

## France: A mixed recovery

The French economy grew slightly and more than expected in the first quarter of this year. But on closer look, the picture is more mixed than it seems. With the relatively rapid easing of restrictions between now and the summer and continued vaccinations, President Emmanuel Macron is betting on a massive rebound



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**+0.4%** France GDP QoQ growth in 1Q21

Better than expected

### Slight rise in GDP in the first quarter

According to INSEE's first estimate, which should be taken with caution due to greater-than-usual uncertainty around economic data, the French economy grew by 0.4% in 1Q 2021 after -1.4% in 4Q 2020. Nevertheless, France's GDP remains 4.4% below its pre-pandemic level of 4Q 2019.

## Three sources of heterogeneity

Growth is certainly picking up, as the third lockdown did not weigh as heavily on the economy as the previous ones. However, the country's health situation is still very mixed, as are the components of aggregate demand and the sectoral activities.

Indeed, progress in the pandemic and vaccination campaign are not the same throughout the country, with some regions showing more reassuring indicators than others (prospects seem much better in the west of France).

There is also heterogeneity in the components of aggregate demand. Household consumption continues to suffer directly from the health restrictions and rebounded only very slightly this quarter, by 0.3% after the sharp decline of -5.7% in the previous quarter. Overall, household consumption remains quite far from its pre-crisis level (-6.4% compared to 4Q 2019). This was also visible in the household confidence indicator, which remained below its historic average in the first quarter of 2021.

This is in stark contrast to the recovery in business investment. Gross fixed capital formation accelerated by 2.2% QoQ in 1Q 2021 after 1.3% QoQ in 4Q 2020, driven by construction (5.1%, after -2.7%) and GFCF in manufactured goods (1.7% after -2.3%). While GFCF in market services had essentially driven the growth of the investment component in the previous quarter, it declined this quarter (-0.4% after 8.0%). This just shows how different this economic crisis is from past crises. In times of crisis, investment is usually the first variable that companies adjust, and therefore tends to fall more sharply than GDP. [As we pointed out at the beginning of the year](#), this did not happen in 2020, probably because companies started the year in relatively better financial health and the credit channels did not dry up, unlike in 2008-2009. Investment growth, driven by the rebound in construction this quarter, is catching up by almost half compared to its pre-crisis level (-2.5% compared to the 4Q 2019 level, after -4.6% the previous quarter).

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*We expect GDP growth for the year 2021 to reach 5%*

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Foreign trade again detracted from GDP growth in the first quarter of 2021 (-0.4% after 1.2%), still below its pre-crisis level (-11.3% compared to 4Q 2019). The French trade balance situation is marked by stable imports (-0.1%) and a decline in exports (-1.5%), particularly of transport equipment (-13.3%). The implementation of the new trade agreement between the United Kingdom and Europe at the beginning of the year might have had a temporary negative effect on France's foreign trade, as the new procedures are only gradually being adopted by companies.

## Betting on a rapid recovery for the summer

President Macron's announcement last night on the lockdown exit schedule confirm a relatively rapid easing of restrictions in four stages, extending until 30 June. Although the restrictions will continue to constrain some activity in the very short term, the outlook seems to be brightening in the short and medium term, given the current outlook for the pandemic.

The French savings surplus continued to grow in the first quarter of 2021 as restrictions have prevented some consumption. Once the restrictions are lifted, some of these savings should be able to contribute to the rebound in consumption, although of course precautionary savings should remain important. A recovery in tourism in Europe should also boost activity this summer. Industry is likely to continue its recovery in sync with parts of the global economy.

All the ingredients for recovery seem to be coming together as fiscal and monetary policy support will continue throughout 2021. Against this backdrop, and again under the assumption of a continued steady improvement in the pandemic, the economic rebound will take off strongly in 2021. We expect GDP growth for the year 2021 to reach 5%, though we believe it will take until 2023 to return to the pre-pandemic level of activity.

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