

How would a 'hard' Brexit hurt France?

In France, the trade deficit decreased in February to 4.0 billion euros. Trade is nevertheless expected to be a less important support for growth in 2019 than in 2018. Brexit continues to weigh as a risk. The impact of a 'hard' Brexit on French growth would be similar to that of the 'yellow vest' crisis but would affect different sectors



The French President, Emmanuel Macron and the British Prime Minister, Theresa May, at a meeting in November 2018

€4.0 Bn

Lower than expected

French trade deficit

Declined in February

Trade will be less supportive in 2019

For most of the years since 2004, the trade deficit contributed negatively to growth in France. In this respect, 2018 was an exception as net exports (exports less imports) contributed a positive 0.6pp to GDP growth, offsetting weak domestic demand, especially at the end of the year. In fact, the performance of net exports was partly due to this weakness: the sluggish growth in consumption weakened imports last year. In fact, imports grew in real terms by only 1.3% in 2018

compared with 4.1% in 2017. Thus, even though exports saw their growth fall by 4.7% to 3.3%. % between 2017 and 2018, the contribution of net exports was still positive.

The current context does not seem as supportive for 2019. Indeed, business investment remains high, while a recovery in private consumption is expected, which should favour domestic demand and therefore imports. Meanwhile, global trade is still slowing on US-China trade crisis fears; the WTO has recently revised down its global merchandise trade growth forecast to 3% in 2019 after 3.9%. % in 2018.

In France, the trade deficit data published this morning shows a deficit of 4.0 billion euros, lower than it was in January. It is likely that the first quarter deficit will, therefore, only be slightly higher than the 4.2 billion reached in the last quarter of 2018, probably offsetting very slightly GDP growth in the first quarter of 2019.

The UK is an important partner

Looking at geographies, Eurozone demand for French exports has seen lower dynamics recently, with a growth of only 1.4% in 4Q18. The US, and Asia (excluding China), which respectively represent 8% and 9% of total French exports, were much more dynamic (with growth of respectively 7.6% and 14.8%).

The United Kingdom is an important partner for France, with 6.6% of exports in 2018, more than China (4.2%) and almost as much as the USA (7.8%). The growth of French exports to the United Kingdom in 2018 was 5%, after a slight decrease recorded in 2017. In 4Q18, their progression was again superior to that of French exports towards the rest of Europe.

We are just days away from a milestone in the Brexit process

We are just days away from a milestone in the Brexit process. Indeed, if the British Parliament has not voted in favour of the agreement negotiated in December 2018 or in favour of the organisation of European elections before 12 April, there's no guarantee the European Council will agree a time extension. The United Kingdom would then, from 13 April, be considered a third country. If that probability is still low, it is also possible that we could be back here again by 2021, which should mark the end of the hypothetical transition period. However, the impact of a 'hard' Brexit on the French economy depends on two factors:

1. the importance of British demand in the activity (in the value added) of each sector of the economy and
2. the importance of each sector in the French economy.

The impact of a potential 20% drop in trade with the UK

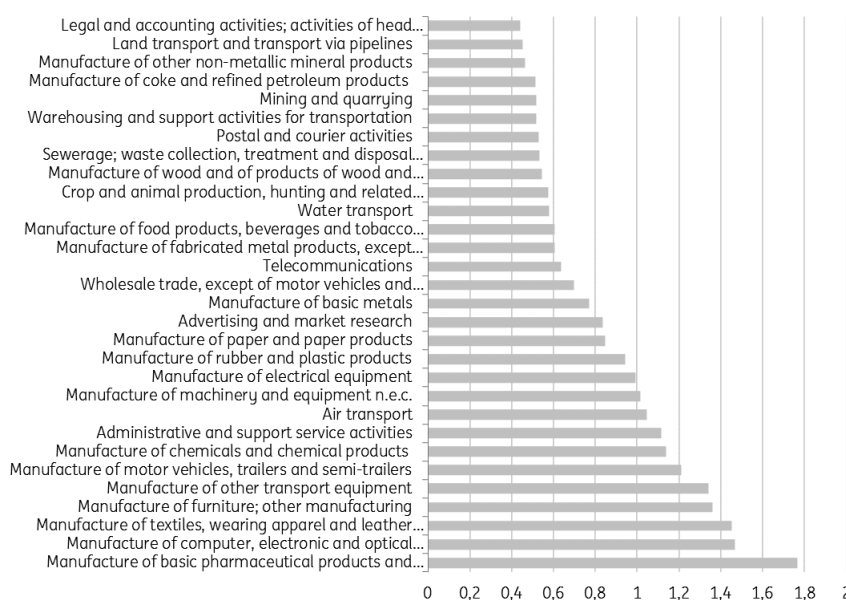
If the British demand represents 6.6% of French exports (6.9% in 2016), it is actually at the origin of 8.2% (2016 figure) of the added value due to the exchange of goods in the French economy. Trade actually creates more value than the face value of exports. As a result, British demand is also responsible for 1.6% of the total value added created in France by all sectors. In other words, assuming that a 'hard' Brexit causes a 20% drop in trade between France and the United Kingdom

in 2019, GDP for this year would be cut by 0.2pp, which would yield a GDP growth of 1.1% in 2019 in the case of 'hard' Brexit (as our current forecast is 1.3%). At the euro area level as a whole, ING currently estimates the effect at 0.3pp, so France would be slightly less affected.

Most sectors would not suffer much: in the scenario described above, 16 major sectors (representing 60% of French GDP) would have an impact less than or equal to the 0.2pp shock suffered on average by the French economy. Actually, only 11 sectors have more than 5% of their value added which directly depends on UK demand.

For the 30 sectors shown in the graph below, the effect would be greater or equal to 0.5pp of their total value added. A 'hard' Brexit would cost up to 1.8pp of value added in the pharmaceutical manufacturing industry. Of these 30 sectors, the loss of value added would, therefore, involve about 60,000 jobs (which however does not mean that they would necessarily disappear). It should be noted that most of the exposed sectors are in the manufacturing sector, but also that half of the jobs are in only three labour-intensive service sectors (administrative support, accounting or legal services, and wholesale trade).

Sectors most impacted by a 'hard' Brexit



Source: World Input Output Database (WIOD) by Timmer et al, University of Groningen - ING computations

An impact similar in size to the 'yellow vest' crisis

To conclude, we can say that the economic impact of a 20% decrease in trade with the United Kingdom would be absorbed by the French economy as a whole in 2019, but it would nevertheless be significant; growth would be cut by 0.2pp, an effect similar to that already endured by the economy following the 'yellow vest' crisis. However, it should be emphasised that the impact would be concentrated in certain sectors, particularly high value-added manufacturing sectors and employment-intensive service sectors which differ to those affected by the 'yellow vest' crisis at the turn of the year. The risk cannot, therefore, be ignored.

The full report in French is [here](#):

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research
+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com