France: November was bad for consumption but solid rebound expected

The November lockdown led to a decoupling of manufacturing production from household consumption. Thanks to the reopening of shops and the rebound in household confidence, French economic activity should rebound in December and the first quarter of 2021

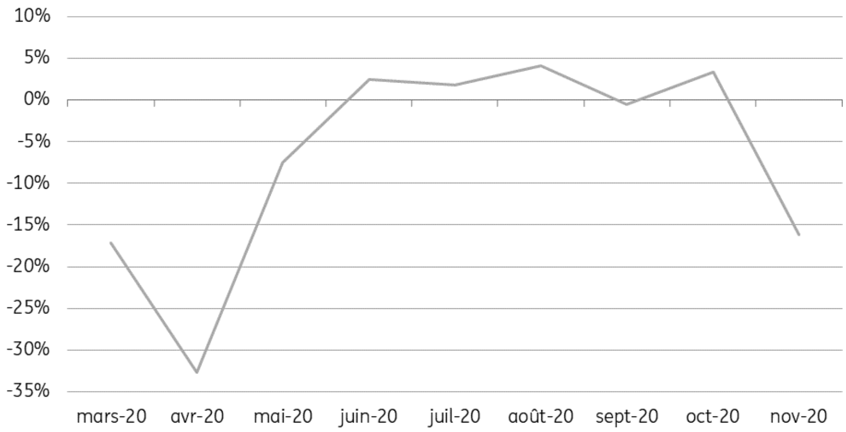
Drop in consumption

November data indicates that the second lockdown in France has led to a decoupling of manufacturing production from household consumption.

With the closure of non-essential shops, household consumption of goods fell sharply in November. The fall in volume was 18.9% over one month, after a 3.9% increase in October, mainly due to a sharp fall in purchases of manufactured goods (-30.1%), mainly clothing, but also a decrease in energy expenditure (-19.2%). As a result of lower purchases of new cars, furniture and household appliances, the consumption of durable goods fell by 24.7% over one month. Food consumption also contracted (-5.8%) after a sharp rise in October which was probably caused by the preparation of households for lockdown.

Compared to the consumption of goods that prevailed before the crisis, the fall in November is much less than that observed in April during the first lockdown: -16.2% in November compared to -32.7% in April, compared to the average expenditure over the last three months before the crisis. The shock in November was therefore half as great as that seen in April in terms of the consumption of goods.

Household consumption of goods, deviation from pre-crisis level (average December 2019 - February 2020)



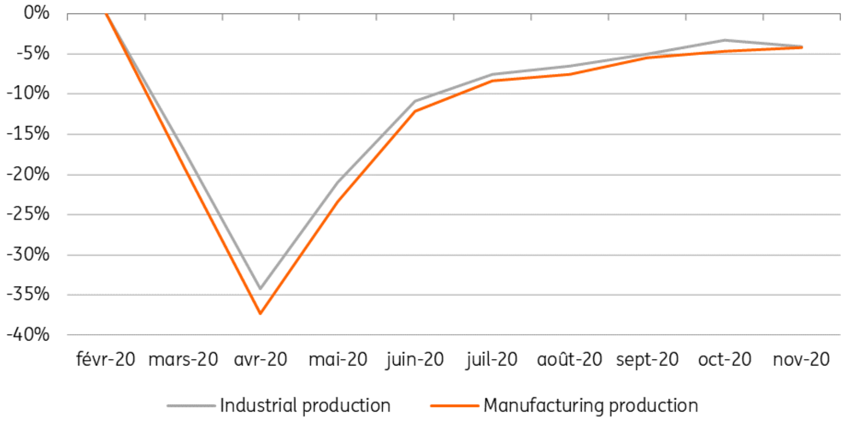
Source: INSEE, ING Economic Research

Strong manufacturing production data

At the same time, manufacturing production was much more resilient because, unlike the situation in April, factories were not forced to close. Manufacturing output thus increased by 0.5% month-on-month in November, following a 0.8% rise in October. On the other hand, industrial production decreased by 0.9% in November compared with October. This decline is mainly due to a decrease in production in the mining, energy, water and coking and refining industries. Finally, production in the construction sector increased by 3.6% in November.

Compared to the pre-crisis level of production (February 2020), the level of manufacturing production is 4.2% lower, while the level of industrial production is 4.1% lower in November, which is not much different from the levels observed in October. At the time of the April lockdown, manufacturing production had fallen 37.3% below its pre-crisis level (34.2% for industrial production). Ultimately, the November production data tells us that there was almost no impact of the second lockdown on the industrial sector, contrary to what was observed in April.

Industrial and manufacturing production, deviation from pre-crisis level (February 2020)



Source: INSEE, ING Economic Research

Improvement in December

The good news is that the situation should improve in December, especially for household consumption. Indeed, thanks to the reopening of shops and the prospect of deconfinement, household confidence rose sharply in December to return to its September level. The index gained six points to reach 95. This rise was due, in particular, to a very strong rebound in the proportion of households believing that it is appropriate to make major purchases. The index returned to its pre-crisis level. The sharp rise in this indicator allows us to believe in a solid rebound in household consumption in December, but also in 2021. In addition, households seem more inclined than before to consume rather than build up precautionary savings, which should strengthen the rebound in consumption. The share of households that consider it appropriate to save is thus falling sharply, although it is still well above its pre-crisis level.

A very uncertain first quarter

Given the November lockdown, GDP is expected to fall by 4 to 5% in the fourth quarter of 2020 compared to the third quarter. This is therefore another major shock, but much less than that observed in the second quarter of 2020 (-13.8%). Given the reopening of shops, the month of December should already mark a significant rebound in household consumption, which will give a good start to 2021. It should be noted that the situation here is fundamentally different in France than in other European countries such as Germany and the Netherlands. These countries did not experience any shop closures in November. On the other hand, shops in these countries were ordered to close around Christmas and will continue to do so in January. These countries are therefore likely to experience much better economic performance than France in the fourth quarter, but a worse performance in the first quarter.

French economic growth in the first quarter will, however, depend almost entirely on developments in the health situation. Indeed, the government has made it clear that the pandemic situation is fragile. The curfew is still in force everywhere from 8pm and even from 6pm in some areas. Although non-essential shops are open during the day, bars and restaurants will not be able to reopen until mid-February. The ski lifts in the ski resorts are also still closed and a new point will be made on the subject on 20 January (just before the very crucial February holiday period, which represents between 35% and 50% of the annual income of ski resorts).

We estimate that, if shops and schools remain open, GDP growth should be positive in the first quarter thanks to the rebound in household consumption. Net exports, on the other hand, are likely to weigh negatively on GDP, notably due to the strict lockdowns in force in other European countries. Brexit is also likely to have a negative impact as companies on both sides of the Channel made a lot of purchases to increase stocks in the fourth quarter as the deadline approached and fears of not getting a deal increased. These stocks will now have to fall before trade between France and the UK can resume. In the end, we expect growth of around 1.5% compared to the fourth quarter assuming that restrictions remain at their current level. A strengthening of restrictive measures, for example through the closure of shops or schools, would probably lead GDP growth to fall below 0% in the first quarter.

Solid recovery expected in 2021 from late spring onwards

For the rest of the year, we remain rather positive. As the vaccination campaign progresses, the restrictive measures should be lifted in France and Europe, allowing reopening, a rebound in household consumption and an increase in tourism. The use of part of the savings accumulated by households during the lockdowns should give a real boost to economic activity. Moreover, in the second half of the year, the French and European recovery plans should also have a positive impact on economic growth. We expect growth of between 4.5 and 5% for 2021 as a whole, still under the assumption that a third lockdown will not be implemented this winter. The rest of the recovery will take place in 2022, and it will take until mid-2023 for economic activity to return to its pre-crisis level.

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