

## French business climate: Taking the glass half full approach

The latest French business confidence surveys are still grim, but if one takes the glass half full approach, we can say the worst is probably behind us and recovery prospects are encouraging. It will take more to revive hopes of a "V-shaped" recovery, so for now, we stick to our scenario of a 9% contraction in GDP in 2020



Source: Shutterstock

### Marked rebound in expected activity in services

In France, business climate indicators for services and industry remained extremely low in May. However, some tentative signs are emerging of how things could look when companies are allowed to operate again.

In the service sector, confidence reached its lowest point in April, at 41, and rebounded slightly in May at 51, which remains well below the level of 106 observed in January and February. Unsurprisingly, the very low recent activity indicators are the ones that weighed the most on the survey. Moreover, the measure of business health deteriorated even further in May, exceeding the lows seen in 2008, during the financial crisis.

The measures of expected activity have started to rise again, and there is already a strong

rebound in hiring intentions for temporary work, albeit there is much less demand for other types of job contracts. Investment intentions are also picking up, although they remain extremely weak from their usual levels.

Finally, in the building sector, the business climate continued to deteriorate and recovery expectations remain very moderate.

## Industry: Businesses are ready, but order books remain empty

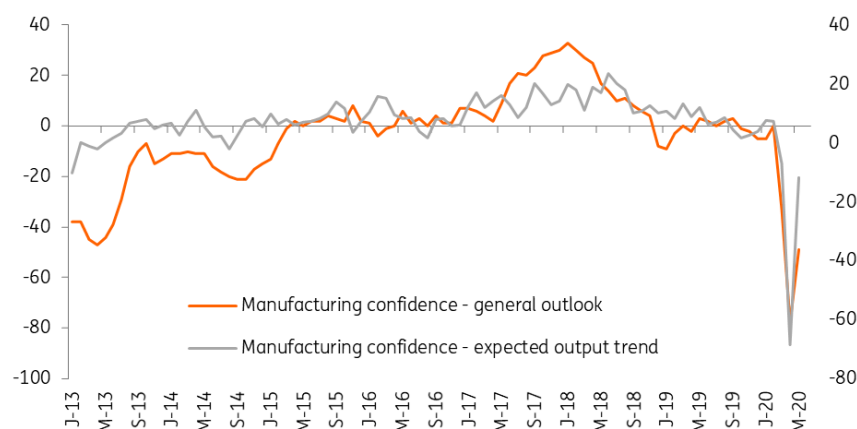
Industrial confidence reached a record low in April at 67.5 and rebounded ever so slightly in May to 70.5, but still well below the 100 level observed on average in January and February.

The general economic outlook still seems grim - the index is at -49, still lower than what we saw in March. However, the rebound is positive as far as the expected level of activity is concerned: the index has rebounded from -68.5 (its all-time low) to -11.8, a sign that capacity is ready to be brought back on stream.

It remains to be seen whether demand will be there - order books are still empty, and inventories are high despite the significant destocking that had negatively impacted growth at the end of 2019. In this respect, the announced plan for the automotive industry should support confidence in the next surveys.

Finally, whether demand will return in the retail sector, which has been extremely impacted by the lockdown, as several major French brands like Naf Naf and Conforama have confirmed. Order intentions remain very low in the sector, which remains cautious about its hiring intentions and future sales.

## Strong recovery expected in the industrial sector



Source: Refinitiv Datastream

## Rescue plan for the automotive industry

The bulk of the rescue plan for the automotive industry is a loan program that could reach €5 billion. The plan consists of €200 million in subsidies, €150 million in aid for innovation and €600 million in investment in the value chain in France (200 million of which will be brought by manufacturers).

It also contains a large cash-for-clunkers plan, supporting the purchase of new vehicles.

For a sector whose total gross value added does not exceed €25 billion (less than 1.5% of GDP and employment), the plan is unprecedented in scale. Purchase aid for consumers and businesses focused on low-polluting vehicles, will range between €2000 and €7000 for the first 200,000 sales. The plan also aims to maintain industrial activities in France in a strategic sector for the country's ecological transition.

### **But all this good news doesn't mean a v-shaped recovery**

Overall, May figures show that activity was still very low at the beginning of the month, which confirms our fears of a GDP contraction of around 15% in the second quarter. However, the indicators released this morning show signs of a recovery that could turn out to be more dynamic than expected.

It will take more to revive hopes of a "V-shaped" recovery, but it is nonetheless a positive signal for growth in the coming months.

For now, we maintain our forecast of a 9% contraction in GDP in 2020 before a 6.5% rebound in 2021.