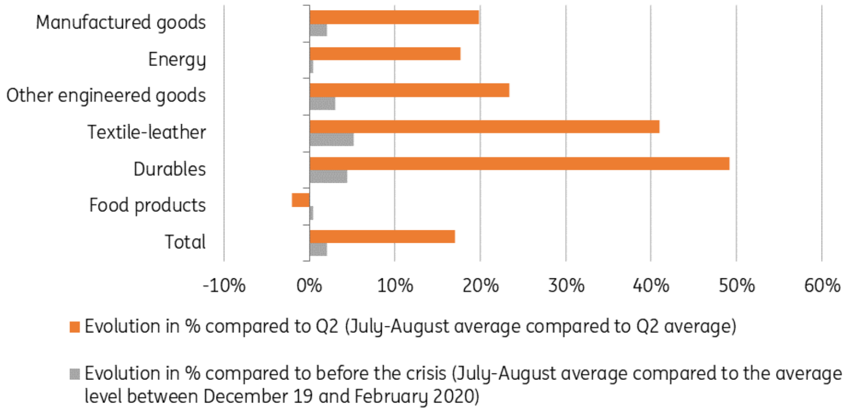
Consumer spending on goods rebounded strongly this summer. Figures today confirm a rebound in spending of close to 20% in the third quarter. However, the latest consumer surveys show rising fears of unemployment and high savings intentions, which is not conducive to a shopping frenzy

Source: Shutterstock

A strong rebound in the consumption of goods

In France, household consumption expenditure on goods picked up in August, increasing by 2.3% month-on-month after a 0.9% fall in July. Year-on-year, consumer spending on goods is up 2.4%. The rebound in consumption is therefore continuing and, for the third consecutive month, consumer spending on goods is above its pre-pandemic level (+3.2% compared with the December-February average). It should be noted, however, that the data for August is influenced by the postponement of the sales period. This can be seen, for example, in the data for textile consumption, which rose sharply year-on-year in August (+10%) after a fall in July (-4.2%).

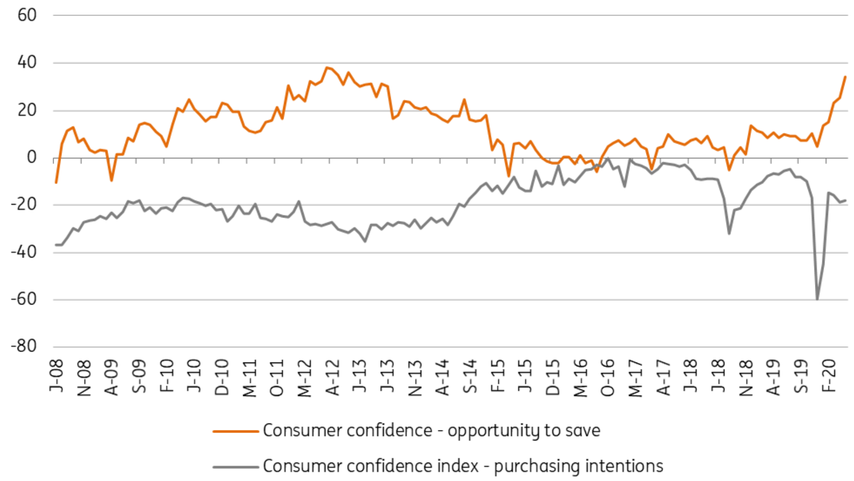
Under these conditions, studying the evolution of the average figure over July and August allows us to avoid these statistical effects. Two interesting observations emerge from this analysis. Firstly, in July-August, consumer spending on goods is 17% higher than in the second quarter of 2020, mainly due to a very strong rebound in the consumption of durable goods and textiles. Compared to the pre-pandemic level (average level December 2019-February 2020), the increase in consumer spending on goods is 2.1%. There was therefore a clear rebound in the third quarter of 2020, which more than offset the decline observed in the second quarter following the containment. The figures for July and August imply that, even if there is stagnation in September, consumption of goods in the third quarter will be very dynamic, close to a 20% growth level. Given that the consumption of goods represents nearly 50% of total household consumption, this data suggests strong growth in consumption in the GDP figures for the third quarter, expected to rise by 14% QoQ.



Source: Thomsons Reuters, ING Economic Research

Consumer confidence surveys show that purchasing intentions are holding steady ... for now

For the future, we have to look at what consumers are telling us in the surveys published this week. It appears that consumer confidence held steady in September (the main index is 95.3), but remains below pre-crisis levels (above 102 since July 2019). Some components are doing well. In particular, we see that consumers are more confident about their future financial situation and that their purchasing intentions are holding steady. This is mainly because their recent savings are very high, a behaviour that is not about to change: most think that now is a good time to save. These savings intentions have not been as high since 2013. Consumers also fear that unemployment is going to rise; an analysis that we share.



Source: Thomsons Reuters, ING Economic Research

A high-risk fourth quarter

The big question now, is whether consumption can maintain a strong growth rate for 4Q and in 2021. The extension of short-time working measures should contribute to this, but high savings intentions and fears of unemployment could increasingly weigh on both purchasing power and consumption intentions.

All in all, after a better than expected 3Q, it is likely that the end of the year will be less dynamic than expected, which is why we are not changing our GDP growth forecast of -9.5% for 2020. For 2021, everything will depend on the extension (or not) of the temporary unemployment measures which have so far made it possible to safeguard the purchasing power of a sufficient part of the population to see consumer spending rebound. At this stage, we are expecting a more subdued rebound for 2021 than the government's expectations (6% against 8%).

Author

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Disclaimer